# Public Document Pack

Hampshire County Council

**NOTICE OF MEETING**

| | |
|---|---|
| **Meeting** | Audit Committee |
| **Date and Time** | Wednesday, 28th September, 2022 at 10.00 am |
| **Place** | Mitchell Room, EII Court, 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 and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on the County Council's website.

## AGENDA

1. **APOLOGIES FOR ABSENCE**

   To receive any apologies for absence.

2. **DECLARATIONS OF INTEREST**

   All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code

3. **MINUTES OF PREVIOUS MEETING HELD ON 26 MAY 2022** (Pages 5 - 8)

**4. DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

**5. CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make.

**6. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS** (Pages 9 - 18)

To receive a report on County Council's use of its investigatory powers during the previous financial year.

**7. ANNUAL GOVERNANCE STATEMENT** (Pages 19 - 44)

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

**8. ANNUAL INTERNAL AUDIT REPORT & OPINION 2021/22** (Pages 45 - 70)

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

**9. EXTERNAL AUDIT REPORTS 2021/22 - HAMPSHIRE COUNTY COUNCIL AND HAMPSHIRE PENSION FUND** (Pages 71 - 158)

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

**10. STATEMENT OF ACCOUNTS 2021/22** (Pages 159 - 380)

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

**11. TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2022/23** (Pages 381 - 400)

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

**12. ANNUAL INTERNAL AUDIT PLAN 2022/23** (Pages 401 - 422)

To consider a report of the Director of Corporate Operations providing an overview of the County Council's Internal Audit Plan.

**13. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 25 MARCH 2022 (LESS EXEMPT)** (Pages 423 - 434)

To receive the non-exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 25 March 2022.

**14. 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 and 5 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the cases, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the exempt minutes.

**15. ANNUAL INTERNAL AUDIT REPORT & OPINION 2021/22 - EXEMPT APPENDIX** (Pages 435 - 436)

To consider an exempt appendix to the Annual Internal Audit Report and Opinion 2021/22.

**16. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 25 MARCH 2022 (EXEMPT)** (Pages 437 - 446)

To receive the exempt minutes of the Hampshire Pension Fund Panel and Board meeting held on 25 March 2022.

**ABOUT THIS AGENDA:**

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

**ABOUT THIS MEETING:**

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

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

AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Thursday, 26th May, 2022

Chairman:
* Councillor Alexis McEvoy

* Councillor Tim Davies
* Councillor Dominic Hiscock
Councillor Keith House
Councillor Mark Kemp-Gee
* Councillor Derek Mellor
Councillor Rob Mocatta
* Councillor Michael Thierry
Councillor Andy Tree
* Councillor Juliet Henderson

*Present

54. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Keith House, Mark Kemp-Gee, Rob Mocatta and Andy Tree. Councillor Juliet Henderson was in attendance as the Conservative substitute.

55. **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.

56. **MINUTES OF PREVIOUS MEETING HELD ON 3 MARCH 2022**

The minutes of the meeting held on 3 March 2022 were agreed as a correct record and signed by the Chairman.

57. **DEPUTATIONS**

No deputations were received by the Committee on this occasion.

58. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

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

The Committee considered the report of the Chief Executive regarding the County Council's use of regulated investigatory powers.

Members heard that surveillance powers had not been used during the previous quarter.

Members questioned why powers had not been used during the previous three quarters. It was heard that powers were only used where their use would be proportionate and necessary to prevent and detect criminal activity. In order to satisfy themselves that powers were being used appropriately the Committee requested that details of the number of instances where the use of surveillance powers had been considered, and the decision taken not to use them, be included in the annual report to be presented at the next meeting of the Audit Committee.

**RESOLVED:**

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

60. **EXTERNAL AUDIT PLANNING REPORT 2021/22**

The Committee received the annual audit planning report for 2021/22 from the external auditors. Members heard that:

- There had been no significant change in the level of risk or focus identified from the previous year. A slight change was proposed to be taken in relation to auditing value for money, following the identification of an enhanced risk relating to the impact of Covid-19 on medium term financial planning.
- A new risk had been introduced in relation to infrastructure assets, which had been identified nationally as a developing risk area when roads were deregistered by local authorities. In response to Members questions it was heard that this was not a concern identified within Hampshire, and the Chartered Institute of Public Finance and Accountancy (CIPFA) had instructed a task force to provide some clarity on appropriate audit approaches. Members challenged why public money was being spent on auditing this area when, as the road network was not an asset which could be sold, it made no tangible difference to the financial standing of the County Council, through which Members heard it was necessary to ensure that assets were correctly presented on the balance sheet.
- In response to Members questions it was heard the effect of climate-related matters on financial statements was considered to be low risk and the auditors would look at any pledges by the County Council and Hampshire Pension Fund to reduce environmental impact and consider how progress against such pledges was being monitored and the potential impact on the Council's finances.

- A question was raised regarding audit risks outlined around inappropriate capitalisation of revenue expenditure and misstatements due to fraud or error. It was heard that this was a mandated audit requirement, and was considered to be a more significant risk in the private sector.
- Materiality had been set 1.8% of gross expenditure, consistent with the approach taken in previous years.
- The Audit timetable had been agreed with the Director of Corporate Operations, with the expectation that the Statement of Accounts would be signed off by the end of September, ahead of November deadline.

**RESOLVED:**

That the Audit Committee receives and notes the Hampshire County Council and Hampshire Pension Fund Audit Planning Reports for 2021/22.

61. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 10 DECEMBER 2021 (PUBLIC)**

The Committee received and noted the public minutes of the Hampshire Pension Fund and Board meeting held on 10 December 2021.

62. **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.

63. **MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 10 DECEMBER 2021 (EXEMPT)**

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 10 December 2021.

Chairman, 28 September 2022

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**HAMPSHIRE COUNTY COUNCIL**

**Report**

| | |
|---|---|
| **Committee/Panel:** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Information Compliance - Use of Regulated Investigatory Powers |
| **Report From:** | Director of Culture, Communities and Business Services and Chief Executive – Corporate Services |

**Contact name:** Peter Andrews – Head of Information Governance

**Tel:** 0370 779 1365 **Email:** peter.andrews@hants.gov.uk

## 1. Summary

1.1. The purpose of this paper is to provide the Audit Committee with information on the instances that the County Council has used its investigatory powers in the last financial year, as required by the Code of Practice issued by the Home Office. It is also to provide assurance that the County Council uses its surveillance powers in a lawful and proportionate way.

1.2. This report confirms that there has been no uses of surveillance powers and one application for Communications Data in 2021-22. Compared to 2020-21, where there were 3 applications for communications data and 29 specific notices, this marks a decrease in the use of surveillance powers.

1.3. The level of use of surveillance powers for 2021-22 is very low, continuing the trend seen in recent years.

## 2. Contextual information

2.1. The County Council operates a strict control policy which ensures that only authorised surveillance takes place in accordance with the Regulation of Investigatory Powers Act 2000 (RIPA).

2.2. In 26 July 2021 a report was presented to the Committee detailing the County Council's use of surveillance powers in 2020-2021. This report (in addition to any quarterly reports) presents information for the period 2021-2022. The last quarterly report to this Committee was 26 May 2022.

2.3. All applications for covert surveillance activity are coordinated through the County Council's Trading Standards Service as per the current County Council's RIPA policy. Only one senior officer within that service can act as authorising officer for the whole of the County Council. The responsibility for the governance of the Council's use of surveillance powers rests with the Council's Monitoring Officer.

2.4. In addition, there is a legal requirement for judicial approval, through a magistrate, of all authorisations under RIPA obtained by local authorities in accordance with the provisions of the Protection of Freedoms Act 2012. Since 1 November 2012 where Hampshire County Council has sought the required judicial approval of surveillance activity, it has been granted.

2.5. The County Council's use of surveillance powers is regularly subject to external inspection by the Investigatory Powers Commissioner's Office. This Office was formed in September 2017 as a result of the introduction of the Investigatory Powers Act 2016, and is an amalgamation of three separate commissioners. These were the Office of the Surveillance Commissioner, the Interception of Communication Commissioner's Office, and the Intelligence Services Commissioner. In his regulatory function, the Assistant Surveillance Commissioner reviews the County Council's use of directed surveillance, covert human intelligence source (CHIS), and CCTV systems under the Regulation of Investigatory Powers Act. The last inspection by the Investigatory Powers Commissioner's Officer, undertaken as a remote desktop inspection as a result of the COVID-19 pandemic, occurred in May 2021. It concluded that whilst Hampshire County Council is "not a prolific user of the powers, it has used them to very good effect, and in compliance terms, to a very high standard".

2.6. The Trading Standards Service has adopted the Intelligence Operating Model (IOM) as a means of identifying suspicious activity for further investigation and, thus ensuring resources are used efficiently. The introduction of the IOM has contributed towards the decline in recent surveillance activity as the nature of investigations identified have not warranted such techniques being used. This is subject to change depending upon the nature of the investigations that are identified through the use of the IOM.

2.7. A number of changes to the way that local authorities are permitted to operate the powers within RIPA were made as part of the Protection of Freedoms Act, and those changes came into force on 1 November 2012. These restrict the use of such powers to the investigation of serious crime. This did not affect the County Council's use of these powers as in practice it already restricted its use of surveillance to these areas, for example, the sale of counterfeit goods, and alcohol and cigarettes to children.

2.8. Officers of the County Council's Trading Standards Service ensure that surveillance efforts are targeted towards protecting those who are being cheated by businesses that trade fraudulently, or unfairly treated by businesses that act with gross negligence towards their customers; particularly young, vulnerable or elderly customers. Such work is often done in response to complaints from members of the public, and in conjunction with the Police and UK Border Agency.

2.9. It should be noted that the use of surveillance is not the totality of any criminal investigation, but a small part of it, and that criminal investigations may not complete their passage through the criminal court process for many months, if not years after the surveillance activity has ceased.

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

2.11. In the 11-year period since 2011, surveillance activities have resulted custodial sentences totalling 113 years and 2 months being handed down, along with orders made under the Proceeds of Crime Act 2002 to repay £550,000 of criminal benefit obtained.

2.12. The approvals for surveillance for the period of April 2021 to March 2022 are shown in Appendix 1.

## 3. Value for Money

3.1. In the period of April 2021 to March 2022 all RIPA activity has been conducted by the Trading Standards Service which operates the IOM as a means of directing resources towards area of most harm and detriment being identified. The appropriate methodology for dealing with such investigations is individually assessed according to the circumstances and may utilise a variety of enforcement techniques; of which one may be surveillance. Having a range of enforcement techniques available ensures that only those which are necessary and proportionate are used and, accordingly are not used just because they can. Where there is no need to use surveillance, it is not conducted.

3.2. It should also be borne in mind that surveillance activity of the nature governed by the RIPA framework would ordinarily, although not exclusively, occur in the earlier stages of any investigation. Due to the complex nature of some investigations the end result, in terms of any outcome, may not be seen for many months and usually not in the same financial year.

3.3. Whilst the number of authorisations for RIPA surveillance activity has dropped in recent years, this cannot be used as an indication of likely future use and as such, it is appropriate to ensure that future enforcement capability remains unaffected in order to ensure that the authority remains as efficient and effective as it can be. This is an approach that was endorsed by the Assistant Surveillance Commissioner in his most recent report.

## 4. Continued Use of Surveillance Powers

4.1. In order to continue to be able to use its surveillance powers under RIPA, the County Council must have a formal approved Policy on its use. This Policy must be reviewed and approved on an annual basis. The County Council's Policy on Surveillance (2021-2022) was presented and approved by the Executive Member for Policy and Resources in October 2020. A Policy for use in 2022/23 will be presented to the Executive Member for Policy and Resources in October 2022.

## 5. Use of Camera Systems

5.1. Although not covered under RIPA and subject to different regulations, the use of camera systems is also a form of surveillance. This part of the report provides the assurance that the County Council operates any such systems in a proportionate and lawful way.

5.2. The County Council does not operate the large-scale high-street CCTV monitored systems that may be found in a District or Unitary Authority; however, the Council does own and operate a small number of CCTV, ANPR (vehicle number plate recognition) and other camera systems in a variety of locations and for a number of purposes.

5.3. A Surveillance Camera Code of Practice has been introduced under the Protection of Freedoms Act 2012 which applies to the use of surveillance camera systems that operate in public places, regardless of whether or not there is any live viewing, or recording of images or information or associated data. The County Council is required to comply with the provisions of the Code.

5.4. The use of camera systems by the Council is subject to compliance with its Policy on the Use of Camera Systems, which was approved by the Council's Risk Management Board. This Policy contains the very latest guidance from the Surveillance Camera Commissioner.

5.5. The Policy provides a proportionate and common-sense approach to meeting the regulatory standards and reassure the public that surveillance cameras in public places operated by Hampshire County Council are there to protect and look after them – rather than look at them – and are operated in a way which is proportionate, effective in meeting a stated purpose and transparent.

5.6. The County Council's use of camera systems is inspected by the Investigatory Powers Commissioner's Office.

## 6. Consultation and Equalities

6.1. Where a consultation has been undertaken insert an analysis of the consultation responses and refer to further details of the consultation which should be included in a separate appendix.

6.2. If equality impacts have been identified in the Equality Statement in integral Appendix B highlight any particular issues, explain any proposed mitigation and consider any other relevant factors that have been taken into consideration in formulating the recommendation. See the Report Writing Guide for more information.

## 7. Finance

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

## 8. Performance

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

## 9. Conclusions

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

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

## 10. Recommendation

10.1. That the Audit Committee notes the contents of this report and that the County Council's surveillance powers continue to be exercised appropriately and proportionately.

10.2. The Audit Committee is also invited to consider the County Council's use of surveillance powers for the previous financial year and to provide the Executive Member for Policy and Resources with assurance that the County Council is operating its powers in a lawful and proportionate manner. Furthermore, the Audit Committee is invited to assure him of the continued use of surveillance powers by the County Council.

CORPORATE OR LEGAL INFORMATION:

**Links to the Strategic Plan**

| | |
|---|---|
| **Hampshire maintains strong and sustainable economic growth and prosperity:** | no |
| **People in Hampshire live safe, healthy and independent lives:** | yes |
| **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 | |

## IMPACT ASSESSMENTS:

### 11. Equality Duty

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

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

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

a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;

b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;

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

### 12. Equalities Impact Assessment:

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

### 13. Impact on Crime and Disorder:

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

### 14. Climate Change:

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

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

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

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

## APPENDIX 1 - Number of Authorisations by Quarter (1 April 2021 – 31 March 2022)

### Direct Surveillance

| 2020-21 Quarter | Purpose of Surveillance | | | |
|---|---|---|---|---|
| | **C'feit Goods** | **Under Age Sales** | **Other** | Description of "other" |
| **1** | 0 | 0 | 0 | |
| **2** | 0 | 0 | 0 | |
| **3** | 0 | 0 | 0 | |
| **4** | 0 | 0 | 0 | |
| **Total -** | 0 | 0 | 0 | |

### Covert Human Intelligence Source (CHIS)

| Quarter | Purpose of Surveillance | | |
|---|---|---|---|
| | **C'feit Goods** | **Under Age Sales** | **Other** |
| **1** | 0 | 0 | 0 |
| **2** | 0 | 0 | 0 |
| **3** | 0 | 0 | 0 |
| **4** | 0 | 0 | 0 |
| **Total -** | 0 | 0 | 0 |

**Communications Data**

| Quarter | Number of Applications | Number of Specific Notices | Offences related to: |
|---|---|---|---|
| **1** | 1 | 0 | Doorstep Crime |
| **2** | 0 | 0 | |
| **3** | 0 | 0 | |
| **4** | 0 | 0 | |
| **Total -** | 1 | 1 | |



**Definitions:**
**Directed Surveillance** - An authorisation for Directed Surveillance will relate to an activity and, must be done in connection with an investigation and detection of crime or disorder e.g. the person is not aware surveillance is taking place and can be done using cameras, videos
**CHIS** - An authorisation is required where a person is required to covertly/secretly form a 'relationship' with the person/business under investigation for the purpose of obtaining information to further a criminal investigation e.g., face to face conversations, emails, telephone calls.
**Communications** - this is where a request can be made to a telecommunications supplier for subscriber data and service use data (not content) **and** only in relation to the prevention and detection of crime or disorder e.g. who is internet domain registered to, who is the subscriber to a particular telephone number.

**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Committee:** | Audit Committee |
| **Date:** | 28 September 2022 |
| **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 2021-22

## Recommendation(s)

2. That the Audit Committee approve the 2021-22 Annual Governance Statement.

## Executive Summary

3. Annex 1 to this Report contains the draft Annual Governance Statement for the year ending 31 March 2022. 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 2022 departmental assurance statements were sent out to all departments seeking assurances about departmental governance arrangements**.**

5.1. In March 2022 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.

7. **Climate Change Impact Assessment**

7.1. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

8. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision is administrative in nature.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

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| **This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:**<br><br>The preparation and approval of an Annual Governance Statement is a Statutory Requirement**.** |

**Other Significant Links**

| **Links to previous Member decisions:** | |
|---|---|
| Title | Date |
| **Direct links to specific legislation or Government Directives** | |
| Title | Date |
| Accounts and Audit (England) Regulations | 2015 |

| | |
|---|---|
| **Section 100 D - Local Government Act 1972 - background documents**<br><br>**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 |
| 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 disproportionally low.

2. **Equalities Impact Assessment:**

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

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Hampshire County Council

# ANNUAL GOVERNANCE STATEMENT 2021/2022

# 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 2021-2022.

## 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, engage 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 2022 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 was reviewed by senior officers in Legal Services who worked closely with Departments on the implementation of the relevant provisions.

3.1.5 The County Council continues to further strengthen 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 Director of HR, Organisational Development, Communications and Engagement 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.

3.1.6 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. In the autumn of 2021, the County Council was awarded Level 2 accreditation in the Disability Confidence Scheme. This Scheme encourages employers to improve how they recruit, retain and develop disabled people and will support the Council as being an employer of choice. The work programme has been further developed this year to include Health and Wellbeing and is reported on a quarterly basis to the Steering Group, and the Corporate Management Team and on a bi-annual basis to 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 was agreed by the County Council in September 2021 and a further amendment in November 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 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 in order to ensure specific groups identified as at risk of worse outcomes from COVID-19, a cohort of community researchers from these groups were identified and trained in order to undertake in-depth engagement and target messaging within their communities. 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. The regular residents' survey- 'Hampshire Perspectives' continues to support the County Council's insight into residents' opinions and formed a tool in informing its COVID-19 Recovery Strategy.

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. During 2021/22, staff surveys have focussed on employees' health and wellbeing during the pandemic, as well as the County Council's new ways of working once restrictions were lifted and office-based staff could attend the office again

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. Equality Impact Assessments are also required of relevant decisions, and in this year a new requirement was introduced to apply two decision-making tools to assess the carbon emissions and resilience impacts of relevant projects and decisions.

3.3.2 The new Strategic Plan 2021 – 2025 was agreed by Cabinet in July 2021 and passed by Full Council in September 2021. Alongside the new Strategic Plan, a revised corporate Performance Management Framework was agreed, which incorporates monitoring of the agreed Climate Change Strategy and the recommendations from the Hampshire 2050 Commission of Inquiry.

3.3.3 The Pension Fund Panel and Board has a fiduciary duty to ensure that investment returns are maximised for the benefit of members of the Pension Fund, but in doing so must also have due consideration to Environmental, Social and Governance (ESG) issues. The Pension Fund Panel and Board is required to produce a Responsible Investment Policy and this was updated and approved by the Board in March 2022 (subject to public consultation) and outlined the progress that had been made in particular against the Fund's carbon reduction programme and provided a commitment to the aim for its investments to be carbon neutral by 2050 in line with Government policy.

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

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.

3.4.2 The Director of Corporate Operations 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 including the Head of Legal, Head of Finance, Departmental Equalities Leads and Departmental Transformation Leads was put in place to oversee the production and review of EIAs relating to SP23 proposals and to produce the cumulative EIA to understand the overall impact of savings proposals on groups with characteristics protected under the Equalities Act (2010). A new requirement for departments to assess the equality and inclusiveness of their services and develop action plans accordingly was also introduced in 2021.

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 medium-term using assumptions set out in the Medium-Term Financial Strategy (MTFS).

3.4.8 Risks associated with the achievement of intended outcomes are detailed in the corporate electronic Risk Register which itemises risks held at Corporate and Department 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. A revised annual report is being developed that will include financial reporting, progress against the RHPP business plan and partnership objectives and benefits of the arrangement and will be reported to the Executive Member for Commercial Services, Estates and Property.

3.4.10 The County Council holds a joint 999-year lease with Basingstoke and Deane Borough Council of around 820 hectares of land located to the west of Basingstoke known as Manydown. In respect of the first phase, the land north of the main Southampton to London railway referred to as Manydown North, the two Councils have entered in to two separate but related Joint Venture arrangements. The first, established between the two Councils is the Manydown Garden Communities (MCG) LLP, whilst the second known as the Manydown Development Vehicle (MDV) LLP is between the two Councils (as MGC) and the selected development partner Urban and Civic Ltd. Each JV has a regular Board meeting and various legal agreements set out the basis of the County Council’s representation at each Board and the associated roles and responsibilities for each Board Director. For the MGC LLP, there is one Elected Member and 2 Senior Officer representative (including approved substitutes). For the MDV LLP, the County Council’s interests (on behalf of MGC) are represented by the same 2 Senior officers, together with a third nominated Officer, again with approved substitutes. The Member and Development Agreements set out: the responsibilities of each Board; delegation policies and matters to be escalated; approval of either an Annual and/or Overarching Business Plan (including Budget); the measurement of performance against each Plan, together with the management and oversight of potential emerging risks and issues. The MGC LLP and MDV LLP accounts are separately audited and reported to Companies House. The Annual/Overarching Business Plan(s) are reported to the County Council’s Executive Member for Policy and Resources for approval.

3.4.11 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 Director of HR, OD, Communications and Engagement 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 Board's 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.

3.4.12 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 Following the County Council's all-out election in 2021, an innovative Member Induction Programme, supported by the cross-party Member Development Group, was delivered against the backdrop of Covid-19. This involved several virtual sessions covering key organisational topics such as local government finance, adult and children's safeguarding, education, inclusion and diversity, climate change, data protection and handling social media, together with in-person events held in line with Government's Covid-19 guidelines and e-learning to ensure both new and returning Members were inducted as soon as possible during challenging times. The established monthly Briefing Programme continues to be well received. The Council moved to virtual delivery of the Programme during 2020 which resulted in high levels of attendance due to the flexibility virtual delivery offered, and the Programme continues to be delivered in this way. The Programme has included annual corporate topics such as finance, treasury management and the County Council's workforce reporting together with regular Covid-19 updates and focusing on economic recovery and resilience from the Chief Executive and Corporate Management Team. Members also have the opportunity to participate in external training events and seminars to support upskilling and knowledge refresh.

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 continues to regularly review 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 The Annual Workforce Report continues to provide a good 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), and references areas of attention and further work to be undertaken to address the workforce challenges arising as a result of the pandemic.

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 Our leadership programmes are in the process of being reviewed to take account of the changing needs of our workforce in order to ensure that they are addressing the management and leadership needs of our staff, taking particular account of the changes in our ways of working, IDW agenda, and the increasing challenge to balance service delivery and demand.

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. We continue to use our agreed ‘organisational’ principles to shape and develop areas of organisation design and development to ensure our operating models are fit for purpose over the short to medium term.

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. The suite of resources has been further developed during the year and provides a significant range of information and support for managers and staff. Health and Wellbeing continue to be a key focus for CMT, the IDW Steering Group and Directors and their DMTs and forms part of regular discussions at team meetings across the organisation.

3.5.12 To further support our understanding of our workforce's experiences during the pandemic and to support recovery, an Inclusion and Wellbeing Survey of all staff was undertaken in May 2021, alongside the regular monthly wellbeing 'pulse' survey where $1/12^{th}$ of the organisation is polled. Results of these surveys have helped inform and shape the County Council's new ways of working for office-based staff

3.5.13 The Wellbeing Task Group, chaired by the Director of Public Health and Director of HR, OD, Communications and Engagement 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.

3.5.14 The County Council recognises the importance of its staff networks to supporting the inclusion and diversity of its workforce. 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 2021/22 is the work undertaken in support of our people who classify themselves as disabled has enabled conversations across the organisation entitled 'let's talk about being disabled' in order to support individual and organisational learning and development.

3.5.15 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 Director of HR, OD, Communications and Engagement.

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

3.6.3 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 has been revised alongside the new Strategic Plan, and has been implemented from April 2022

3.6.4 The County Council has in place a Risk Management Strategy that is currently being developed into a longer term 2022-2025 version to be approved by Cabinet. Oversight of the Strategy is provided by the Corporate Risk Management Board, who drive forward initiatives and improvements to achieve the Strategy's aims and objectives. This includes provision of corporate guidance on risk management best practice, to support staff to manage risk effectively and consistently.

3.6.5 To further strengthen risk management arrangements a new cross departmental Health & Safety Management Group has been formed to feed directly into the Corporate Risk Management Board. The Risk Management Board continue to report on a quarterly basis to CMT, setting out the Corporate Strategic Risk Register, Department key risk updates and any broader developments, improvements or emerging risks. The Risk Management Board submit an annual report to the Audit Committee who are responsible for considering the effect of the County Council's risk management arrangements and having oversight of the Corporate Strategic Risk register. The corporate guidance for staff clearly sets out the organisation's governance structure for managing risk effectively, including roles and responsibilities.

3.6.6 Key operational and strategic risks (including those related to Covid-19) at both department and corporate level are actively managed and monitored by a named Risk Owner and Risk Control Manager. These risks are recorded in the Corporate Risk Management System and must have review dates and state the governance structure that is providing adequate monitoring and oversight of risk controls. All risks on the Corporate Strategic Risk Register are also reviewed on an annual basis by the Risk Management Board with the relevant Risk Owner/Control Manager.

3.6.7 A comprehensive Information Governance Framework is in place, overseen by the Data Protection Officer, with further oversight by the Risk Management Board, which includes Senior Information Risk Officers representing each Department.

3.6.8 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, a programme of work has been undertaken to strengthen and improve our cyber security arrangements going forward.

3.6.9 The Audit Plan 2021-22 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.

3.6.10 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.

3.6.11 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.

3.6.12 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.

3.6.13 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.

3.6.14 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.

3.6.15 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. A wide range of policy topics have been scrutinised in line with the organisation's strategic objectives including in-depth scrutiny by way of task and finish activity. With the continuing Covid-19 situation, the Policy and Resources Overview and Select Committee has considered the financial impact of Covid-19 on the Council, economic recovery and resilience. The scrutiny function is supported by experienced officers in Democratic and Member Services together with input from specialist officers in the service departments.

3.6.16 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 his representative.

3.6.17 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.

3.6.18 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 has been extended and will continue over the next year within the social care departments.

3.6.19 The new CIPFA Financial Management (FM) Code was formally adopted across local government from the 2021/22 financial year. The FM Code sets out the six principles of good financial management, which it then translates into a list of financial management standards which local authorities should test their conformity against. The County Council has undertaken an evidence backed assessment of its compliance with all of the financial management standards in the Code. Based on this, the County Council has ascertained that it is compliant with the Code. Although compliant the County Council will still always actively seek to make further developments and improvements as opportunities are identified for example through risk reviews and performance management.

3.6.20 Following the outbreak of Covid-19, the County Council has been closely monitoring all aspects of the financial impact of the crisis. During 2021-2022 Directors have continued to review the impact on a monthly basis. Appropriate reporting has developed as the pandemic progressed and settled into quarterly reporting to the Corporate Management Team and on to Cabinet at regular intervals. The County Council has continued to report pandemic costs and losses to MHCLG/DLUHC and has ensured appropriate claiming and application of relevant Government grant

3.6.21 Financial resilience within the County Council has remained strong throughout the pandemic, and funding has been identified to supplement Government grant to meet the one-off costs and losses of Covid-19, expected to continue until 2023-2024, without significantly impacting on the wider financial strategy.

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

3.7.3 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.

3.7.4 The Corporate Performance Management Framework provides a transparent cycle of reporting on core performance metrics to the Corporate Management Team and Cabinet. Corporate performance reports are published online and are accessible to staff, partners and the public.

3.7.5 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).’

3.7.6 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.

3.7.7 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.

3.7.8 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.

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

3.7.10 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 Department.
- consultation with other relevant officers throughout the County Council.

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5.5 In line with the Internal Audit Charter approved by the Audit Committee in July 2021 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 which 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 2022.

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

6.1 The longer-term Risk Management Strategy 2022-25 and Risk Register will be taken for approval by Cabinet in mid-2022 following endorsement by CMT. The Risk Management Board will drive forward the Strategy aims and objectives, with particular focus on improvements to the corporate risk management system to incorporate renewed control effectiveness descriptions and evidence that measures are sufficient. **Action Owner Patrick Blogg**

6.2 A training programme to further develop staff and managers to manage risk effectively, will be developed. This will include specific session with the Audit Committee to work through in more detail the corporate risk management processes and governance. **Action Owner Patrick Blogg**

6.3 ETE will continue to test its Business Continuity processes and procedures through a series of regularly planned exercises, involving relevant operational services and the Department Management Team. Learning from these exercises, alongside actual events such responding to significant weather events, will be embedded into revised processes and procedures as necessary. **Action Owner Mike Bridgeman**

6.4 The CareDirector Implementation will support the improvement in the recording of client data through:

- Data migrated to the new system will be subject to data validation rules to ensure the records are in line with Data Retention rules
- As part of the system training staff will receive reminders about GDPR and best recording practice, like good searching techniques to avoid duplicates, data quality, and their responsibilities. All CDir users will be required to sign a new Form of Undertaking via the LMS which will record their knowledge and adherence to Data Protection law and HCC policy
- The CareDirector System includes functionality for supporting greater data quality such as:

  System setting **RequiredPersonSearches** – this dictates the number of person searches that must be completed before a new person record can be created.

  **Duplicate Detection rules** – These are applied on record creation and will warn users if they might be about to create a duplicate.

  **Merge records** – there is functionality to merge records if duplicates are detected by the scheduled job.

The CareDirector Go-live date is currently being replanned for implementation in 2023. **Action Owner Sarah Snowdon**

**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 2020/21 Annual Governance Statement: -**

7.1 The robust Risk Management Framework has been strengthened further through the embedding of key processes and systems, and the introduction of risk management guidance for all staff. All key department and corporate strategic risks have been transferred into new Risk Management System and are now actively managed and monitored. Regular and proactive monitoring continues to provide reassurance through the corporate strategic risk review cycle, departmental DMT reviews of key risks and the quarterly reporting cycle to CMT.

7.2 Whilst no specific weaknesses have been identified, a programme of work has been undertaken to strengthen the County Council's cyber security arrangements to ensure they keep pace with the ever-changing threat of cyber-attack.

7.3 The County Council has published its new Strategic Plan, setting out its strategic priorities for the period 2021-2025, and alongside this. the current Performance Management Framework has been updated and has been implemented from April 2022.

7.4 To ensure health and safety risks are sufficiently represented at a corporate level, a new corporate Health and Safety Management Group has been set up. Along with the Resilience Management Group and the Information Governance Steering Group, all three subgroups feed directly into the corporate Risk Management Board.

7.5 The EIA guidance has been updated and a new tool was developed and implemented in May 2021.

7.6 The pandemic has caused an increase in demand which is likely to have had a negative impact on recording. All staff have access to personal computers for portable use to ensure access to recording despite working from home, with options for staff to work from the office should it be needed. There is a renewed focus upon improving recording in 22/ 23 with the development of a new recording system. The new design is incorporating improvements in access and ease of recording. This is likely to be introduced later in 2022/ early 2023. Training on proportionate recording is being prioritised. There is a particular focus on recording of safeguarding through management meetings and an increase in detailed safeguarding training being provided which includes recording. Safeguarding meetings are now recorded to ensure timely and accurate recording. A quality assurance framework has been introduced with managers auditing the quality of recording regularly. Excellent practice validation standards have been introduced which incentivise practitioners to ensure good practice in this area. The social care practice manual is being reviewed to ensure that the best guidance is available to staff on recording.

7.7 The Action Plan for 2021 identified a two-phase corporate approach to Contract Management training. This is designed for non-professional Contract Managers as a prerequisite to acquiring contract management responsibilities, to ensure consistency of approach. The first phase has now been launched in the form of an online training module, providing Managers with an overview of the fundamentals of managing contracts and outlining their responsibilities. The second phase which will include an assurance framework and checklist, will be developed to help departments to understand if their contracts are being managed effectively and thereby delivering their intended outcomes, is due to be finalised and launched in the second half of 2022. The combination of these two phases will ensure that there is effective, compliant and proactive management of contracts within Departments.

**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: 2022 | Date: 2022 |

Report to cabinet 13 July 2021

Report to Cabinet 12 October 2021

Report to Cabinet 7 December 2021

Report to Cabinet 8 February 2022

Report to Cabinet 15 March 2022

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Internal Audit Annual Report & Opinion 2021-22 |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Neil Pitman

**Tel:** 07719 417233 **Email:** Neil.pitman@hants.gov.uk

## Purpose of this Report

1. The purpose of this paper is to provide the Audit Committee with the Chief Internal Auditors opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2022

## Recommendation(s)

2. That the Audit Committee approves the Annual Internal Audit Report & Opinion 2021-22 as attached

## Contextual information

1. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

2. The Annual Report for 2021/22 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of internal control and summarises audit work from which that opinion is derived for the year ending 31 March 2022.

3. The Audit Committee's attention is drawn to the following points:

   - Internal audit was compliant with the Public Sector Internal Audit Standards during 2021-22.

   - The revised internal audit plan for 2021/22 has been substantially delivered.

   - The County Council's framework of governance, risk management and management control is considered to be 'Reasonable' and audit testing has demonstrated controls to be working in practice.

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

## REQUIRED CORPORATE AND LEGAL INFORMATION:

### Links to the Strategic Plan

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

### Other Significant Links

| | |
|---|---|
| **Links to previous Member decisions:** | |
| Title<br>Internal Audit Plan | Date<br>19 July 2021 |
| **Direct links to specific legislation or Government Directives** | |
| Title | Date |

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

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

| Document | Location |
|---|---|
| None | |

## EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

Southern Internal Audit Partnership

Assurance through excellence and innovation

# HAMPSHIRE COUNTY COUNCIL

## Annual Internal Audit Report & Opinion 2021-2022

**Prepared by:** **Neil Pitman, Head of Partnership**

**June 2022**

## Contents

## 1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

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

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.




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

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

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

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

## 2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisations' success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.


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



The Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

Working practices have been reviewed, modified and agreed with all partners following the impact and lessons learned from the COVID-19 pandemic and as a result we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

## 3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council activities and to support the preparation of the Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2021-22 internal audit plan was considered and approved by the Audit Committee at its meeting in July 2021. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation. The plan has remained fluid throughout the year to maintain an effective focus and ensure that it continues to provide assurance, as required, over new or emerging challenges and risks that management need to consider, manage, and mitigate. Changes made to the plan were reported to the Audit Committee through our internal audit progress report(s).

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

| | |
|---|---|
| Substantial | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. |
| Reasonable | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited. |
| Limited | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. |
| No | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

## 4. Internal Audit Opinion

As Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement.  The annual opinion concludes on the overall adequacy and effectiveness of the organisations' framework of governance, risk management and control.

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

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



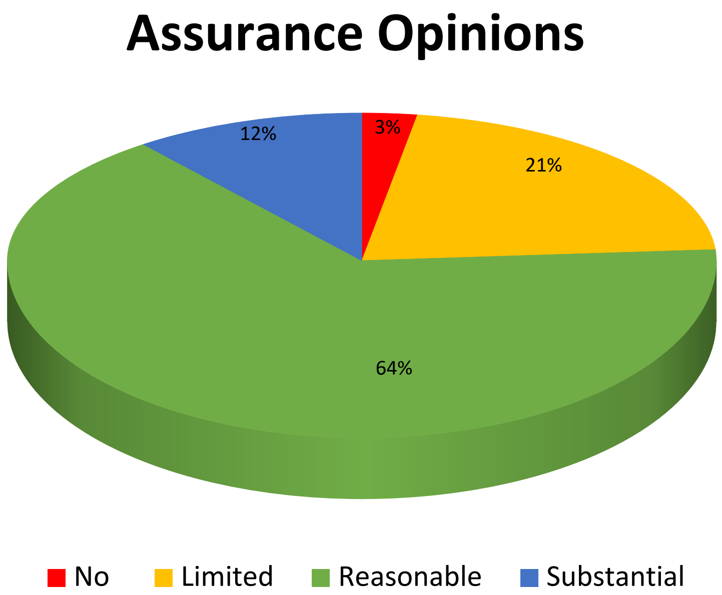
We enjoy an open and honest working relationship with the Council.  Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved.  I feel that the maturity of this relationship and the Council's effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk, and control over the 2021-22 financial year.

| Annual Internal Audit Opinion 2021-22 |
| --- |
| I am satisfied that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of the internal control environment.<br><br>In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.<br><br>Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement. |

## 5. Governance, Risk Management & Control – Overview & Key Observations

### Assurance opinions for 2021-22 reviews

Significant findings from our reviews have been reported to the Audit Committee throughout the year and a summary of the assurance opinions is outlined below.



### *Governance*

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes overview of:

- the governance structure in place, including respective roles, responsibilities, and reporting arrangements
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved, and appropriately publicised and accessible to officers and staff.

In addition, during 2021-22 we undertook an overview of the Annual Governance Statement framework and preparation in addition to a review of Information Governance which concluded with a 'reasonable assurance' opinion.

Based on the work completed during the year and observations through our attendance at a variety of management and governance meetings, in our opinion the governance frameworks in place across the Council are robust, fit for purpose and subject to regular review. There is also appropriate reporting to the Audit Committee to provide the opportunity for independent consideration and challenge including the in-year update and review of the Annual Governance Statement.

### *Risk management*

We reviewed risk management arrangements as part of the 2021/22 internal audit plan which resulted in a 'reasonable assurance' opinion. The evidence obtained during the review demonstrated that risk management arrangements were sound, documented and embedded within the Council.

The risk register is a key document that is taken into account during the development of our risk based internal audit plan, with the planned reviews mapped to the risk register. The information in the risk register is further considered when scoping each review in detail to ensure that our work is appropriately focussed.

### *Control*

In general, internal audit work found there to be a sound control environment in place across the majority of review areas included in the 2021-22 plan that were working effectively to support the delivery of corporate objectives.

We generally found officers and staff to be aware of the importance of effective control frameworks and compliance, and also open to our suggestion for improvements or enhancements where needed. Management actions agreed as a result of each review are monitored to completion to ensure that the identified risks and issues are addressed. The key areas of challenge identified or confirmed through our work are outlined below:

**Coroners Services (No Assurance) -** The Coroners' Service at Hampshire County Council provides support to appointed Coroners enabling them to undertake and complete their investigations effectively, and in line with legislative requirements in addition to providing support to both Portsmouth City Council (PCC) and Southampton City Council (SCC).

Our in-year audit review focused on the process for recharging costs to PCC and SCC, ensuring invoices raised were accurate and timely and in line with partnership or contractual agreements in addition to the process for making payments to the appointed Coroners and for expenditure associated with their investigations.

It was evident that the Coroners Service budget position and forecasting was being reviewed on a regular basis. However, there were a number of significant issues that impacted the integrity and accuracy of the figures and output of this process primarily relating to difficulties in extracting committed costs accurately through WPC (Coroners Service database), delays in receipt of invoices, and budgets not being aligned to the actual needs / activities.

There were no documented procedures setting out key financial processes, specifically in relation to recording instructions and associated costs on WPC, the adopted payment process, budget monitoring, forecasting and reporting.

There are three separate records showing the value of payments and costs associated with the Coroners Service. These are SAP, the main accounting system for actual general ledger transactions, WPC, the system used for recording all Coroners Service investigations and a separate spreadsheet recording all payments and the date paid. However, there were no checks completed to confirm the value of the payments on all three systems reconcile and that all payments had been accounted for completely and correctly.

The process for reviewing and checking invoices prior to payment required improvement to ensure the amounts paid were in line with services delivered and for the correct amounts (in line with contractual arrangements).

The three SLA's outlining the arrangements for the provision of Mortuary Service, include details of payment arrangements, and a schedule of fees and charges, however, the terms could be invalidated due to each of them expiring on 31 March 2020. The fees included in the SLAs are also likely to be out of date given there is an option to vary the fees / costs annually on the anniversary of the commencement date.

There have been key changes in staffing arrangements during the last year, specifically with respect to the appointment of the Strategic Manager – Coroners Service and Senior Administration Manager. It should therefore be recognised that whilst significant weaknesses have been identified in the financial management control framework many of these had been inherited are now being addressed by the team.

**Shared Services – Cleaning Contract Management (No Assurance) –** See exempt paper



**Health & Safety Governance Arrangements (Limited Assurance) -** A centralised Corporate Health & Safety Team was established in January 2020, with the team transferring the CCBS in April 2021. There was found to be a comprehensive Health & Safety Policy Statement in place underpinned by a suite of health and safety policies and procedures that were up to date accessible on the Council's intranet.

However, review of the governance framework to support health & safety found there was no formal reporting to Members to enable them to effectively fulfil their responsibilities in relation to ensuring suitable resources being available to discharge the County Council's health and safety responsibilities and to monitor, via reports, the overall performance of the County Council's health and safety management arrangements.

At an officer level Health and Safety arrangements were reported annually to Corporate Management Team and on a six-monthly basis to Departmental Management Teams. In addition to this, health and safety risks were escalated through the Risk Management Board. However, there was no forum for discussing corporate health and safety issues in-year, and for these to be discussed collectively across directorates. The six-monthly departmental reports were consistent in format and content, however, did not assign specific target dates or a nominated responsible officer for each agreed action.

**Direct Payments - Adults (Limited Assurance) -** There were found to be detailed policies and procedures in place for direct payments as part of the Social Care Practice Manual which was available to all staff on Hantsnet. Testing confirmed that of those Direct Payments reviewed all had financial assessments completed and there were approved provisions and current care plans.

However, for a number of direct payments sampled, review of AIS could not evidence key documentation (direct payment agreements, authorised person checklists) or relevant annual reviews (care review, financial audit) as being recorded. Whilst this is not to say such documentation and checks have not been completed, the absence of accurate recording on AIS leaves the clients record incomplete for future reference and the Council vulnerable in the event of future challenge.

**Children's Services Establishments – Imprest & PCard (Limited Assurance) -** This thematic review sought to ensure that the use of the imprest accounts and purchasing cards are managed in line with Hampshire County Council's policy and procedures.

Petty cash was found to be held securely within each of the homes sampled. Purchasing cards were physically held by the cardholder and not shared with other staff, additionally all purchasing cardholders had completed e-learning and were aware of corporate guidance. Staff members only become cardholders once authorised by the manager and after completing the training.



However, common areas of non-compliance across the two payment methods included, supporting receipts not consistently being retained, review/ approval of spend not routinely carried out by managers, the payment method used not always being the most appropriate (high value, disaggregated spend), VAT not always accounted for appropriately, use of loyalty cards with purchases.

**No Recourse to Public Funds (Limited Assurance) -** The Council maintain a duty to safeguard the welfare of children, in households with parents, and care leavers with Unaccompanied Asylum Seeker Children status, who have no recourse to public funds and require accommodation and/or financial assistance.

The audit highlighted that key policies and procedures were either absent or in need of review / refresh. Additionally, there were known issues with data quality within AIS to effectively identify all NRPF cases.

Testing further highlighted that relevant agencies were not routinely contacted (NRPF Connect and Home Offices) as required by existing policies and when required a Human Rights Assessment was not routinely carried out.

**Governance of Debt Management (Limited Assurance) -** Debt recovery is carried out by the Integrated Business Centre (IBC), however, queries on individual client invoices and overall monitoring of debt remains the responsibility of individual departments. All invoices over £10 go through the dunning process if they are overdue beyond payment terms and the IBC actively manage invoice debts over £3,000, however they do not take any proactive action on debts below this amount.

There were no clearly documented procedures and gateways between HCC and the IBC detailing who is responsible for each stage of the debt management process, which debts the IBC manage and when debts should be referred to the relevant HCC department, presenting a lack of clarity amongst budget holders of their roles and responsibilities of managing debt.
Operational Finance have been rolling out training and guidance to Accountable Budget Managers (ABM) and Operational Budget Holders (OBH) for a revised financial management operating model which clarifies and reinforces the accountability and responsibility for budgets on departmental staff. Policies, procedures and guidance on financial management tasks are available on-line for all staff. However, this guidance does not include the IBC's role in debt recovery and which debts they proactively chase and write off and the expectations of the ABM and OBH.



**Medicine Control within Reablement (Limited Assurance) -** Reablement have a key role in aiding service user's medication requirements and ensuring there are documented policies that are adhered to.  There were found to be policies and procedures in place for medicine control detailing the statutory and local responsibilities, training requirements and processes. These included an overarching corporate policy on medication management, as well as a more specific policy relating to Reablement. These documents were clear and relevant and available to all staff.

A sample of Reablement cases was selected to ensure that the medication records showed that the administration of the medication took place in line with the plan. In half of the cases tested there were medicine recording errors.

There is a requirement that all staff that administer medications are assessed annually to ensure that they remain competent. Testing found that there was a lack of consistency in recording that this had been carried out and there were instances where the last assessment was greater than 12 months.

AIS was not always found to be up to date after reablement care was complete.

**Children's Services – Minibus Midas (Limited Assurance) -** The Corporate Health & Safety Procedure – Transport – Driving for Work sets out a consistent way of managing the risks associated with driving for work and covers the driver's suitability to operate the vehicle (competence, licencing and fitness), different types of vehicles and the management, planning and scheduling of journeys (route, timing, duration and weather).

The Authority strongly recommends minibus drivers undertake Minibus Driver Awareness Scheme (MiDAS) training to improve minibus passenger safety, and this is documented within the Corporate Health & Safety Procedure – Driving for Work.

Corporate Health and Safety (Children's Services Team) have developed a checklist, to help determine if drivers without MiDAS training are suitable to drive minibuses (Basic Pre-Minibus Driver Selection Questions).

Testing across 30 schools highlighted instances where there was an absence of documentation to prove certifications or training. Additionally, vehicle safety checks were found not to be routinely undertaken and for those that were there was an absence of documentation to substantiate the checks.

**Children's Services Thematic – Use of Agency Staff (Limited Assurance) -** This thematic review sought assurance on the use of agency staff across a sample of Children's homes. A range of monitoring takes place on agency staff usage within the service, including a quarterly review of transactions by Finance and the Lead Manager for Residential Care. Additionally, there are regular meetings with HR to focus on recruitment, agency usage and vacancies.

There were variations across the establishments in the way inductions were carried out. In more than half on the establishments tested we found no evidence to support relevant inductions materials had been provided to or reviewed by agency staff.

Timesheets for agency staff should be checked against the rota/logbook or shift planner prior to approval for payment by the managers. Due to documentation retained evidence of the shift being worked could not be confirmed in 70% of cases tested.

Although the agency is responsible for completing safer recruitment checks for all agency staff, at the point of them becoming permanent this needs to be completed by the service. In one case out of three tested, no evidence was provided to show that this had taken place.

**Hampshire Futures (Limited Assurance) -** The Hampshire Futures Careers SLA Sold Service provides Careers Education, Information, Advice and Guidance (CEIAG) within schools and colleges, including facilitation of work experience placements for young people with employers.

Review highlighted that current Partnership Agreements, which document how services purchased will be delivered, were not in place for all service purchasers and there was often no evidence that formal review meetings had taken place. Additionally, there were instances where VAT was not being accounted for correctly which had led to the service not receiving all income it was due.

**Recharging for Younger Adults Care (Limited Assurance) -** This audit reviewed the process of invoicing for residential respite and day care commissioned by NHS services or other local authorities, with a focus on Learning Disability Services

Testing of invoicing for day centre respite found invoices to be raised promptly for the agreed amounts. However, testing found that there have been no invoices raised in 2019/20, 2020/21 or 2021/22 by the Residential units for CHC clients. The reason was explained as a miscommunication within the department whereby HCC Care respite care units were not informed of clients who had been approved to receive Continuing Healthcare and subsequent invoicing for care provided (this may understandably have been compounded due to the impact of COVID 19).

To identify the impact of the invoices not raised for services work was underway to consolidate information between HCC Care, Operational Finance and Commissioning.

**Shared Lives (Limited Assurance) –** Shared Lives provide a permanent home, a short stay, or day care in an ordinary home setting in the community linking people who need help and support to live in the community, with people who can provide that help and support in their own home. People who wish to become Shared Lives Carers are taken through an assessment process, including checks, references, and training.

Shared Lives Policies, Procedures and Good Practice Guidance cover the basic working practices of the HCC Shared Lives Scheme, they are published via the Adults' Health and Care Procedures Hantsweb pages and appear to be clear, comprehensive, and easily accessible. However, they should be subject to annual review and Care Governance Board approval, but we noted that the last review was carried out in March 2017. We were advised that they are currently under review.

Shared Lives Carers Training is currently recorded on the LMS system, with limited access and management monitoring of attendance. We noted that the records are being transferred onto the Central Training Database in order to allow for full oversight, however for the selected sample of carers we were unable to evidence whether mandatory training had been attended and passed.

There is a clearly defined and documented process for Shared Lives Carer Recruitment and Approval Panel, however testing found that some documentation relating to pre recruitment checks, as required by the policy, was missing from the assessment packs presented to panel. The Shared Lives Recruitment do not fill out record forms, as listed in the policies, to keep track of what documents they have received from the applicants.  For a sample of referral cases tested we found instances where the signed placement agreement was not on file.

## International Standards on Assurance Engagements (ISAE 3402)

ISAE 3402 provides an international assurance standard allowing public bodies to issue a report for use by user organisations and their auditors (user auditors) on the controls at a service organisation that are likely to impact or be a part of the user organisation's system of internal control over financial reporting enabling them to inform both their annual governance statement and the annual audit opinion.



In 2021/22 Hampshire County Council commissioned a Service Organisation Controls (SOC) Type 2 Report under International Standard on Assurance Engagement (ISAE) 3402. Assurance against the international standard was provided by Ernst & Young.

The scope of the review incorporated coverage of General Ledger, Order to Cash, Purchase to Pay, Cash & Bank, Human Resources & Payroll, and Information Technology General Controls. In forming their 'Opinion' the auditors (Ernst & Young) concluded:

*'In our opinion, in all material respects:*

a. *The Description fairly presents the finance, HR and IT shared services system as designed and implemented throughout the period 1 April 2021 to 31 December 2021.*
b. *The controls related to the Control Objectives stated in the Description were suitably designed throughout the period from 1 April 202 to 31 December 2021 to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period 1 April 2021 to 31 December 2021 and if subservice organisations and user entities applied the complementary controls assumed in the design of Integrated Business Centre's controls throughout the period 1 April 2021 to 31 December 2021; and*

c. *The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period 1 April 2021 to 31 December 2021 if complementary subservice organisation and user entity controls assumed in the design of Integrated Business Centre's controls operated effectively throughout the period 1 April 2021 to 31 December 2021.'*

To compliment the ISAE 3402 Type 2 report a further letter of assurance was provided by the Director of Corporate Operations to confirm for the period 1 January 2022 to 31 March 2022:

- There have been no significant changes to the processes and controls set out in the report.
- There have been no significant control failures in respect of the controls in the report section.
- There are no reasons why we believe the Management Statement would not still be valid'

Internal audit continue to review areas of the Shared Services falling outside the scope of the ISAE2302 engagement as appropriate, through a shared internal audit plan with Hampshire County Council and Hampshire Police. The results of this work are reflected in this opinion.



### Management actions

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers.

Progress is reported to the Audit Committee through internal audit progress reports.

## 6. Anti-Fraud and anti-corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

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

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

**Reactive Fraud Activity -** The Southern Internal Audit Partnership work with Hampshire County Council in the effective review and investigation of any reported incidents of fraud and irregularity. All such reviews are undertaken by professionally accredited (CIPFA CCIP) staff, in accordance with the Council's Anti-Fraud & Corruption Policy. During the year there were no material fraud investigations undertaken.

**National Fraud Initiative (NFI) -** The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud.



Match reports across pensions, payroll, blue badges, concessionary travel, creditors, VAT, and Companies House were released in January 2021. All high priority matches have been risk assessed and action taken to investigate where appropriate.

Whilst there was no fraudulent activity identified from review of the matches in a majority of areas, the analysis of concessionary travel data resulted in 4,164 concessionary passes being cancelled. Whilst no fraud was identified and there are no direct cash saving to the organisation, the Cabinet Office does assign a notional value of £24 per pass as a saving to the public purse based on the cost of reimbursement to bus operators for journeys made under the confessionary fares scheme.

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

- Advice and guidance were provided across approx. 70 enquiries. The common themes continue to relate to email scams (mandate fraud, malware, and spoof emails), with schools being particularly targeted.

- We have issued a number of fraud awareness bulletins during the course of the year.

- Two themed proactive review were undertaken during the year in relation to direct payments and business interests. The results of each review were collated into summary reports identifying any potential exposure to fraud risks.

## 7. Quality Assurance and Improvement

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

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.



An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020.

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

***'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'***

## 8. Disclosure of Non-Conformance

There are no disclosures of Non-Conformance to report. In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

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

## 9. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2021-22 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach.
- A tailored audit approach using a defined methodology and assignment control documentation.
- Review and quality control of all internal audit work by professional qualified senior staff members.
- An independent external quality assessment against the IPPF, PSIAS & LGAN.

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## 10. Internal Audit Performance

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

| Performance Indicator | Target | Actual |
|---|---|---|
| Percentage of internal audit plan delivered *(to draft report)* | 95% | 96% |
| Positive customer survey response | | |
| • Hampshire County Council | 90% | 99% |
| • SIAP – all Partners | 90% | 99% |
| Public Sector Internal Audit Standards | Compliant | Compliant |

*Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date April 2022).*

## 11. Acknowledgement

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

Neil Pitman
Head of Southern Internal Audit Partnership

## Summary of Audit Reviews Completed 2021-22

**Annex 1**

**Substantial** – A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Operating Systems
Microsoft Contract Management
Vulnerability Scanning and Remediation (Policy)
Waste disposal contract
Transforming City Projects
HC3S finance reporting and monitoring
Procurement (General)
Highways Incident Management (Draft)

**Reasonable** – There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Armed forces covenant
Server Build Process
Use of Agency Staff in Children's Social Care
Marketing
Education Financial Services
Education Personnel Services
Health and Safety
Budget Monitoring
Trading companies – Governance
Risk Management

Whistle blowing - HR case management
Disaster Recovery
IT Asset Management
Service Desk
Secure Website Development
Application Review – SWIFT
School Thematic: COVID Catch up fund
School Thematic: Recruitment
Music Service
Continuing Care Recharging

Sickness Recording (AHC)
Meals on Wheels Contract Management
Flood management
Travel Plans for Developers
Transport Trading & Business Group
Records Management Centre
Asbestos
Highway Development Agreements
Parking Services – On Street Enforcement
Blue Badges

County Supplies contract & supplier management
Recruitment (Success Factors)
Pre-employment checks
P Cards

| | | |
|---|---|---|
| Information governance | Connect for Communities | HC3S financial recovery plan |
| Market Underwriting | AHC thematic review: Use of Agency Staff | Procurement – ETE |
| Restructure and Redundancy | AHC thematic review: Overtime claims | Major construction framework – contract management |

**Limited** Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Direct payments
Health and Safety
Debt management
Hampshire Futures – Careers*
Medicine control within community teams
School Thematic: Minibuses/MIDAS training
Children's Services thematic: Use of Agency Staff
Children's Services establishments thematic: Petty Cash
No recourse to public funds
Recharging of Younger Adults Care
Shared Lives
Southern Construction Framework Contractor Payments
Contingency Planning (Draft)
School Thematic: Government grants (Draft)

**No** Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

Coroners Service
Cleaning contract management

**HAMPSHIRE COUNTY COUNCIL**

**Report**

| | |
|---|---|
| **Committee/Panel:** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Hampshire County Council and Hampshire Pension Fund Audit Report for year ending 31 March 2022 |
| **Report From:** | Ernst and Young LLP (external auditors) |

**Contact name:** Kevin Suter

**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 provisional audit conclusion in relation to the audit of Hampshire County Council and the Hampshire Pension Fund for the year ending 31 March 2022.

## Recommendation

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

## REQUIRED CORPORATE AND LEGAL INFORMATION:

### Links to the Strategic Plan

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

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

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

| Document | Location |
|---|---|
| None | |

## EQUALITIES IMPACT ASSESSMENT:

### 1. Equality Duty

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

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

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

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

### 2. Equalities Impact Assessment:

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

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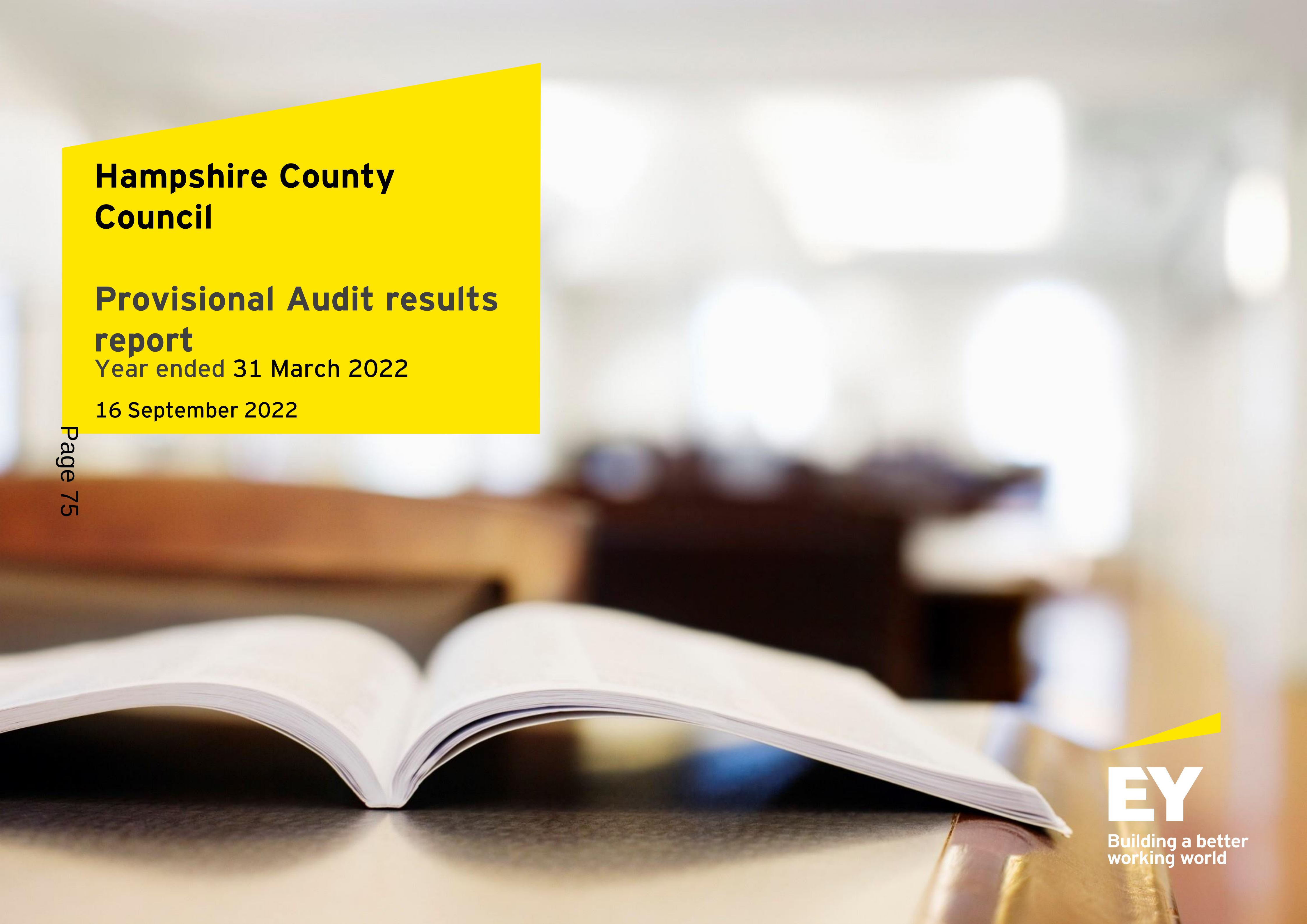
# Hampshire County Council

## Provisional Audit results report

Year ended 31 March 2022

16 September 2022





Building a better working world

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

16 September 2022

Dear Audit Committee Members

2022 Audit results report

We are pleased to attach our provisional audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting scheduled for 28 September 2022 on further progress to that date and explain the remaining steps to the issue of our final opinion, including our current position on your accounting for infrastructure assets.

The audit is designed to express an opinion on the 2022 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 the Audit Committee, other members of the County 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 meeting on 28 September 2022.

Yours faithfully Audit Committee

Kevin Suter.

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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 26 May 2022 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 £46.5m. This was based on prior year gross expenditure on provision of services. We have calculated this using year end figures and our revised materiality level is £49m. The basis of our assessment has remained consistent at 1.8% of gross expenditure on provision of services. This results in updated performance materiality, at 75% of overall materiality, of £37.5m, and an updated threshold for reporting misstatements of £2.4m.

### Status of the audit



Our audit work in respect of the County Council's opinion is substantially complete.

Details of each outstanding item, actions required to resolve and responsibility is included in 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 Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

Conversations remain ongoing with management around the infrastructure risk identified in our audit plan, of which further details can be found in section 02 of this report. The impact of this is likely to delay finalisation of the Statement of Accounts whilst management wait for further publication and guidance from CIPFA. We are happy to provide an update at the upcoming Audit Committee.

# Executive Summary

## Auditor responsibilities under the Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are required to consider whether the County Council have 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 the County Council a commentary against specified reporting criteria (see below) on the arrangements the County Council 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 the County Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the County Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the County Council 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 had yet to complete our value for money (VFM) risk assessment, but presented to the Committee that we had identified one risk of against the three reporting criteria, specifically financial sustainability, at that time.

We have completed our risk assessment, and revisited our assessment through to the on completion of the audit of the financial statements and remain satisfied that there are no other risks identified.

We are still concluding on our procedures to address the identified risk – further details of which can be seen on page 25. At this time, we have no matters to report by exception in the auditor’s report (see Section 03).

# Executive Summary

**Audit differences**

Uncorrected misstatements identified during the audit have no impact on the deficit of provision of service

We also note that there have been a number suggested amends to disclosures and narrative which have been adjusted for by management.

Details can be found in Section 4; Audit Differences.

**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.

We have not yet been able to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission 2021/22 due to the ongoing delays in releasing data collection tool and instructions from 2020/21.

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

We have no other matters to report.



**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.

# Executive Summary

## Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Hampshire County Council. 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 within the "Areas of Audit Focus" section of this report.

**Audit findings and conclusions: Inappropriate capitalisation of revenue expenditure due to fraud or error**

- We have no findings to report to the Audit Committee

**Audit findings and conclusions: Misstatements due to fraud or error**

- We have no findings to report to the Audit Committee

**Audit findings and conclusions: Infrastructure Assets**

- We have not been able to sufficiently conclude on existence and valuation of infrastructure assets.
- With guidance expected imminently from CIPFA, management have opted to wait for the outcome of this guidance in order to try and resolve the issue.



**Audit findings and conclusions: Valuation of Investment Properties and Land & Buildings**

- Our work has not yet been finalised but we have no findings to report at this time to the Audit Committee.

**Audit findings and conclusions: IAS 19 Pension Accounting**

- We are waiting to receive the final results of the work performed by the Hampshire Local Government Pension Fund Auditor. From their work to date we have identified pension fund assets to be overstated by £2m, this has been taken to our summary of uncorrected misstatements at section 4.
- 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. Subject to final review, this has raised no issues.

**Audit findings and conclusions: Private Financing Initiative (PFI)**

- We have engaged our specialists to assist in our conclusions over the accuracy of the streetlighting model following the recommendations made in the prior year as we have identified there are still some differences in contingent rental between models. This work is yet to be concluded to quantify the audit difference for 21/22.

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.

# 02 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.

The risk in local government is in areas where management make judgements that impact whether material items of expenditure are financed from capital or revenue resources.

As such we associate this risk with capital additions.

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### 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 PPE and managements judgement as to what they recognise as capital and what they recognise as revenue spend.

### What did we do?

For a sample of recorded capital additions we examined invoices, capital expenditure authorisations and other data that support the appropriateness of these additions, including that they have been recorded in the correct period.

We ensured that the items are capital in nature as per the definition of capital expenditure in IAS 16, and did not include revenue items.

We followed a fully substantive audit approach and utilised our data analytics capabilities to assist with our work through identifying high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

### What are our conclusions?

Our testing is substantially complete, subject to one query that remains outstanding.

Overall our audit work to date has not identified any material issues or unusual transactions to indicate any misreporting of the County Council's financial position.

# 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 County Council 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 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;
- We evaluated the business rationale for any significant unusual transactions; and
- 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 the County Council's normal course of business.

# Significant risk

## Infrastructure Assets

### What is the risk?

Where management incur subsequent expenditure to replace part of an asset, the CIPFA Code requires management to write out the value of the old part being replaced.

Nationally, audit firms have identified an issue with applying this accounting treatment to infrastructure assets. Across the country Authorities are not keeping sufficient detailed records of infrastructure spend to allow the value of the part being replaced to be written out.

We have increased the level of risk since our planning report.



### What judgements are we focused on?

The risk is that the gross cost and gross accumulated depreciation of the Council's infrastructure assets are materially overstated, as assets or components that have been replaced are no longer recognised.

This may have no impact on the net book value if the assets were fully depreciated at the point of replacement, but if not then the net book value may also be materially misstated.

Furthermore, the Council needs to be able to demonstrate that it can associate the recorded values to specific identifiable assets; that they exist at the balance sheet date and are held at an appropriate value.

### What did we do?

- We have reviewed the draft financial statements to identify prima facie whether the County council is recording disposals of infrastructure assets, or components.
- We have made enquiries to understand management's current processes, including bringing forward our knowledge from previous year's audits.
- We identified whether the process is compliant with the Code.
- We considered whether the underlying issue is relevant to other categories of property, plant and equipment, and focused our existence testing accordingly.

### What are our provisional conclusions?

- We have provisionally concluded that the accounting of the County Council for Infrastructure Assets is not in line with the current CIPFA Code.
    - Gross cost and gross accumulated depreciation have continued to accumulate annually without recorded disposals.
    - The Council records infrastructure asset within the fixed asset register and the general ledger as a single line entry per annum. This does not provide sufficient information to identify the replacement of an asset or component, or demonstrate the existence of the asset or accuracy of the net book value.
    - HCC conclude it is impracticable for them to make a correction.
- We have discussed the matter with management, who are waiting for CIPFA to provide an expected update to the Code in September 2022, and management have requested we await the outcome of this guidance before determining next steps.
- We will evaluate if the Council's accounting is in line with that update, when published.
- We are aware that DLUHC are potentially considering a statutory instrument on the accounting for this issue, and will also need to consider that if and when issued.
- There is a risk that the Council may still not be able to fully comply with either amendment. This issue may impact the format of our audit opinion.

# Areas of Audit Focus

## Valuation methods applied

| What is the risk/area of focus? | What did we do? |
|---|---|
| <u>Valuation of Land and Buildings</u><br>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. | **We have:**<br>▸ Considered the competence, capability and objectivity of the organisation's valuer;<br>▸ Considered the scope of the valuer's work;<br>▸ Ensured L&B assets have been revalued within a 5 year rolling programme as required by the Code;<br>▸ Considered if there are any specific changes to assets that should have been communicated to the valuer;<br>▸ Sample tested key inputs used by the valuer when producing valuations;<br>▸ Considered the results of the valuer's work;<br>▸ Challenged the assumptions used by the valuer by reference to external evidence;<br>▸ Tested journals for the valuation adjustments to confirm that they have been accurately processed in the financial statements;<br>▸ Tested a sample of assets revalued in year to confirm that the valuation basis is appropriate and the accounting entries are correct;<br>▸ Reviewed assets that are not subject to valuation in 2021/22 to confirm the remaining asset base is not materially misstated.<br>▸ Considered changes to useful economic lives as a result of the most recent valuation; and<br>▸ Tested accounting entries have been correctly processed in the financial statements<br><br>**Conclusion:**<br>Our work is well progressed but not yet complete. We have now received all the support we need to finalise our testing.<br><br>As at the date of this report we have no findings to report, and will update the Audit Committee at the 28 September meeting should any issue arise from completing the testing. |

# Areas of Audit Focus

## Valuation methods applied

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

**Pension Liability Valuation**

The Local County Council Accounting Code of Practice and IAS19 require the County Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council. The County Council must also do similar in respect of the Police Pension Fund.

Hampshire County Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet.

At 31 March 2022 this totals £1.5bn. The information disclosed is based on the IAS 19 reports issued to Hampshire County Council by the actuary to the County Council and also the Firefighter Pension Fund. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

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



### What did we do?

**We have:**

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Hampshire and Isle of Wight Fire & Rescue County Council;
- Assessed the work of the LGPS Pension Fund actuary (AoN Hewitt) including the assumptions they used by relying on the work of PWC – Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- Evaluated the reasonableness of the Pension Fund actuary's calculations by comparing them to the outputs of our own auditor's actuarial model; and
- Reviewed and tested the accounting entries and disclosures made within the financial statements in relation to IAS19.

**Conclusion:**

We have completed our review of the accounting entries & disclosures and our review of the assumptions used by the actuaries.

The Liability rollforward is subject to final review, but has not raised any issues.

We have been able to reconcile our roll forward with the figures provided by the actuary within 1% of the liability, which we judge to be acceptable.

We are awaiting the finalised assurance letter from pension fund auditors – results to date note an overstatement of pension fund assets of £2m.

We will provide the Audit Committee with an update at the 28 September meeting.

# Areas of Audit Focus

| What is the risk/area of focus? | What did we do? |
| --- | --- |
| **Private Finance Initiatives**<br>The Council has two PFI contracts in place, in respect of waste and street lighting, with liabilities amounting to £129 million in 2021/22. These were both operational and recognised in the Council's balance sheet as at 31 March 2022. | **We have:**<br>▸ Reviewed for any changes in the financial model made from previous years and confirm the assumptions used to continue to be appropriate.<br>▸ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements<br>▸ We obtained an update on the recommendation raised in relating to the street lighting PFI in our 2020/21 audit results report.<br>▸ We involved our EY specialist to review the updated streetlighting model which was updated by management in response to previous audit findings.<br><br>**Conclusion:**<br>We did not identify any issues in our testing of the waste PFI.<br>We identified there were still differences in the street lighting PFI in relation to the contingent rental calculation and our expert is quantifying the impact on the SoA for 21/22. This report remains outstanding. |

# 03 Audit Report

# Audit Report

**Impact of Infrastructure Assets on the Audit report**

We have summarised the current conclusion with regard to infrastructure assets on page 12.

We will continue to the discuss the matter and evaluate the Council's accounting when the expected Code update is provided.

We are, therefore, currently unable to determine the appropriate audit opinion.

We highlight there is a risk that a qualified opinion may be necessary.


# 04 Audit Differences

# Audit Differences

## Summary of unadjusted differences

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

| Uncorrected misstatements 31 March 2022 (Currency'000) | | Effect on the current period: | | | | Net assets (Decrease)/Increase | |
|---|---|---|---|---|---|---|---|
| | OCI Debit/(Credit) | Comprehensive Income and Expenditure Statement Debit/(Credit) | Assets current Debit/(Credit) | Assets non current Debit/(Credit) | Liabilities current Debit/(Credit) | Liabilities non-current Debit/(Credit) | Equity Debit/(Credit) |
| Errors | | | | | | | |
| Known differences: | | | | | | | |
| Overstatement of pension fund assets | | | | (2,483) | | | 2,483 |
| Misstatement in Council Tax & NDR precept – BS | | | 35,535 | | (44,474) | | 8,939 |
| **Cumulative effect of uncorrected misstatements** | | | **35,535** | **(2,483)** | **(44,474)** | | **11,422** |

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Misstatements in the Council Tax and NDR precept arise as this information is provided by the Collecting bodies after the production of the County Council's accounts.

# 05 Value for Money

# Value for money

## The Council's responsibilities for value for money (VFM)

The 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, The 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, The Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local County Council accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

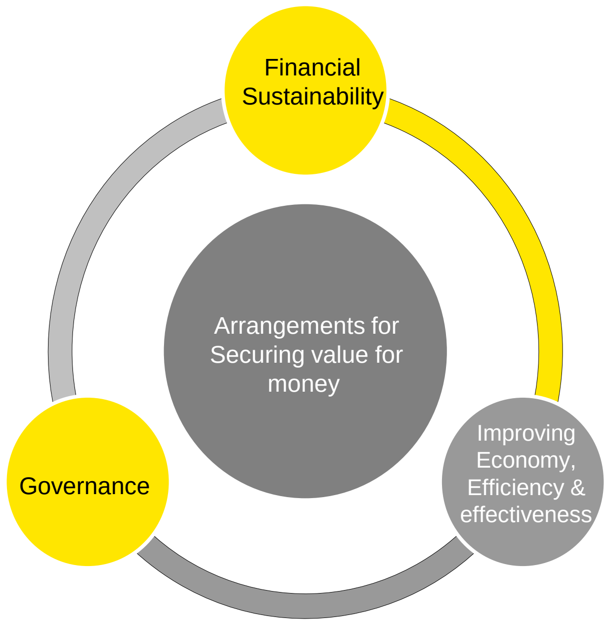
Throughout the audit we have performed a risk assessment in relation to the arrangements in place. This risk assessment looked at whether there was any risk of significant weaknesses in the VFM arrangements. We identified one area of risk identified around the arrangements that the Council has in place in relation to financial sustainability – including the impact of Covid-19 on the medium term financial planning. We have identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that "without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26".



## Status of our VFM work

At the date of this report we have gained an understanding of the arrangements management has in place, and received supporting evidence from management. Final review is outstanding, but our provisional view is that the Council has appropriate arrangements in place which addresses our identified risk.

We will issue our VFM commentary in the Auditor's Annual Report.



# Value for Money

## Responding to a risk of significant weakness in VFM arrangements

| What is the risk of significant weakness? | What arrangements did this impact? | What did we do? |
|---|---|---|
| We have identified the risk of the impact of Covid-19 on the medium term financial planning. We have identified this risk from the Chief Finance Officer's statements in the 2022/23 budget papers regarding the projected deficit in the medium term financial position to 2025/26, and that " without some form of Government intervention we are not financially sustainable in the medium term, even if we were to find some way of bridging the deficit to 2025/26". | Financial Sustainability | - Reviewed budget papers<br>- Reviewed annual budget setting process<br>- Reviewed cabinet meeting minutes<br>- Engaged in a number of discussions with management to understand the extent of the issue and their responses, obtained and reviewed supporting evidence. |

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## Findings

From our procedures performed thus far, we are aware that there is a monthly financial resilience meeting of the Directors of services to monitor ongoing pressures. In addition, Management are engaging in individual MTFS sessions with Directors of services on the budget gaps and cost saving ideas.

Management have maintained an open dialogue with DLUHC as they work through their action plan.

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

More detail of the procedures performed will be provided in our VfM commentary which will be included in our Auditor's Annual Report.

## Recommendation(s)

The County Council should maintain the level of monitoring and review it currently has in place whilst these strains/pressures continue.

# 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 2021/22 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 2021/22 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.



## 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 have not yet issued instructions for 2021-22 due to ongoing delays in previous years submissions.

We will report any matters arising to the Audit Committee.

# Other reporting issues

## Other powers and duties

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

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



## Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no significant findings to communicate.

# 07 Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a substantive approach (with some reliance on the ISAE 3402 report on the IBC), we have therefore not tested the operation of any controls.

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

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

# 08 Data Analytics

# 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 2021/22 our use of these analysers in the County Council's audit increased having a digital audit "DigiGam" audit approach, using the County Council's full journal dataset in our planning and risk assessment procedures through to execution which 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.

# 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 the County Council, and its members and senior management and its affiliates, including all services provided by us and our network to the County Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 01 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

**Services provided by Ernst & Young**

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 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.  Further detail of all fees has been provided to the Audit Committee.

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

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

We have adopted the following safeguards:

- The work will be led and delivered by a separate Service Organisation Controls (SOC) reporting team. Members of the existing audit team at Hampshire County Council will not work on this project. The remuneration of the Engagement Lead and the audit team are not impacted by this project.
- The estimated fee is in line with market rates for this type of engagement. The engagement will have a clearly defined scope, as set out in the scope of work and this work would not influence our conduct of or the outcome of the audits.
- The SOC report issued will be generic in nature and not specific to a particular customer or IBC. The controls reviewed will be homogenous controls.
- The work is limited to review of control within the end processes at the IBC. It does not include any aspects of decision-making on behalf of the IBC or the Council. It will not involve giving any advice in relation to decisions the IBC/Council may take.

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

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

# Relationships, services and related threats and safeguards

## Services provided by Ernst & Young

| | Proposed fee 2021/22 | Note Ref | Proposed Final Fee 2020/21 |
|---|---|---|---|
| | £ | | £ |
| Scale Fee | 89,720 | | 89,720 |
| Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk | 49,074 | 1 | 49,074 |
| Scale fee variation - new auditing standard and Value for Money requirements | 16,455 | 2 | 16,455 |
| Scale fee variation – PFI expert | TBC | 3 | 910 |
| IAS 19 protocol fees | 1,017 | 4 | 1,017 |
| Total audit | TBC | | 157,176 |
| Total other non-audit services – ISAE 3402 report on IBC | 56,500 | | 56,500 |
| **Total fees** | **TBC** | | **213,676** |



**Notes:**

1. In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs. From 2020/21 the fee impact increased by 25%, as PSAA's scale fee rates have increased by 25%.
2. From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. The NAO's Code of Audit Practice 2020 also set out new requirements for our work and reporting on Value for Money. We have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
3. Fees in 20/21 relate to PFI expert required to quantify error as a result of error in streetlighting model. Model has been updated for 21/22 and we will require our expert to review the changes – as this work is still ongoing we are yet to conclude on this figure.
4. Fees are payable by the Pension Fund for the IAS19 protocol. HPF will not pay the fees, therefore, this is charged to each individual body.

- **Fee discussions for 2020/21 remain ongoing with the PSAA.**

# Other communications

| EY Transparency Report 2021 |
| --- |
| 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.<br>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 2021:<br>**https://www.ey.com/en_uk/about-us/transparency-report-2021** |

# 10 Appendices

# Appendix A

## Audit approach update

We summarise below our approach to the audit of the balance sheet.

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



| Balance sheet category | Audit Approach in current 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 | No change |
| Tangible Fixed Assets | 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 | No change |
| Cash, borrowings and investments | Substantively tested all relevant assertions | No change |
| Pension Liability | Substantively tested all relevant assertions. We engaged EY Pensions to assist with reviewing actuary model. | No change |

# 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 |

# Required communications with the Audit Committee

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

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Terms of engagement | Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. | The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies |
| Our responsibilities | Reminder of our responsibilities as set out in the engagement letter. | Audit Planning Report dated May 2022 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.<br>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. | Audit Planning Report dated May 2022 |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ 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 | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty related to going concern<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The appropriateness of related disclosures in the financial statements | This Audit results report |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | This Audit results report |
| Subsequent events | ▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | This Audit results report |

# Appendix B

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Fraud | ▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Any other matters related to fraud, relevant to Audit Committee responsibility. | This Audit results report |
| Related parties | Significant matters arising during the audit in connection with the entity's related parties including, when applicable:<br>▸ Non-disclosure by management<br>▸ Inappropriate authorisation and approval of transactions<br>▸ Disagreement over disclosures<br>▸ Non-compliance with laws and regulations<br>▸ Difficulty in identifying the party that ultimately controls the entity | This Audit results report |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▸ The principal threats<br>▸ Safeguards adopted and their effectiveness<br>▸ An overall assessment of threats and safeguards<br>▸ Information about the general policies and process within the firm to maintain objectivity and independence | Audit Planning Report dated May 2022 and This Audit results report |

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# Appendix B

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| | Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:<br>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties<br>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>▶ Related safeguards<br>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit<br>▶ 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<br>▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | ▶ Management's refusal for us to request confirmations<br>▶ Inability to obtain relevant and reliable audit evidence from other procedures. | This Audit results report |
| Consideration of laws and regulations | ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of | This Audit results report |

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# Appendix B

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Significant deficiencies in internal controls identified during the audit | ▶ Significant deficiencies in internal controls identified during the audit. | This Audit results report |
| Written representations we are requesting from management and/or those charged with governance | ▶ Written representations we are requesting from management and/or those charged with governance | This Audit results report |
| Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | This Audit results report |
| Auditors report | ▶ Key audit matters that we will include in our auditor's report<br>▶ Any circumstances identified that affect the form and content of our auditor's report | This Audit results report |
| Code Requirements: | ▶ Auditors Annual Report<br>▶ VFM commentary | To be confirmed. Required within 3 months of giving the auditor's report. |

# 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 |
|---|---|---|
| Going concern review and disclosures | We have received management's cashflow forecast to support going concern disclosures, our review is in progress. Management's assessment paper to support this position remains outstanding and will be reviewed on receipt | Management and EY |
| Investment confirmations | Third party confirmations remain outstanding for a number of investment balances. | Management |
| PPE additions testing | Support outstanding to one query | Management |
| PPE valuations testing | Testing to be finalised, all support now received from management | EY |
| Infrastructure assets | Discussions ongoing with management on resolving and impact on audit report | Management and EY |
| Pensions | Liability rollforward work to be concluded by EY pensions team.<br>Letter from pension fund auditors outstanding | EY and Management |
| PFI | Expert memo and quantification of error to be received from EY expert | EY |
| Final review | Final review by Manager and Partner and finalisation of audit files | EY |
| Subsequent event enquiries | Subsequent event enquiries to be shared by EY and responses provided by management on date of signing SoA | EY and Management |
| Signed letter of representation | Signed letter of representation to be shared by management | Management |
| Statement of Accounts | Receipt and review of final set of Statement of Accounts when received, confirming all changes and adjustments made as agreed | Management and 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, but we should point out that key disclosures on [going concern, directors' remuneration and impairment sensitivities] remain to be finalised and audited.

# Appendix D

## Management representation letter - provisional

NB this wording is provisional due to the incomplete work on infrastructure assets, we are currently unable to determine the final representations that are required



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 2022. 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 position of Hampshire County Council as of 31 March 2022 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 2021/22.

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 2021/22

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 2021/22, 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 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls

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 as such we have not corrected these.

# Management representation letter - continued

## Management Rep Letter

6.We confirm the County Council does not have securities (debt or equity) listed on a recognized exchange.

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

1.We acknowledge that we are responsible to determine that the County 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 improprieties;
- 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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

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

# Management representation letter - continued

## Management Rep Letter



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 County Council Accounting in the United Kingdom 2021/22.

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 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

D. Liabilities and Contingencies

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

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

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

E. Going Concern

1.Note 28.1 to the financial statements discloses all the matters of which we are aware that are relevant to the County 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.There have been no events , including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the 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. Climate-related matters

1.We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered including the impact resulting from the commitments made by the County Council, and reflected in the financial statements.

2.The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local County Council Accounting in the United Kingdom 2021/22 , aligned with the statements we have made in the other information or other public communications made by us.

# Management representation letter - continued

## Management Rep Letter

J. Reserves

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

K. 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, PFI and IAS19 pensions 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.



L. 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 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 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 2021/22.

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.

M. 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,

________________________

Director of Corporate Operations

________________________

Chairman of the Audit Committee

# Appendix E

## Implementation of IFRS 16 Leases

In previous reports to the Audit Committee we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 has been further delayed. However, officers should be acting now to assess the County Council's leasing positions and secure the required information to ensure the County Council will be fully compliant with the Code when implemented. The following table summarises some key areas officers should be progressing.

| IFRS 16 theme | Summary of key measures |
|---|---|
| Data collection | Management should:<br>▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors.<br>▸ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases<br>▸ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied. |
| Policy Choices | The County Council needs to agree on certain policy choices. In particular:<br>▸ Whether to adopt a portfolio approach<br>▸ What low value threshold to set and agree with auditors<br>▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components<br>▸ What is managements policy in relation to discount rates to be used? |
| Code adaptations for the public sector | Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption). |
| Transitional accounting arrangements | Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the County Council is lessee. However, there can be implications for some finance leases where the County Council is lessee; and potentially for sub-leases, where the County Council is a lessor, that were operating leases under the old standard. |
| Ongoing accounting arrangements | Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events. |
| Remeasurements and modifications | Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease. |

EY | Assurance | Tax | Transactions | Advisory

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# Hampshire Pension Fund

## Audit results report

Year ended 31 March 2022

September 2022



Building a better working world

16 September 2022

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 28 September 2022 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 2021/22 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 28 September 2022

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 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 May 2022 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 | £90.7 million | £68.0 million | £4.5 million |
| Final | £96.3 million | £72.2 million | £4.8 million |



## 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.

- Conclusion of our work on level 3 assets. There are currently four investments which we are continuing to review.
- 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
- We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 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 2022 is not yet complete to finalise this work.

## 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 | 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.<br><br>We also performed a reconciliation between the fund managers reports and the custodian reports to address the risk of manipulation of asset valuations.<br><br>We have completed our work in this area and have no matters to bring to your attention. |



| Significant risk | Findings & conclusions |
|---|---|
| Valuation of complex investments (Level 3 Fair Value hierarchy) | 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.<br><br>Work remains ongoing in this area. |

| Areas of audit focus | Findings & conclusions |
|---|---|
| Valuation of non-exchange traded pooled funds (Level 2 Fair Value hierarchy) | We carried out procedures as set out in our Audit Plan to ensure that these investment valuations are supported.<br><br>We have completed our work in this area and have no matters to bring to your attention. |
| Valuation of directly held property (Level 2 Fair Value hierarchy) | We sample tested key inputs, and challenged key assumptions, used by the valuer in producing the property valuation.<br><br>We have completed our work in this area and have no matters to bring to your attention. |

# 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

# 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.
- 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.

Significant Risk

# 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 majority of level 3 assets the pension fund holds are held in separate investments vehicles which do not have a co-terminus balance sheet date with the pension fund. Where these investment vehicles' accounts have been audited we do not review the assumption in the underlying asset and rely on the work performed by the investment vehicles auditors.

However, management and the fund managers, need to assess whether there have been a significant movement in the fair value of the underlying assets of the investment vehicle between the audited balance sheet of the vehicle, and the pension funds balance sheet date.

We therefore focused on this judgement, and performed analytical review procedures between the two dates to challenge managements assumption on any movement, or lack of movement.

### What did we do?

We:

- reviewed the latest available audited accounts for the relevant funds and ensured there are no matters arising that highlight weaknesses in the fund's valuation;
- where the latest audited accounts were not as at 31 March 2022, 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?

Work remains ongoing in this area.

At the time of writing, we are yet to conclude on four L3 investments out of sample of 50. For these four investments the fund manager has been unable to provide audited financial statements for the relevant fund.

We have enquired with the fund manager whether there are audited financial statements further 'downstream' for these investments which we may be able to rely on to provide us with assurance over the valuation of the underlying asset.

We have also engaged our valuations team to provide us with support to gain assurance over the valuation of these four investments.

Significant Risk

# Areas of Audit Focus

| What is the risk/area of focus? | What did we do? |
| --- | --- |
| **<u>Valuation of non-quoted pooled investments (level 2)</u>**<br>The Pension Fund's investment valuations are classified into three levels, according to the quality and reliability of information used to determine fair value. As at 31 March 2022, Hampshire Pension Fund held a significant balance of non-exchange traded pooled funds which are classified as Level 2.<br><br>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.<br><br>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. | **We have:**<br>► Reconciled the valuation of the non-quoted assets provided by the custodian and fund manager<br>► Verified the fund manager unit valuation to recent unit sales using externally available market information<br>► 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<br>► Performed an analytical review of the pooled funds movement in year against the specific market movements the fund is invested in.<br><br>**Conclusion:** We have completed our testing and have not noted any issues with the judgements used in the valuation of level 2 investments. |



| What is the risk/area of focus? | What did we do? |
| --- | --- |
| **<u>Valuation of directly held property</u>**<br><br>Directly held property is valued at level 2 in the fair value hierarchy, and subject to valuation changes.<br>Material judgemental inputs and estimation techniques are required to calculate the year-end valuation.<br>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.<br>We are required to undertake procedures on the use of experts and assumptions underlying fair value estimates. | **We have:**<br>▸ Considered the competence, capability and objectivity of the Council's valuers;<br>▸ Sample tested key inputs used by the valuer when producing valuations;<br>▸ Challenged the assumptions used by the Pension Fund's property valuers by reference to external evidence.<br><br>**Conclusion:** We have completed our work in this area and have no matters to bring to your attention. |

# 03 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 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 22. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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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 2022 and the amount and disposition of the fund's assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (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 2021/22, 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 2021/22.

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 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);

# 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 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

**Responsibility of the Director of Corporate Operations**

As explained more fully in the Statement of 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 2021/22, 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 Administering Authority 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 the Director of Corporate Operations.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the 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 whether they are aware of instances of non-compliance, and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, We corroborated this through our reading of the Pension 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 involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, and review of minutes.

# Draft audit report

## Our opinion on the financial statements



We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

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

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

The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures

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

### Use of our report

This report is made solely to the members of Hampshire County Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 (as amended) and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Hampshire County Council, its 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 2021/22 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 2022 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.

**Other powers and duties**

We have a duty under the Local Audit and Accountability Act 2014 (as amended) 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 (as amended). 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 2021 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

**Services provided by Ernst & Young**

The table below sets out a summary of the fees that are due to us in relation to the year ended 31 March 2022 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.



| | Planned fee 2021/22 | Note Ref | Final Proposed Fee 2020/21 |
|---|---|---|---|
| | £ | | £ |
| Scale Fee | 24,442 | | 24,442 |
| Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk | 39,699 | 1 | 39,699 |
| Scale fee variation - new auditing standard | 603 | 2 | 603 |
| Scale fee variation – use of EY specialist | TBC | 3 | 4,119 |
| Total audit | TBC | | 68,863 |

Note:

1) In our 2019/20 audit we set out the basis for a requested rebasing of the scale fees due to changes in regulatory requirements. These are ongoing impacts, therefore, we have continued to include this request based on the same level of inputs.
2) From 2020/21, there are additional procedures required to satisfy the revised ISAs that have come into effect which may have additional costs, predominantly ISA540. We have continued to include the impact at the lower end of the PSAA's communicated range, submitted in our 2020/21 fee variation proposal.
3) Fees in 20/21 relate to Property expert required to review the work performed by the Pension Fund Property Expert. As noted on page 10 we may require the input of our valuation expert to conclude on the valuation of L3 investments.

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.<br>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 2021:<br>EY UK 2021 Transparency Report \| EY UK |

# 08 Appendices

# 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 May 2022 |
| Planning and audit approach | Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. | Audit planning report May 2022 |
| Significant findings from the audit | ▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures<br>▸ Significant difficulties, if any, encountered during the audit<br>▸ Significant matters, if any, arising from the audit that were discussed with management<br>▸ Written representations that we are seeking<br>▸ Expected modifications to the audit report<br>▸ 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 | Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:<br>▸ Whether the events or conditions constitute a material uncertainty<br>▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements<br>▸ The adequacy of related disclosures in the financial statements | This Audit results report<br>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 |
| Misstatements | ▸ Uncorrected misstatements and their effect on our audit opinion<br>▸ The effect of uncorrected misstatements related to prior periods<br>▸ A request that any uncorrected misstatement be corrected<br>▸ Material misstatements corrected by management | This Audit results report |
| Subsequent events | ▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. | Attending Audit Committee – 28 September 2022 |
| Fraud | ▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority<br>▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist<br>▸ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:<br>a. Management;<br>b. Employees who have significant roles in internal control; or<br>c. Others where the fraud results in a material misstatement in the financial statements.<br>▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected<br>▸ Any other matters related to fraud, relevant to Audit Committee responsibility. | Formal enquiry letter sent and response received from Chair of Audit Committee.<br>and<br>This Audit results report |

# Appendix A

| | | Our Reporting to you |
|---|---|---|
| **Required communications** | **What is reported?** | **When and where** |
| Related parties | Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:<br>▶ Non-disclosure by management<br>▶ Inappropriate authorisation and approval of transactions<br>▶ Disagreement over disclosures<br>▶ Non-compliance with laws and regulations<br>▶ Difficulty in identifying the party that ultimately controls the Authority | This Audit results report |
| Independence | Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.<br>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:<br>▶ The principal threats<br>▶ Safeguards adopted and their effectiveness<br>▶ An overall assessment of threats and safeguards<br>▶ Information about the general policies and process within the firm to maintain objectivity and independence<br>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.<br>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:<br>▶ Relationships between EY, the company and senior management, its affiliates and its connected parties<br>▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence<br>▶ Related safeguards<br>▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees<br>▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit | Audit planning report May 2022<br>and<br>This Audit results report |

# Appendix A

| Required communications | What is reported? | Our Reporting to you<br>When and where |
| --- | --- | --- |
| | ▸ 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<br>▸ Details of any contingent fee arrangements for non-audit services<br>▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard<br>▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence | |
| External confirmations | ▸ Management's refusal for us to request confirmations<br>▸ Inability to obtain relevant and reliable audit evidence from other procedures. | We have received all requested confirmations |
| Consideration of laws and regulations | ▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur<br>▸ 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 | ▸ 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 | ▸ 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 | ▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise | This Audit results report |
| Auditors report | ▸ Any circumstances identified that affect the form and content of our auditor's report | This Audit results report |
| Fee Reporting | ▸ Breakdown of fee information when the audit planning report is agreed<br>▸ Breakdown of fee information at the completion of the audit<br>▸ Any non-audit work | Audit Planning Report May 2022<br>and<br>This Audit results report |

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# Management representation letter

**Hampshire Pension Fund**

**Management Representation Letter**

xx September 2022

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 2022. 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 2021 to 31 March 2022 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2022, 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 2021/22.

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 2021/22.

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 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

# Appendix B

## 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 2021/2022 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls
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.

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# 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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus
4. We have made available to you all minutes of the meetings of 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 2021/2022
9. From the date of our last management representation letter (16 December 2021) through the date of this letter we have disclosed to you any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

**D. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
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 2 to the financial statements discloses all the matters of which we are aware that are relevant to the Organisations'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 6 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 2021/22, 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.

# Management representation letter

**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 2021/22
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.



N. Climate-Related Matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 aligned with the statements we have made in the other information or other public communications made by us.

EY | Assurance | Tax | Transactions | Advisory

**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.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.



ED None



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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Statement of Accounts 2021/22 |
| **Report From:** | Rob Carr, 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 2022.

**Recommendation(s)**

2. That the Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund be approved (Appendix 3), subject to the national issue relating to infrastructure assets outlined in this report being resolved prior to this meeting or with the changes referred to in paragraph 5 being agreed by the Director of Corporate Operations

3. That the Audit Committee notes that if the national issue relating to infrastructure assets outlined in this report has not been resolved and/or if this results in material changes to the County Council's accounts that have not been made and audited prior to this meeting, the sign off of the accounts will be delayed and will need to be brought back to the next appropriate meeting of the Audit Committee for sign off.

4. That the letters of representations for Hampshire County Council and the Hampshire Pension Fund be signed (Appendix 2).

5. That delegated authority be given to the Director of Corporate Operations to approve changes agreed between the County Council and EY (including those summarised in paragraph 27 and any reported verbally to the Audit Committee at this meeting) and any other further minor amendments to the

Statement of Accounts presented at Appendix 3 prior to the issue of the final audit opinion and publication of the Statement of Accounts, which may include changes to the presentation of the accounting for infrastructure assets if these changes do not materially impact the County Council's accounts.

**Executive Summary**

6. The Accounts and Audit (Amendment) Regulations 2022 require the Council's Statement of Accounts to be approved and published by 30 November 2022. The County Council has delegated responsibility for the approval of the Statement of Accounts to the Audit Committee.

7. The unaudited draft accounts were reviewed and signed by the Chief Financial Officer on 27 July 2022 as a true and fair view of the financial position as at 31 March 2022. 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 2022.

8. The County Council's accounts are audited by EY and the Audit Committee received EY's audit planning report at its meeting of 26 May 2022. Within this report, EY identified a new area of focus for their audit relating to "*the derecognition of parts of infrastructure assets following 'replacement' expenditure."* This relates to the values stated on the County Council's Balance Sheet rather than charges to the annual revenue budget.

9. Members heard that this was a national issue and that the Chartered Institute of Public Finance and Accountancy (CIPFA) had established a task and finish group to assist with resolving the issue. An urgent consultation was conducted by CIPFA during the summer of 2022 on temporary proposals to update the Code of Practice for 2021/22, however at the time of writing the issue had yet to be resolved. Therefore, while EY and the County Council have been working towards the accounts being signed off by the end of September, as set out in the audit planning report, there is a risk that this outstanding issue will prevent this from happening.

10. The County Council's interpretation of the CIPFA Code in the way it accounts for highways assets has not changed for many years. This is a complex technical accounting issue that needs to be resolved nationally so that the external auditors can ensure that the Balance Sheet has been presented correctly from a technical accounting perspective. It should be noted that the accounting valuation of the County Council's infrastructure assets (primarily highways) on the Balance Sheet has no impact on the County Council's capital or revenue budgets or Council Tax payers, nor does it impact the work of the Highways team in assessing the state of the highways network and the

amount of maintenance spend required. A more detailed overview of this issue is included at Appendix 1.

11. The conclusions of the audit will be contained within the external auditor's report, which is due to be presented to this meeting of the Audit Committee. The Annual Governance Statement, which forms part of the Statement of Accounts, is also presented elsewhere on this agenda for approval by the Audit Committee. The annual internal audit report and opinion, which is also on the agenda for this meeting, also supports the sign off of the accounts through its assessment of the framework of risk management, internal control and governance. The end of year financial report for 2021/22 was considered by Cabinet on 19 July 2022 and the Statement of Accounts is consistent with that report.

12. This report presents the Statement of Accounts for 2021/22 (Appendix 3) for the Audit Committee's approval. If the national issue outlined above relating to infrastructure assets has not been resolved and results in any material change to the accounts this will need to be brought back to the Audit Committee at a subsequent meeting for sign-off. The report also recommends that the Director of Corporate Operations be given delegated authority to make minor amendments to the accounts if required prior to the issue of the audit opinion, which may include presentational changes to the accounts relating to the County Council's infrastructure assets if these changes do not have a material impact on the accounts.

13. The report also includes in Appendix 2 letters to the auditor containing representations by the Director of Corporate Operations (the Chief Financial Officer) and Chairman of the Audit Committee regarding information and systems of internal control to support the confirmation that the accounts present a true and fair view of the financial position of the County Council and Pension Fund.

**Contextual information**

14. The County Council is required by the Accounts and Audit Regulations (2015) to produce an annual Statement of Accounts. These accounts must be audited in accordance with the Local Audit and Accountability Act (2014).

15. The timescales for the publication of draft and audited accounts have been temporarily extended through amendments to the Accounts and Audit Regulations over recent years due to the impact of Covid-19. Despite these extended deadlines, the national picture is that the audits of a significant majority of local authority accounts were not completed on time in 2020/21. The Department for Levelling Up, Housing and Communities therefore published details of measures to support the improved timeliness of local

audit in December 2021. One of the outcomes was to extend the deadline for the sign-off of audited accounts for 2021/22 to the end of November 2022.

16. This deadline was confirmed in the Accounts and Audit (Amendment) Regulations 2022. The amended regulations also set out that the deadline will revert to 30 September for the subsequent 6 years.

**Code of Practice on Local Authority Accounting**

17. The attached Statement of Accounts has been drawn up in the form prescribed by the 2021/22 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.

18. The 2021/22 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. The requirement to adopt IFRS 16 (accounting for leases) from April 2022 has been delayed until April 2024, although local authorities may adopt this new standard sooner if they choose. The County Council has chosen not to adopt the new standard from April 2022.

19. In May 2022, the CIPFA LASAAC Local Authority Code Board announced an urgent consultation on temporary proposals to update the Code of Practice for infrastructure assets. The proposals were intended to address issues raised by auditors at a national level in relation to the derecognition (removal of the carrying amount) of parts of infrastructure assets when replacement expenditure is undertaken. A task and finish group was established by CIPFA to assist with the resolution of the issue, however at the time of writing the issue had not yet been resolved and the County Council does not therefore know what if any changes it may need to make to its accounts for 2021/22 to reflect any changes to the CIPFA Code prior to EY being able to conclude the audit of the accounts. This national issue was highlighted in EY's audit planning report, which was received by the Audit Committee at its meeting of 26 May 2022.

20. The County Council has not changed its approach to accounting for highways assets for many years, receiving a clean bill of health from its external auditor in prior years. This is a complex technical accounting issue that needs to be resolved nationally so that the external auditors can ensure that the balance sheet has been presented correctly from a technical accounting perspective.

21. Moreover, it should be noted that the accounting valuation of the County Council's infrastructure assets (primarily highways) on the Balance Sheet has

no impact on the County Council's capital or revenue budgets or Council Tax payers, nor does it impact the work of the Highways team in assessing the state of the highways network and the amount of maintenance spend required. There is no suggestion that the County Council is not properly budgeting for the capital or revenue expenditure on its highways infrastructure assets or charging incorrect amounts to the taxpayer through its capital programme or revenue budgets. This is purely a technical accounting issue that does not affect budgets or decision making by the County Council.

**Statement of Accounts**

22. The Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

23. It aims to provide information so that members of the public, including electors and residents of Hampshire, Members of the County Council, partners, stakeholders and other interested parties can:

    - Understand the overall financial position of the County Council and the outturn position for 2021/22;

    - Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and

    - Be assured that the financial position of the County Council is sound and secure.

24. The unaudited accounts were reviewed and signed by the Chief Financial Officer on 27 July 2022 as a true and fair view of the financial position as at 31 March 2022. The draft accounts were published on the County Council's website in line with requirements of the regulations and enabled the commencement of the period for the exercise of public rights on or before the first working day of August 2022.

25. Following the conclusion of the period for the exercise of public rights, the Accounts and Audit Regulations require the Authority to:

    - consider, either by way of a committee or by the members meeting as a whole, the statement of accounts
    - approve the statement of accounts by a resolution at that committee or meeting
    - ensure that the statement of accounts is signed and dated by the person presiding at the committee or meeting at which that approval is given

26. For the County Council, the responsibility for the approval of the Statement of Accounts is delegated to the Audit Committee. The County Council's accounts are externally audited by EY. At the time of publication of this report, the audit was still in progress and the accounts remain in draft until the conclusion of the audit.

27. The County Council and EY have agreed a number of changes that need to be made between draft and final accounts. None of these changes are material and none affect the General Fund. Noteworthy changes include:
    - Additions to the disclosure note text on note 8c (exit packages) to better align with the requirements of IAS 8.
    - Updates to IAS 19 pension figures included in note 24 to reflect updated information.
    - Collection Fund postings due to the timing difference between the preparation of draft accounts and the receipt of returns from district councils.
    - Revisions to the accounting split of the unitary charge for the street lighting PFI to reflect changes to the model following points raised in previous audits. The revised figures were in the process of being agreed with EY at the time of writing.

28. It is not anticipated that any issues will be raised by the auditor as a result of their audit that will impact their ability to issue an unqualified opinion on the accounts, although at the time of writing the impact on the accounts of the national issue related to infrastructure assets is uncertain. This means that EY have been unable to determine an appropriate audit opinion within their draft audit results report. Given this uncertainty, EY highlight there is a risk that their opinion may need to be qualified. However, the County Council will consider very carefully all appropriate action to avoid that outcome.

29. If this matter has been satisfactorily resolved prior to the Audit Committee meeting, it is recommended that the Audit Committee approves the Statement of Accounts for 2021/22 for the County Council and Pension Fund for publication on the County Council's website, including the changes highlighted above that have already been agreed with EY and any others that due to the timing of the publication of the papers for this meeting have been reported verbally to the Audit Committee at this meeting. It is also recommended that authority is delegated to the Director of Corporate Operations to make any further minor amendments to the version of the statement of accounts included within the papers for this meeting if required by the external auditor prior to the issue of the audit opinion. It is recommended that this delegation also allows the Director of Corporate Operations to approve changes to reflect the resolution of the national issue on accounting for infrastructure assets once resolved if the changes do not have a material impact on the County Council's accounts.

30. If the situation has not progressed to the point whereby the accounts are ready for publication and/or the changes required are material in nature, the requirements of the Accounts and Audit Regulations mean that the Audit Committee will need to reconvene at a later date to approve the finalised accounts. The next scheduled meeting of the committee is currently 22 December 2022, which is after the deadline for publication of 30 November 2022.

31. The following paragraphs provide a summary of each section of the Statement of Accounts.

**Narrative report**

32. The narrative report provides information about the key issues affecting the County Council and reports on the County Council's financial and non-financial performance, risks and future prospects.

33. The narrative report is designed to help readers understand the County Council and its operating environment and to assist in the understanding and interpretation of the Statement of Accounts.

34. It explains 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 19 July 2022.

**Statement of Responsibilities for the Statement of Accounts**

35. The 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 of Corporate Operations 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**

36. 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).

**Balance Sheet**

37. 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 or unusable.

**Cash flow statement**

38. The cash flow statement is designed to demonstrate the changes that have taken place in the County Council’s cash position over the year and to highlight the causes of these changes.

**Comprehensive Income and Expenditure Statement**

39. 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.

40. The bottom line figure on the Comprehensive Income and Expenditure Statement is equal to the change in net worth on the Balance Sheet, although it is the Movement in Reserves Statement that shows the impact of the County Council’s activities on its revenue budget and therefore the Council Tax payer.

**Notes to the accounts**

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

**Hampshire Pension Fund**

42. The Statement of Accounts also includes the accounts of the Hampshire Pension Fund. This is because the County Council is the Administering Authority and reporting entity for the Pension Fund, which is not a separate legal entity.

43. The accounts for the Pension Fund provide details of contributions and benefits payable during the year, management expenses, and returns on investments during the year as part of the Fund Account. This results in a change in net assets of the scheme, reflected in the Net Asset Statement at 31 March 2022. The Net Asset Statement predominantly comprises investment asset balances in addition to other assets and liabilities.

**Annual Governance Statement**

44. 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**

45. 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 2022
    - 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 1 August to 12 September 2022. No requests or questions had been received at the time of writing.

**Letters of Representation**

46. As part of the production and audit of the final accounts, the external auditors also require the Director of Corporate Operations (the Chief Financial Officer) and Chairman of Audit Committee to provide Letters of Representations for the County Council and Pension Fund.

47. The letters provide additional assurance that all matters have been disclosed to the auditors and that no undue influence has been applied in producing the accounts that would prevent them giving a true and fair view of the financial position.

48. The detailed letters (draft) are attached at Appendix 2.

## Consultation and Equalities

49. The Statement of Accounts summarises the financial transactions incurred following the approved revenue budget and capital programme. Consultation on the budget is undertaken 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.

50. The Accounts and Audit (Amendment) Regulations 2022 require the County Council's Statement of Accounts to be approved and published by 30 November 2022. This report deals with this statutory requirement, which is a financial reporting matter, and therefore no consultation or Equality Impact Assessments are required.

## Climate Change Impact Assessment

51. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

52. 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. 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.

## Conclusions

53. The Statement of Accounts for 2021/22 for Hampshire County Council and the Hampshire Pension Fund have been prepared in accordance with legislative and regulatory requirements. The presentation and approval of the annual accounts is an important part of the overall governance framework for the County Council and Pension Fund and the Audit Committee is therefore requested to consider and approve the accounts alongside the report of the external auditors, or to note the need for the Audit Committee to reconvene at a later date to approve the finalised accounts depending on the outcome of the national issue explained in this report relating to the accounting for the derecognition of parts of infrastructure assets on replacement.

## 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:**<br><br>It relates to the effective governance of the County Council |

### Other Significant Links

| **Links to previous Member decisions:** | |
|---|---|
| Title<br>External Audit Planning Report – Hampshire County Council<br>External Audit Planning Report – Hampshire Pension Fund | Date<br>26 May 2022<br>26 May 2022 |
| **Direct links to specific legislation or Government Directives** | |
| Title | Date |

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

| Document | Location |
|---|---|
| None | |

## EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

There are no new proposals in this report requiring an assessment

**Accounting for the derecognition of parts of infrastructure assets following 'replacement' expenditure**

**Introduction**

1. External auditors raised a new issue with the accounting treatment for the valuation of infrastructure assets in the 2020/21 accounts of some local authorities. This issue was raised after the County Council's accounts for 2020/21 had been signed off by EY and therefore did not affect the opinion of the accounts for that year. However, the CIPFA LASAAC Local Authority Code Board has since established a task and finish group and conducted an urgent consultation in an attempt to resolve this national issue, which affects all local authorities with infrastructure assets.

2. There is no suggestion that the County Council is not properly budgeting for the expenditure on its highways infrastructure assets or charging incorrect amounts to the taxpayer through its capital programme or revenue budgets. The issue is a purely technical issue relating to Balance Sheet valuations that does not affect budgets or decision making by the County Council.

3. This briefing note provides additional detail to support the Statement of Accounts 2021/22 report to the Audit Committee's meeting of 28 September 2022.

**How does the County Council account for the valuation of highways assets**

4. In line with the requirements of the CIPFA Code of Practice, the County Council holds its highways assets at depreciated historical cost (DHC) and charges depreciation over 20 years on a straight-line basis. This means that the Balance Sheet value of expenditure on highways will equal the initial amount spent less 1/20 of that amount for each year since the expenditure took place. For example, £200,000 of initial expenditure would be depreciated at £10,000 per year and therefore valued on the Balance Sheet at £190,000 after one year, £100,000 after 10 years and so on.

5. Clearly, in practice each individual road will not have an asset life of exactly 20 years. However, depreciation is based on a reasonable expectation at the time the asset is created. For highways assets on average, analysis in 2016/17 suggested a 20 year asset life was reasonable and that using this average across all assets did not create a materially different result to variable lives per asset.

6. Assets held at DHC do not get revalued and where assets are 'replaced' the County Council assumes that on average these assets have been fully depreciated (and are therefore worth £nil). This is based on the assumption that the 20 year asset life is reasonable on average, supplemented by the fact that the County Council does not have the funding to replace assets before they have reached the end of their useful life. Therefore, for the County Council, it is

assumed there is £nil value to write off the Balance Sheet when parts of the highways network are replaced.

7. Take the example of a road assessed by the Highways team to require resurfacing. Although to road users the road is essentially the same road, the resurfacing from an accounting point of view is argued to be 'replacing' the old road surface and the old road surface therefore needs to be derecognised.

8. When you derecognise an asset or an element of it, you need to remove the associated asset value from the Balance Sheet, because you don't have that asset anymore. The County Council assumes the 'old' road surface has reached £nil value and there is therefore £nil to derecognise. It therefore simply adds the cost incurred in resurfacing the road to the Balance Sheet valuation of its highways assets and then depreciates this amount over the next 20 years.

9. Statutory arrangements mean that depreciation is not a proper charge to the General Fund and any depreciation is therefore reversed out of the General Fund to unusable reserves. It does not therefore affect the revenue budget or the council tax requirement.

**What is the issue?**

10. CIPFA's description of the issue notes that accounting for infrastructure assets has not historically been considered to be an area of significant audit risk. This is because of the inalienable nature of the assets (benefit is only derived by using them) and the fact they are held at depreciated historical cost (it was deemed too costly to revalue regularly to enable assets to be held at current value).

11. The CIPFA note highlights that derecognition of highways assets has not previously been considered to affect asset balances because (a) normal custom and practice has been to assume the assets are expected to be fully used up before replacement and (b) it is assumed assets are properly depreciated in line with the CIPFA Code.

12. It is difficult for the audit firms to test the asset valuations of local authorities, however, because of the limitations on historical information relating to when the assets were first recorded on the Balance Sheet (this started in the early 1990s) and because of local authority reorganisations. It is also hard to identify clearly from accounting records which parts of the assets are being replaced.

13. For the County Council, a single asset is held on the Balance Sheet for all highways assets as at 2016/17. Post 2016/17, a single asset is held per financial year and depreciated over 20 years. Thus, there is insufficient detail within the financial ledger to identify individual parts of the highways network. This detail has not previously been required in working to the normal custom and practice regarding highways assets, in meeting the requirements of the CIPFA Code, or for previous audits.

14. One proposal from CIPFA is to remove the need to report Gross Book Value and Accumulated Depreciation and instead to focus solely on the value on the Balance Sheet (the Net Book Value). This would remove some potential historical ambiguities but may not be sufficient to enable auditors to gain full satisfaction. A statutory prescription from government has also been mooted.

**What do the audit firms want local authorities to do?**

15. To allow audit firms to test and prove that assets had been fully derecognised from the Balance Sheet on 'replacement' each individual road would need to be held as a separate asset on the Balance Sheet, potentially further broken down by component (foundations, road surface etc). This would then create a 1:1 relationship between work carried out on individual roads and their representation in the accounting system. When a road is replaced, any remaining value associated with that individual asset could then theoretically be identified and derecognised.

16. However, while it would be relatively straightforward in this scenario to do so for an asset that was fully replaced, it would almost always be the case that only part of a road would be replaced (e.g. the foundations are not replaced and/or only part of a road is resurfaced). In this case, even more detailed records and the professional judgement of the Highways team or other experts would be required to allow the County Council to assess what proportion of the existing asset had been replaced. An appropriate methodology would then be required to assess what (if any) outstanding value remained for the section of the asset being replaced so that this part could be derecognised from the Balance Sheet. The 'replaced' section of road would then need to become a new asset, splitting a road that was initially one asset on the Balance Sheet into two.

17. Given the scale of the highways network within Hampshire (approximately 5,500 miles of roads plus associated bridges and street furniture including street lights, traffic lights, sensors, signage etc) there would be significant cost implications to maintaining accounting records at individual road level, which would provide little if any practical benefit to the taxpayer as the carrying value of the highways assets on the Balance Sheet does not impact the budget or the County Council's decision making. Indeed, this was CIPFA's view back in 2016/17 which resulted in the consolidation into a single asset all the highways assets held within the accounting system at that point, including the historic assets added in 1994. Therefore, even if detailed records are kept in future, it is not possible to recreate the accounting entries for existing highways assets held on the Balance Sheet that were capitalised during or before 2016/17 and it will not be until 2036/37 that these asset values have been fully depreciated and removed from the Balance Sheet.

18. The County Council is sympathetic to the position of the audit firms, as they are required to conduct their audits in accordance with the requirements of auditing standards. The County Council is, however, hopeful that a pragmatic solution will be found to resolve this issue at a national level given the significant costs that would be involved to alter the current approach in the way described above and the fact that it would create minimal if any tangible benefit to do so.

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# Hampshire County Council

# Draft Statement of Accounts

# 2021/22

## Contents



## Contact Details

For further information about the accounts please contact:

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## Narrative Report

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

- Understand the overarching financial position of the County Council and the outturn position for 2021/22;
- Have confidence that the public money with which the County Council has been entrusted has been used and accounted for in an appropriate manner; and
- Be assured that financial management of the County Council is strong and focused on supporting the continued delivery of services in a challenging economic and demographic context.

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

This Narrative Report has been structured to help enable readers to understand the County Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts. The report provides information about Hampshire, including the key issues affecting the Authority and its accounts. It also provides a summary of the financial position at 31 March 2022 and is structured as set out below:

- Statement from the Leader of Hampshire County Council
- Introduction from the Chief Financial Officer
- An Introduction to Hampshire
- The County Council's Non-Financial Performance
- Financial Performance of the County Council 2021/22
- Corporate Risks
- Summary Position
- Where you can get Further Information

This is followed by an explanation of the Financial Statements, including information on changes during 2021/22.

## Statement from the Leader of Hampshire County Council

"As Leader of the County Council, I am delighted to be able to present to you the Statement of Accounts for 2021/22. The County Council has always had a strong track record of financial management and continued strong leadership and stewardship of the County Council's finances has put us in the strong position in which we find ourselves today."

"The Coronavirus pandemic has continued to present major challenges for Council services over the past year as we have worked to secure Hampshire's recovery from the pandemic. The Council has played a crucial role supporting the health and care sector in managing the continued risk of Covid-19 outbreaks and alleviating pressure on acute care settings through supporting hospital discharge routes. Our staff have managed surging demand across all services as the county has transitioned out of lockdown, from Social Care to our valued recreational and cultural services."

"The financial impact of the pandemic has been significant and will continue to be felt in the years to come. The Council has set aside significant local resources to supplement the financial support provided by the Government and NHS England which has allowed us to meet the costs and losses resulting from the pandemic in 2021/22. However, the on-going financial impact remains difficult to predict. The County Council will continue with its careful financial management and robust financial monitoring with the aim of achieving on-going financial sustainability."

"Since the previous financial crisis in 2008, we have worked diligently to stretch every penny – delivering savings, reinvesting in new, more efficient ways of working, making prudent use of our reserves, and delivering more with less. Residents have told us they support this approach, and it has proven effective – and by April 2022 the total savings we will have removed from the budget will rise further to £560 million."

"This has only been possible due to our scale, capacity, financial resources and strong leadership. We have planned well ahead of time to implement the necessary savings to balance the budget and have used our reserves wisely to support the continuing significant change programme across the Authority and to ensure we have adequate time to implement changes properly and safely in order to minimise the impact on residents wherever possible."

"The financial information contained in this Narrative Report and the accounts themselves once again serve to highlight the continuing strength and success of this great County but the financial costs and consequences of the Coronavirus outbreak, and the impact this is likely to have on the County Council's savings programmes and income will present a unique challenge."

**Councillor Rob Humby – Leader of Hampshire County Council**

## Introduction from the Chief Financial Officer

The Statement of Accounts for 2021/22 draws to a close another challenging but successful financial year for the County Council. Continued monitoring of the financial consequences of the pandemic and use of our locally funded Covid-19 response package has ensured strong financial performance of the business as usual services of the County Council. With significant underlying cost and demand pressures on services set to continue, coupled with the challenge of rising inflation, this strong financial outcome provides an essential foundation to achieving financial sustainability going forwards.

This Narrative Report is designed to help readers better understand the Authority, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts themselves.

It contains background information about the County Council and outlines some of the key financial issues in areas such as revenue and capital spending, reserves and treasury management. As Chief Financial Officer to the County Council I also have responsibility for the Pension Fund and further information is provided to help explain the current position on the Fund and its investments.

Whilst the Statement of Accounts is backward looking it is also important to acknowledge the Coronavirus outbreak and the financial implications of the crisis on the County Council's own budgets and financial planning which continue to be profound.

The accounts themselves are very complex and technical in nature, but I hope you will take the time to look through them and in particular, read the Narrative Report which provides an excellent summary of what has happened during the financial year and outlines the financial standing of the County Council as at 31 March 2022.

If you would like more information on the accounts or have any questions on the content contact information is contained within this Narrative Report.

**Rob Carr CPFA**
**Director of Corporate Operations**

## An Introduction to Hampshire

Hampshire is notable for housing the birthplaces of the Royal Navy, British Army and the Royal Air Force. It is bordered by Dorset to the west, Wiltshire to the north-west, Berkshire to the north, Surrey to the north-east, and West Sussex to the east. The southern boundary includes Portsmouth and Southampton and the coastline of the English Channel and the Solent, facing the Isle of Wight. Hampshire is in the top ten of the largest counties by land area (covering approximately 1,400 square miles).

Hampshire County Council is one of three local authorities in Hampshire (along with Portsmouth City Council and Southampton City Council) that provide 'upper tier' services, such as social care and education to residents of the county. In addition, there are 11 district councils and over 260 parish and town councils providing a range of services to businesses and residents.

The county also contains two national parks; the first covering the New Forest, and therefore governance of this area is carried out by a national park authority as well as New Forest District Council, the second is the national park for the South Downs which covers the chalk downlands from Winchester eastwards which embraces a large number of local council areas across three counties, Hampshire, West Sussex and East Sussex.

**Key Facts about Hampshire**

There are a number of factors which affect the County Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Authority's financial position in both the short and medium-term and further detail is available on the web describing the environment in which the County Council operates:

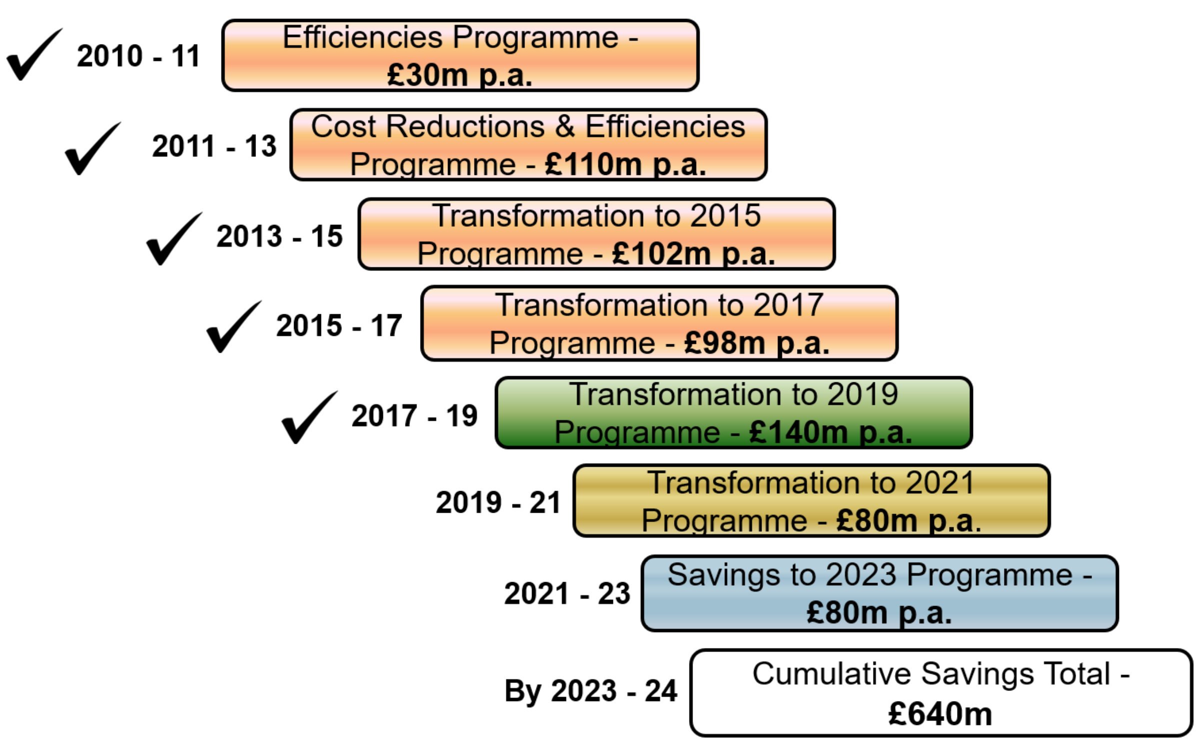
Hampshire-facts-figures-Economy-and-infrastructure.pdf (hants.gov.uk)

| | | |
|---|---|---|
| The County Council is responsible for 8,000km of road, 2,000+ road bridges, 150,000 street lights and 7,000km of footpaths. | The population of Hampshire is forecast to increase from 1,419,330 in 2021 to 1,502,980 in 2028, which is a 5.9% increase. | The Hampshire (county) economy is worth approximately £38.1 billion and contributes 14% to the South East's economy. |
| Hampshire (county) has 72,500 businesses and an employment rate of 80%, well above UK rate (75.8%). | 545,000 households, of which 71% are owner-occupied (2011 Census). | 138,000 pupils are taught in 474 maintained schools with an additional 38,000 taught in 52 academy schools |
| 85% of Hampshire is defined as rural and over a third of the county's area is within National Parks or Areas of Outstanding Natural Beauty. | The number of homes in Hampshire is forecast to increase 7.6% (46,450 additional homes) by 2028, up from 615,200 homes in 2021. | Tourism generates almost £3 billion to the Hampshire economy. Hampshire is visted by 4.5 million staying visitors and 52 million day visitors each year. |
| Hampshire has more cars than any other county and two-thirds of commuters in Hampshire travel by car (2011 Census). | In 2021, 18.4% of Hampshire's population was aged 0-15, with 59.3% aged 16-64 and 22.3% aged 65+. By 2028 the percentage of Hampshire's population aged 65+ is forecast to have increased to 24.4% | The rural economy is worth an estimated £8.3 billion, or 17% of the overall Hampshire economy, with the agricultural industry worth £0.3 billion |

Hampshire County Council is responsible for more than 80% of spend on council services in Hampshire and provides a wide range of services which make a difference to residents' lives on a daily basis, including education, transport, planning, social care, libraries, waste management and trading standards.

As the County Council continues with the delivery of its latest savings programme for implementation from April 2023 (SP2023) – alongside the remaining elements of its Transformation Programmes to 2019 (Tt2019) and 2021 (Tt2021), the need for a robust, strategic narrative is crucial. Central Government has reduced the amount of funding it gives to the County Council and at the same time, demand for County Council services is increasing. As a result, the County Council's budget for 2021/22 included a further £80m of savings – bringing the Authority's cumulative spending reductions to over half a billion pounds (see Figure 1 overleaf). Even without the financial consequences of the Coronavirus pandemic, the medium-term financial forecast identifies on-going pressure of around £50m every year with strong indications this will increase further.

**Figure 1**. – Cost Reduction Exercises Including SP2023 Programme Requirement




**Note**: The cumulative figure is made up of inflation, demand and reduced grant

## Our Strategic Plan

In this context, the County Council requires a strategic narrative that will support the Authority to make tough, but necessary, choices about future services. The ’Serving Hampshire - Strategic Plan 2021 – 2025’ is intended to guide decision-making to ensure that Hampshire taxpayers’ money is targeted where it is needed most, and where it can make the most impact. The Strategic Plan is informed, and underpinned, by various, more detailed departmental plans, including: The Children’s and Young People’s Plan, Adults’ Health and Care Service’s vision, the Public Health Strategy, the Climate Change Strategy, and the COVID-19 Recovery Plan. The Strategic Plan covers the period of 2021-2025, reflecting the term of office for the new administration.

Hampshire County Council is one of the country’s leading local authorities, with many services rated as ‘excellent’ and the Authority’s ambition is to continue to transform and shape services for the future, in line with the Authority’s evolving financial strategy. This means doing things more efficiently and providing high quality, responsive services that meet the needs of our customers and improve the quality of life for the residents of Hampshire.

Our plan to achieve this focuses on four strategic aims, which bring together a number of priorities under the following themes, to form the overarching framework for our services:

- **Hampshire maintains strong and sustainable economic growth and prosperity** – The first strategic aim relates to Hampshire’s future economic growth and prosperity. This is of strategic importance because Hampshire’s economic success underpins a number of other positive outcomes for Hampshire's residents and communities.

- **People in Hampshire live safe, healthy and independent lives** – The second strategic aim is about supporting people to live safe, healthy and independent lives by focusing the County Council's resources where they are needed most.
- **Hampshire enjoys a rich and diverse environment** – The third strategic outcome provides a strong alignment to the County Council's key corporate programmes relating to climate change and place shaping – the review of the Strategic Plan for 2021-2025 now provides the opportunity to ensure these areas of work are overtly embedded in the County Council's strategic vision.
- **Hampshire enjoys strong, inclusive communities** – This strategic aim is about recognising the resources, skills and strengths that exist in local communities and that, when utilised, can help reduce the demand and dependency on County Council services.

Reductions in central funding to councils combined with rising demand for care services mean that our corporate strategy and medium-term financial plan focus on targeting resources at the most vulnerable people while becoming more efficient in the delivery of our services. The County Council recognises that its ability to continue to deliver front line services will depend on its capacity to generate new funding streams, streamline the way that residents access services and support and encourage self-sufficiency, whilst protecting the most vulnerable.

As a result, the County Council has had to make some tough decisions and whilst service improvement remains at the heart of everything the County Council does, increasingly services will be targeted at those who most depend on them – particularly children at risk of abuse and neglect, and adults who cannot look after themselves.

## Looking Beyond 2022

One of the statutory obligations of the Chief Financial Officer is to keep the financial position of Hampshire County Council under review and to ensure that budgets set are realistic and deliverable whilst also ensuring that reserves are adequate.

The County Council reviews its budgetary position annually and produces a rolling three year plan, known as the Medium-Term Financial Strategy (MTFS). This plan considers the financial climate at both the local and national level together with available resources and budgetary pressures in arriving at a financial strategy.

The County Council's MTFS was updated and approved by the County Council in November 2021 (Agenda Item 44). The report set out the medium-term prospects for the County Council's finances to the end of 2023/24 in the context of an emerging 'new normal' in the wake of the Covid-19 pandemic and a long awaited three year spending review that provided some additional funding for 2022/23, but a flat cash position for the following two years despite continuing forecasts of increasing demand for services. The focus of the medium term financial strategy was a further savings requirement of £80m per annum from April 2023 (SP2023).

Despite the three year spending review, only a one year settlement for 2022/23 was announced in December 2021 and disappointingly this reduced the adult social care precept to only 1% per annum for the next 3 years. Whilst the settlement provided an additional £22.9m of general resources to the County Council next year, it is not enough to close the budget gap and much of this funding is already accounted for from 2023/24 onwards as part of the SP2023 proposals.

Since reporting the MTFS in November 2021, the demand for adult and children's social care is continuing to increase together with an increase in the cost of care provision especially for older adults. The rising rate of inflation is also adding pressure to an already challenging financial position. The County Council's budget report in February 2022 forecasts a cumulative deficit by 2025/26 of some £157m after we have delivered £80m of savings by 2023/24. This is nearly double the two year target we have been working to since 2019/20 and represents the most significant challenge yet to the County Council's financial sustainability. A revised MTFS will be presented to the Cabinet and County Council in the Summer.

The Capital Programme originally approved as part of budget setting for 2021/22 delivers schemes totalling £418m over the three years from 2021/22 to 2023/24. It planned to provide the following:

- £68m of investment in new and extended school buildings in Hampshire in the period 2021/22 to 2023/24 to ensure there is a school place for every child in Hampshire

- £118m for structural maintenance and improvement of roads and bridges in Hampshire over the next three years

- £91 million for integrated transport schemes including £18m specifically focused on walking and cycling improvements

- £141m for major improvement of school and other County Council buildings over the next three years

- £33 million for decarbonisation schemes covering solar PV, single to double glazing window replacements, transition from oil to gas and the implementation of heating controls.

The Treasury Management Strategy over the period will continue to build on existing policies and practices, in particular protecting investment capital during this time of great uncertainty. With a balance on reserves of £883m at the end of 2021/22, the County Council can also conduct its Treasury Management activity to make sure sufficient cash is available to meet its operational obligations whilst also taking a longer-term view to investments where appropriate, enabling greater returns to be made in support of the revenue budget.

The County Council's financial forecast for 2022/23 has been reviewed alongside assumptions for 2023/24 and a prudent profile of cashflows to support the Chief Financial Officer in assessing and confirming the County Council's financial sustainability to March 2024 in preparing the Statement of Accounts. The reserves balance coupled with the anticipated timing of cash flows and the liquidity profile of its investments means that that County Council can meet its operational obligations over the period, with the option to sell longer-term investments and make use of its borrowing headroom as a short-term solution to any unforeseen liquidity pressures, although this would have an impact on the longer-term financial sustainability of the County Council.

Ongoing uncertainty around the future of key funding streams for local government coupled with significant growth in demand for services, particularly with respect to adults' and children's social care, and uncertainty over the medium-term impact of Covid-19 does, however, mean that the County Council is dependent on external change to remain financially sustainable beyond this time.

## Key Facts about Hampshire County Council

All of the factors in the section above help to shape the County Council's priorities and provide a challenging environment for the organisation to operate in, potentially increasing demand on services and impacting the funding available to meet these demands. Charged with directing the outcomes, priorities and policies of the County Council are the Councillors who are elected every four years.

The County Council's role is to act strategically and implement policy as determined by Cabinet. This means delivering services to the people of Hampshire (and sometimes beyond) in an open and cost-effective way. Hampshire County Council acts in the best interests of Hampshire and its residents.

The County Council has 78 Councillors (also known as Members) who decide the budgets and policies for the vital local services provided by Hampshire County Council and following local government elections in May 2021 the political composition changed as follows:

- 55 Conservative (previously 56)
- 17 Liberal Democrats (previously 19)
- 3 Labour Party (previously 2)
- 3 Independent (previously 1)

The turnout for the 2021 County Council elections was 38% of the electorate.

Under the County Council's Constitution, the Authority manages its affairs by way of a Leader with Cabinet model. The Leader is appointed by the County Council and they in turn appoint the Cabinet.

Supporting the work of the elected members is the Corporate Management Team (CMT). CMT work with, and for, the Leader and Cabinet to maximise the capacity and effectiveness of the organisation, in order to protect and build strong, sustainable public services that improve the quality of life for the people of Hampshire. The current composition of CMT is detailed below. Note 8b shows the further detail of people that have been in a strategic post during 2021/22:

- Chief Executive – Carolyn Williamson (FCPFA)
- Director of Adults' Health and Care – Graham Allen

- Director of HR, Organisational Development, Communications and Engagement – Jac Broughton
- Director of Corporate Operations – Rob Carr
- Director of Children's Services – Steve Crocker (OBE)
- Director of Economy, Transport and Environment – Stuart Jarvis
- Director of Culture, Communities and Business Services – Felicity Roe

The role of CMT is to lead the officers who work for the County Council, provide the strategic overview for the work of the Council, and manage the many and varied operational services for which the Council is responsible.

At 31 March 2022, the County Council employed 38,066 people, making the County Council one of the largest employers in the county. Many of these employees work part-time. In full-time equivalent (FTE) terms, the total number of employees was 25,739 at 31 March 2022 as shown below:

| **Full-time equivalent employees** | **March 2021** | **March 2022** |
|---|---|---|
| Adults' Health and Care | 2,952 | 2,922 |
| Children's Services - Schools | 15,826 | 15,768 |
| Children's Services - Non Schools | 2,599 | 2,696 |
| Economy, Transport and Environment | 700 | 701 |
| Culture, Communities and Business Services | 2,150 | 2,158 |
| Corporate Services | 1,584 | 1,494 |
| Total | 25,811 | 25,739 |

The data is presented as a snapshot on the 31 March each year and shows a largely consistent picture year on year. The minor variations reflect business as usual staff turnover.

## The County Council's Non-Financial Performance

In Hampshire, we are proud of our strong record of delivering excellent services that provide value for money. Over the last few years, we have risen to the challenge of national spending control with an ambitious programme of savings and modernisation, while striving to protect frontline services and reduce the impact on those in most need as far as possible.

The County Council's Performance Management Framework (PMF) provides the local governance structure for performance management and reporting to Cabinet. The PMF specifies that Cabinet receives bi-annual reports on the County Council's performance against the strategic priorities set out in the Serving Hampshire plan. Performance information on children's and adults' safeguarding, major change programmes, and the County Council's financial strategy are reported separately to Cabinet.

In order to report progress against the [Serving Hampshire's Residents - Strategic Plan 2021 to 2025] departments are required to monitor service performance against a core set of measures which contribute toward achievement of the plan's four strategic outcomes. For each measure, a risk-based 'red, amber, green' rating is applied, informed by the most recent data and management information. Director's also provide a Performance Assessment to summarise each department's delivery of its priorities in relation to the Strategic Plan as well as the results of any recent external assessments.

Additionally, in support of the ongoing focus on external validation, the Hampshire Perspectives online residents' forum was launched in September 2020, with around 1,500 members of the public signed up to date. Forum members are invited to take part in short surveys, focus groups and consultations, helping to shape service delivery and aid evidence-based decision making.

At the end of 2021/22, the majority (81%) of measures were reported as low performance risk and the remainder (19%) as medium performance risk. No measures were identified as high risk. For all measures, 84% showed improved or maintained performance since the beginning of 2021/22. At the end of the first year of the four year plan, 43% of all performance targets had been met. The balance includes stretch targets reflecting the County Council's services' commitment to deliver ongoing service improvement over the 4-year period covered by the Serving Hampshire strategic plan.

Three measures showed poorer performance than in 2020/21 and failed to meet their target, in part due to impact of the pandemic. These include:

- Number of jobs created or safeguarded by businesses HCC has supported – 229 jobs were reported in 2021/22, compared with a target of 1,000
- Level of development contribution secured (total) – £40.3 million was secured in 2021/22, compared with a target of £46.2 million
- Condition of the principal highways network which should be considered for maintenance – 4% of highways were rated as requiring consideration for maintenance, compared with a target of 3%.

Additionally, the on-going impact of the pandemic meant that some measures, did not meet their targets for 2021/22, whilst demonstrating performance better than or similar to the previous year. This included uptake of school meals, participation in the National Child Measurement Programme and in person visits to libraries. Mitigation plans are already in place to support these areas.

Performance highlights for 2021/22 include:

- Outcome one: Hampshire maintains strong and resilient economic growth and prosperity
    - The County Council has seen 352 apprenticeships start within the Organisation in 2021/22, of which 205 were in the Council and 145 in schools. This represents an increase of 88 on 2020/21 and a near-return to pre-pandemic levels, bringing the total number of apprentices on the programme to 751 at the end of March 2022. The 87% retention rate of apprentices within the organisation is higher than the national

average (59%) and has remained around this level for around five years, demonstrating the long-term return on investment. The rate of apprentices achieving their accreditations (66%) is also higher than the national average (58%).

- In addition, the County Council manages an Apprenticeship Levy scheme that allows Hampshire businesses and public sector organisations to apply for funds to support their own apprenticeship schemes. £915,000 was paid from this scheme in 2021/22, funding 453 new apprenticeship starts at a value of £2.9 million within these organisations through the year.

- The lengthening of the Eclipse Rapid Transit busway in Gosport was completed and opened in December 2021.

- As part of measures to support businesses recover from the COVID pandemic, reducing economic impacts and encouraging Hampshire's economic growth, the County Council agreed to maintain contract payments for community transport operators at 100% from 1 April 2022 to 31 March 2023. This will assist operators in the recovery and operation of their services, as they continue to experience lower passenger numbers (currently 35% lower than before the COVID-19 pandemic) as user confidence returns.

- Outcome two: People in Hampshire live safe, healthy, and independent lives

    - Hampshire Children's Services and safeguarding partners (Hampshire Constabulary and pan-Hampshire Clinical Commissioning Groups) received positive feedback on continued strong performance in safeguarding children was received through a pilot Joint Targeted Area Inspection (JTAI) of 'Front Door' services in November 2021. The report highlighted that front door services deliver the support that Hampshire families need at the right time, as a result of the leadership in Hampshire, the drive for continuous improvement, the focus on early help, and strong multi-agency working.

    - As at the end of February 2022, 93.3% of Hampshire schools were judged to be 'good' or 'outstanding' by Ofsted.

    - Just over 98% of parents were offered a reception year place for their child in one of their three preferred choice schools from September 2021, and just over 93% were allocated a place at their first choice of school, consistent with the performance in previous years.

    - Food vouchers were provided during the school holidays to the children of vulnerable families affected by the pandemic. The COVID-19 Local Support Grant Scheme was organised through the 'Connect4communities' programme, which is led by Hampshire County Council, in collaboration with community partners. This scheme has now been further extended through 2022, to ensure that children in Hampshire eligible for free school meals, and other children deemed vulnerable by the Council, will have access to free healthy meals and enriching activities during the year's Easter, Summer and Christmas school holidays.

- Performance against the national indicator N14.1s (percentage of children's social care first assessment timeliness within 45 days) was consistently strong and above both national and south east averages.

- The first 'Independence Hub' opened in Alton in December 2021, offering post-16 education tailored specifically for young people with special education needs and disabilities (SEND). Three more Independence Hubs are planned to open over the coming two years, with an expectation that additional sites will also be identified.

- The *Call to Care* campaign took place, showcasing the careers available in social in Hampshire, as part of a strategic approach to addressing recruitment challenges in the sector.

- The release of CIPFA Public Library Stats for 2020/21 showed Hampshire Libraries to have the highest number of both physical and digital book issues and the highest number of visits of any county authority. A further 3.4 million physical books were issued in Hampshire libraries in 2021/22 whilst the number of eBooks issued in the same year (1.8 million) was more than double the number issued before the COVID-19 pandemic (869,081) in 2019/20.

- Outcome three: People in Hampshire enjoy a rich and diverse environment

    - Hampshire's first recycling road materials site opened in Micheldever in June 2021, allowing the Council to reuse road materials dug up during road maintenance operations to reduce CO2 emissions by 67,500kg, and save £320,000 per year.

    - A segregated walking and cycleway route between Brighton Hill Roundabout and Sullivan Road in Basingstoke was opened, following a public consultation on the scheme in early 2021 which indicated strong support for the development. The route will link directly into the other cycle routes that will be provided as part of the Brighton Hill Roundabout improvement scheme.

    - A £150,000 grant scheme, funded from the Department for Travel's Active Travel Fund, is allowing businesses to develop cycle facilities to support cycling as a means of commuting to work.

    - Visitor Figures and Membership totals at Sir Harold Hillier Gardens exceeded pre-COVID figures. As at the end of 2021/22, bookings for educational and General Events showed a positive trajectory and conferences were returning to Jermyn's House. A new shelter has been installed at the pond and new play equipment has been installed at the Education Garden.

- All Hampshire Country Parks were awarded a Green Flag in 2021. Additionally, Royal Victoria Country Park and Staunton Country Park were awarded the Green Heritage Award in October 2021.

- The Barn at River Hamble Country Park opened to the public in March 2022. This new eco-friendly visitor centre and café has been built using climate friendly materials (many harvested from the same park) and features a solar panelled roof linked to Tesla batteries.

- Outcome four: People in Hampshire enjoy being part of strong, inclusive, resilient communities

  - The County Council continued to support Government programmes to resettle Afghan refugees following the withdrawal of UK troops from Afghanistan, including intensive support for refugees who have been temporarily accommodated in ‘bridging hotels’ before finding longer-term accommodation. At the end of 2021/22 the Council was supporting 3 bridging hotels in the area and had successfully supported the resettlement of 31 Afghan refugee families into longer-term Hampshire accommodation through this work.

  - Work to assist Ukrainian refugees arriving in Hampshire under the Government’s Homes for Ukraine scheme began in early Spring 2022. Initial work involved conducting safeguarding and wellbeing checks via home visits, distributing Government-funded financial support, and ensuring timely information was shared with guests and sponsors - including helping to inform guests on how they could access healthcare and educational services.

  - Following the Balancing the Budget consultation in June 2021, the County Council has undertaken a number of public consultations to give residents and stakeholders an opportunity to have their say on Savings Programme 2023 (SP23) targets and how the Council could address its budget shortfall while continuing to deliver high quality services.

  - Hampshire Hive’ launched during Foster Care Fortnight in May 2021. This is a new support network for foster carers and the children they look after which aims to create an ‘extended family’ for fostering households.

  - The Fostering Hampshire Children Winter Campaign has been shortlisted for Best Public Awareness Cause Campaign, to be awarded in Summer 2022. The campaign used an animated video, designed, and developed in-house by the County Council, to encourage

Hampshire residents to provide a home to Hampshire children who are unable to live with their birth families.

- The County Council invested £515,000 to refurbish the Winchester Discovery Centre, with additional funding provided by Arts Council England and Hampshire Cultural Trust. The funding helped to improve library and gallery facilities, as well as updating the facilities at the site, as part of an agreement with Hampshire Cultural Trust to improve the financial sustainability of the building over the longer term. The refurbished site, named the 'Arc', formally re-opened in March 2022 with a visit from HRH The Prince of Wales.

- The *Bringing the library to you* campaign, developed by the County Council to promote the use of library services at home, successfully encouraged a sense of online community and connectedness and was awarded the CILIP Marketing Excellence Award in 2021.

The Getting Going Again Fund of £950,000 was approved by the Council, to support Hampshire residents who have been classed as Clinically Extremely Vulnerable (CEV) or Clinically Vulnerable (CV) to re-engage with their local communities and focus on the post COVID-19 future, by helping people to safely start accessing their local communities again and return to more normal ways of life.

A more extensive list of key performance achievements, including external recognition and awards is included in the Serving Hampshire - 2021/22 Performance Report presented to Cabinet on 19 July 2022.

## The County Council's Financial Performance

### Revenue Position

The current financial strategy that the County Council operates, works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years, with deficits in the intervening years being met from the Budget Bridging Reserve (BBR), formerly known as the Grant Equalisation Reserve (GER).

This strategy has served the County Council, and more particularly, its services and communities well. It is an approach that has ensured Hampshire County Council has avoided the worst effects of funding reductions in recent years that have adversely affected other local authorities.

In line with the medium-term financial strategy, savings targets for 2021/22 were approved by the County Council approved in July 2018 and detailed savings proposals were developed through the Tt2021 Programme and approved by Executive Members, Cabinet and County Council in October and November 2019. Given this position, no new savings proposals were presented as part of the 2021/22 budget setting process and the Tt2021 Programme was to achieve savings of £80m which were incorporated into the revenue budget.

The anticipated delay in the delivery of some elements of programme has been factored into our medium term planning to ensure that enough one off funding exists both corporately and within departments to meet any potential gap over the period. Taking up to five years to safely deliver service changes rather than being driven to deliver within the two year financial target requires the careful use of reserves as part of our overall financial strategy and further emphasises the value of our Reserves Strategy.

Most of the County Council's income comes from the Dedicated Schools Grant (DSG), general government grants, council tax and business rates. Fees and charges contribute to the cost of some services and interest is earned on day-to-day balances. Government capital grants and external contributions applied to finance capital expenditure have been excluded from the following table. The proportion of the Council's income obtained from these sources is as follows:

| | **2020/21** | **2021/22** |
|---|---|---|
| | **%** | **%** |
| Council tax | 28 | 28 |
| Business rates | 2 | 2 |
| General Government grants | 6 | 6 |
| Fees, charges and interest | 18 | 19 |
| Specific Government grants | 46 | 45 |
| **Total** | **100** | **100** |

Revenue expenses relate to spending on the day to day operations of the County Council. Due to the nature of the services that the County Council provides, much of the cost of services relate to staffing costs. Other running expenses relate to contracts with external providers for major services such as waste disposal, highways maintenance and social care services, together with other non-staffing costs such as transport, premises costs, supplies and services and the cost of borrowing money for financing capital expenditure. The breakdown of these costs is shown in the following table:

| | 2020/21 | 2021/22 |
|---|---|---|
| | % | % |
| Staff costs | 47 | 48 |
| Running expenses | 44 | 44 |
| Capital financing | 9 | 8 |
| **Total** | **100** | **100** |

The County Council is responsible for providing a wide range of services, by far the biggest is education and there are over 500 schools within Hampshire, some of which have converted to Academy status and are not shown in the County Council's accounts. In 2021/22 the split of expenditure across the key service areas was as follows:

| | 2020/21 | 2021/22 |
|---|---|---|
| | % | % |
| Adults', Health and Care | 26 | 27 |
| Schools | 44 | 44 |
| Children's Services Non-schools | 10 | 12 |
| Economy, Transport and Environment | 9 | 8 |
| Culture, Community and Business Services | 4 | 4 |
| Corporate Services | 5 | 4 |
| Other Services | 2 | 1 |
| **Total** | **100** | **100** |

The budget for 2021/22 was approved by the County Council on 25 February 2021 and the council tax requirement (which is the net budget met by council tax) for 2021/22 was set at £707m.

More information about the budget originally set for 2021/22 is included in the Revenue Budget and Precept 2021/22 and Capital Programme 2021/22 - 2023/24 Report and in the 2021/22 Budget Book.

The Medium Term Financial Strategy (MTFS) Update reported to Cabinet and County Council in July 2020 sought to assess the medium term impact of Covid-19 on the financial sustainability of the County Council. It explained that the Council would treat the medium-term impact of Covid-19 as a one-off financial impact to be addressed through a financial response package of Council resources and further government support. This allowed the Council to continue to implement its standard financial strategy for business as usual budget management, ensuring the Council could remain financially sustainable in the medium term. During 2021/22 the Council has continued to face significant and wide-ranging financial pressures due to the pandemic, which have persisted beyond the initial period of lockdown restrictions and social distancing in many cases and total £113.2m for the year.

During the year, additional funding was made available to help meet the visible costs of Covid by the Government and NHS England. This included specific government grants totalling almost £45m, of which £13.9m has been carried forward for use in 2022/23. Specific Covid grants of £56m were utilised in 2021/22, including funding carried forward from 2020/21, primarily to provide outbreak management services and to support social providers in implementing infection control measures. £32m unringfenced Covid tranche funding was available to contribute towards meeting general Covid pressures and income losses, leaving a deficit of £25.0m as outlined below to be funded by the County Council, for which contingency funding was earmarked.

| | **Year End** |
|---|---|
| | **£'000** |
| Response costs, service pressures and income losses | 92,654 |
| Delayed savings | 21,231 |
| **Total Costs and Losses** | **113,885** |
| Non-specific grants brought forward | (8,203) |
| Specific grants brought forward | (25,545) |
| Covid-19 Tranche 5 Grant | (23,979) |
| Infection Control and Contain Outbreak Management Grants | (34,373) |
| Other Specific Grant Funding | (11,456) |
| Local funding from Covid-19 Response Package | (24,966) |
| **Total Funding** | **(128,522)** |
| **Specific Covid-19 grants carried forward** | **(14,637)** |

Cabinet and County Council have continued to receive regular updates throughout the past year in respect of the financial impact of Covid-19 on Council services. Current forecasts indicate that Departments are expecting to face a further £46.7m pressures linked to Covid-19, including as a result of delayed savings, across 2022/23 and 2023/24. The Council has set aside corporate funding to meet these pressures in full to minimise the impacts on service delivery.

The County Council has continued to demonstrate strong financial stewardship over this extremely challenging period. At the end of 2021/22, departmental net expenditure was £30.9m lower than budgeted, against an overall gross budget of approaching £2.1bn, a variance of 1.5%. £14.8m of the budget saving relates to an additional contribution which will be made by the county Clinical Commissioning Groups towards the costs of reablement services in 2021/22, which have supported timely discharges from hospitals. The remaining underspend largely reflects the early achievement of SP2023 savings in many service areas (£10.6m) and savings on staffing costs due to the challenges of recruiting to vacant posts, particularly customer facing roles, following the pandemic. Additionally, many of the Council's income generating services such as Hampshire Outdoor Centres and Registration Services have seen demand fully recover following the lifting of social restrictions, generating income in excess of budgeted levels.

Further non-departmental savings of £13.8m were achieved, largely from unused contingency set aside for inflation increases and growth in waste volumes that were not required, and from savings in the capital financing budget relating to slippage in the capital programme and achievement of strong returns on the Council's cash investments. These one-off savings will be transferred to reserve pending decisions by Cabinet in July 2022 for their use.

Schools continue to face increasing financial pressure, in particular relating to high needs for children with special educational needs and or disabilities (SEND), both at an individual school level and within the overall schools' budget.  These pressures are outside the County Council's core budgets, but the County Council retains an active role and interest as the local education authority.  In 2021/22 the overall position has been balanced through the use of the DSG Reserve; albeit that this is in deficit.  Consequently, the resulting cumulative DSG deficit of over £60.0m (up from £35.5m last year) will need to be funded from future years DSG funding.  A DSG Deficit Recovery Plan has been produced, at the request of the DfE, and the local authority continues to develop this and implement strategies to reduce the pressure on the High Needs Block.

The overall position is shown in the table below and further information is included in the End of Year Financial Report 20/21 considered by the County Council's Cabinet on 19 July 2022.

| | Final Budget 2021/22 £'000 | Outturn 2021/22 £,000 | Variance £,000 |
|---|---|---|---|
| Adults' Health and Care | 521,066 | 498,273 | (22,793) |
| Children's Services – Schools | 952,863 | 952,863 | 0 |
| Children's Services – Non Schools | 260,095 | 259,043 | (1,052) |
| Corporate Services | 55,899 | 51,611 | (4,288) |
| Culture, Community and Business Services | 49,640 | 45,570 | (4,070) |
| Economy, Transport and Environment | 117,257 | 118,066 | 809 |
| **Departmental Expenditure** | **1,956,820** | **1,925,426** | **(31,394)** |
| Specific Grants | (1,133,211) | (1,133,211) | 0 |
| Other Costs Not Allocated to Services | 13,201 | 2,997 | (10,204) |
| **Total Cost of Services** | **836,810** | **795,212** | **(41,598)** |
| | | | |
| Capital Financing Costs | 35,348 | 28,123 | (7,225) |
| Other non-specific grants | (92,558) | (92,053) | 505 |
| Revenue contributions to capital | 13,032 | 7,806 | (5,226) |
| Business Units (Net Trading Position) | (604) | (2,262) | (1,658) |
| **Net Revenue Budget** | **792,028** | **736,826** | **(55,202)** |
| | | | |
| ***Contributions to / (from) Reserves and Balances:*** | | | |
| Earmarked Reserves | 18,708 | 70,630 | 51,922 |
| Trading Unit Reserves | 555 | 2,238 | 1,683 |
| General Fund Balance | 900 | 900 | 0 |
| **Budget Requirement** | **812,191** | **810,594** | **(1,597)** |
| | | | |
| ***Funded By:*** | | | |
| Business Rates and Grant | (122,130) | (122,110) | 20 |
| Collection Fund Deficits / (Surpluses) | 18,899 | 18,899 | 0 |
| **Council Tax Requirement** | **708,960** | **707,383** | **(1,577)** |

## Capital

The three year Capital Programme for 2021/22 to 2023/24 was approved by the County Council alongside the revenue budget and precept on 25 February 2021. More information about the budget originally set for 2021/22 is included in the Revenue Budget and Precept 2021/22 and Capital Programme 2021/22 - 2023/24 Report and in the 2021/22 Budget Book.

In 2021/22 the County Council spent £241m on capital projects, £35m less than the revised budget and this spend is summarised below with the proposed method of financing:

| | Actual £'000 |
|---|---|
| Adult Services | 23,869 |
| Children's Services | 45,506 |
| Economy, Transport and Environment | 111,019 |
| Culture, Communities and Business Services | 60,762 |
| **Total Capital Expenditure** | **241,156** |
| | |
| ***Funded by:*** | |
| Prudential Borrowing: | |
| For Capital Schemes | 45,186 |
| Repayments of Specific Schemes | (13,677) |
| Capital Grants | 131,078 |
| Contributions from Developers and Outside Agencies | 58,520 |
| Capital Receipts | 12,244 |
| Contributions from Reserves | 1,720 |
| Revenue Contributions | 11,319 |
| Use of the Capital Reserve | (5,234) |
| **Total Capital Financing** | **241,156** |

In addition to this spend, during 2021/22, the Enterprise M3 Local Enterprise (EM3 LEP) invested £13.3m in capital projects within the M3 corridor. This spend is matched by grants and included in the annual accounts, as the Council is the Accountable Body for the EM3 LEP.

Steady progress is being made given the significant size of the overall capital programme, although the proportion of the 2021/22 programme committed in the year at £179.4m, is lower than the level achieved in 2020/21 of £235.2m.

| | 2020/21 £m | 2021/22 £m |
|---|---|---|
| Committed | 235.2 | 179.4 |
| Carried Forward | 124.2 | 150.4 |
| **Total Programme** | **359.4** | **329.8** |
| | | |
| Percentage Committed | 65% | 54% |

Further information is provided in the End of Year Financial Report 2020/21 considered by the County Council's Cabinet on 19 July 2022.

## Treasury Management and Prudential Indicators

Treasury Management is concerned with managing an authority's long-term borrowing and lending activity and managing cash flows on a day to day basis to ensure that sufficient funding exists to pay staff and suppliers throughout the year.

The County Council's treasury management policy requires an annual report to the Cabinet on the exercise of the treasury management function and in line with the Prudential Code for Capital Finance in Local Authorities, the County Council reports its actual performance against the Prudential Indicators that were set in its Treasury Management Strategy (TMS).

The TMS is reviewed annually and provides the framework within which authority is delegated to the Director of Corporate Operations to make decisions on the management of the County Council's debt and investment of surplus funds.

All treasury activity has complied with the County Council's TMS and Investment Strategy for 2021/22, and all relevant statute, guidance and accounting standards. In addition, the County Council has also complied with all of the prudential indicators set in its TMS.

The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was most recently updated and approved by full Council in February 2022.

At 31 March 2022, the County Council held £249.2m of loans, (a decrease of £8.6m on the previous year) as part of its strategy for funding previous years' capital programmes. The County Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the County Council's long-term plans change being a secondary objective.

The County Council has held invested funds representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the County Council's investment balances have ranged between £570m and £813m due to timing differences between income and expenditure. Both the CIPFA Code and the government guidance require the County Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The County Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Further information is provided in the End of Year Financial Report 2020/21 considered by the County Council's Cabinet on 19 July 2022.

## Reserves and Balances

The County Council maintains a number of useable reserves, as detailed in the Balance Sheet.

The level and use of local authority reserves has been a regular media topic over a number of years often fueled by comments from the Government that these reserves should be used to significantly lessen the impact of the measures to reduce the deficit that have seen a greater impact on local government than any other sector.

The County Council has continually explained that reserves are kept for many different purposes and that simply trying to bridge the requirement for long-term recurring savings through the use of reserves only seeks to use up those reserves very quickly (and mean that they are not available for any other purposes) and merely delays the point at which the recurring savings are required. The County Council's reserves strategy is now well rehearsed and continues to be one of the key factors that underpins our ability not only to provide funding for transformation of services, but also to give the time for the changes to be properly planned, developed and successfully implemented.

At the end of the 2021/22 financial year total reserves held by the County Council, including the general fund balance and individual schools' balances, but excluding the DSG deficit, total £883.0m an increase of £128.1m on the previous year. Of this increase, £30.1m relates to departmental underspends, £30.8m relates to transfers to the Budget Bridging Reserve and £30.2m relates to capital grants received in advance of their planned use to fund capital schemes. The balance also includes reserves held on behalf of individual schools which increased by £17.2m in 2021/22. The balance includes contributions to Departmental cost of change reserves, reflecting the continued strategy of achieving savings early and then using those savings to fund the next phase of savings delivery and to allow delivery of the more complex savings to be achieved safely over a longer time period.

The net impact of the changes in the revenue account during 2021/22 mean that the BBR will stand at just under £99m, which is in line with the financial strategy of supporting the revenue spend position as savings are developed and delivered on a two year cycle; or longer where appropriate.

The current strategy that the County Council operates works on the basis of a two-year cycle of delivering departmental savings to close the anticipated budget gap, providing the time and capacity to properly deliver major savings programmes every two years with deficits in the intervening years being met from the BBR. Building the provision within the BBR will support the revenue position in future years, as set out in the MTFS, in order to give the County Council the time and capacity to implement the next phase of transformation to take us through 2023/24 and beyond.

In view of the impact of the Covid-19 crisis on the County Council's financial position it was judged to be even more important that we continued to make contributions to reserves in order to meet any costs that were not covered by government support. A financial response package was developed by the Council that looked at what reserves and other funding could be applied to offset the impact of the pandemic. Over £70m local funding is expected to be required to meet pressures, slipped savings and income losses due to Covid-19. This demonstrates very clearly the value of our reserves in providing options and flexibility to address financial challenges, which are not available to other authorities.

It has been agreed that where possible, the County Council will continue to direct spare one-off funding into the BBR to maintain what is part of a successful strategy which has served it very well to date. Consequently, further additions were included as part of developing the budget for 2021/22, notably following the savings resulting from both the favourable 2019 Pension Fund revaluation (which saw the eradication of the deficit and the removal of the need for the past service payments that we were making and assumed would be needed in the future), and also the pre-payment of pension contributions to the Pension Fund.

Substantial budget deficits of £101.8m and £157.0m are forecast for 2024/25 and 2025/26 respectively, largely due to growth in service demand and price increases following the pandemic, particularly for Adult Social Care. The Council is currently developing its financial strategy to meet the forecast deficit of £157m by 2025/26, however it is crucial that the Council is able to set aside sufficient funding in the BBR to bridge the £101.8m gap in 2024/25 on an interim basis. This will provide the time to develop and implement plans to address the most significant financial challenge that the Council has faced to date.

The following table summarises by purpose the total level of reserves and balances that the County Council holds and compares this to the position reported at the end of 2020/21:

| | Balance 31/03/2021 £'000 | Balance 31/03/2022 £'000 | % of Total % |
|---|---|---|---|
| ***Revenue Reserves:*** | | | |
| General Fund Balance | 23,198 | 24,098 | 2.7 |
| HCC Earmarked Revenue Reserves | | | |
| Fully Committed to Existing Spend Programmes | 202,115 | 212,917 | 24.1 |
| Departmental / Trading Reserves | 149,490 | 186,117 | 21.1 |
| Risk Reserves | 45,839 | 49,934 | 5.7 |
| Corporate Reserves | 96,107 | 125,822 | 14.2 |
| HCC Earmarked Revenue Reserves | 493,552 | 574,790 | 65.1 |
| Non HCC Earmarked Revenue Reserves | 71,428 | 87,644 | 9.9 |
| **Total Revenue Reserves and Balances** | **588,178** | **686,533** | **77.8** |
| **Total Capital Reserves and Balances** | **166,672** | **196,447** | **22.2** |
| **Total Reserves and Balances** | **754,849** | **882,980** | **100.0** |

The biggest proportion of reserves are those that are fully committed to existing spending programmes, including funding required to meet commitments in the approved capital programme.

In addition, £196.4m is held within capital reserves and balances, although of this sum £22.0m relates to the EM3 LEP which is included in the annual accounts, as the County Council is the Accountable Body. These reserves hold capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

Corporate Reserves relate to those reserves which whilst set aside for a specific purpose could be used to limit the impact of savings in services, which is exactly what for example the BBR does on a short-term basis giving the County Council the time and capacity to properly and safely implement savings programmes. However, trying to prevent savings by using reserves is not sustainable in the medium-term as the County Council needs recurring savings in order to close the predicted deficits in the budget.

The County Council has no control over Non-HCC Earmarked Reserves, the majority of which belong to schools, but these must be reflected in the final accounts each year. They do not include the reserves of Academy Schools. The figures for Non-HCC Earmarked Reserves do not include the accumulated DSG deficit of £60.0m as this is required to be shown as an unusable reserve with the deficit being funded from future years' DSG income.

The General Fund Balance is not earmarked for any specific purpose, but represents a minimum level of balances recommended by the Chief Finance Officer to provide a buffer against any significant unexpected losses during the year.

The overall level of reserves currently exceeds £0.88bn and it is also important to consider the level of the available resources in the context of the scale and scope of the County Council's operations. It is a stark fact that when expressed in terms of the number of days that usable reserves would sustain the authority for, it would be around 16. This highlights once again that reserves offer no long-term solution to the financial challenges we face. Correctly used however, they do provide the time and capacity to properly plan, manage and implement change programmes as the County Council has demonstrated for many years now.

The County Council faces the biggest ever challenge to its overall financial sustainability which, on top of the longer lasting effects of the Covid-19 pandemic, will be impacted by government policy on fair funding, business rate retention, adults' and children's social care and waste and recycling. This increases the potential necessity to use reserves to alleviate the ongoing financial pressures in the coming years and we will continue to review all reserves regularly to ensure that there is sufficient financial capacity to cope with the challenges ahead.

Further information is provided in the Appendix 5 of the Revenue Budget and Precept 2022/23 Report which was approved by the County Council in February 2022, including in more detail the purpose for which the reserves are held and in particular why the majority of these reserves cannot be used for other reasons.

## Hampshire Pension Fund

The Hampshire Pension Fund is part of the Local Government Pension Scheme and is administered by Hampshire County Council on behalf of the 350 other employers in the scheme. As at 31 March 2022, the net assets of the Fund were valued at £9.63bn. The Pension Fund's accounts are included as part of the County Council's accounts on page 119.

In line with the Local Government Pension Scheme (LGPS) Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019 and the valuation as at 31 March 2022 is in progress. At the 2019 actuarial valuation, the Fund was assessed as 99% funded (81% at the March 2016 valuation). This corresponded to a deficit of £78 million (2016 valuation: £1,240 million) at that time. In accordance with the regulations the Actuary's triennial valuation is calculated on a different basis to the calculation of employers' individual pension fund liability for inclusion in their accounts under International Accounting Standard (IAS) 19.

### County Council's Pension Fund Liability

The County Council's own net pension liability is included in the balance sheet in accordance with accounting standards. This includes an estimate of the impact of the anticipated changes to scheme regulations that will be made to remove age discrimination as a result of the McCloud and Sargeant legal cases.

Overall, the net liability has decreased from £1,842m at 31 March 2021 to £1,498m at 31 March 2022. This results from an increase in the value of assets exceeding the increase in the pension liability – the latter reflecting a higher discount rate than the previous year. The net gain is shown in the Comprehensive Income and Expenditure Statement and then transferred to the Pension Reserve and does not impact on the General Fund balance. Statutory arrangements for funding the net pension liability mean that the financial position of the Authority remains healthy as the deficit will be covered by increased contributions over the remaining life of employees (i.e. before payments fall due), as assessed by the scheme actuary. Further information can be obtained from Note 24 to the accounts.

### Corporate Risks

Hampshire County Council has always recognised that we live in an uncertain world, where the people, environment and communities of Hampshire may be at risk. Based on the principles outlined in the International Standard on Risk Management, ISO 311000, the County Council has successfully embedded risk management into many of its business as usual practices to ensure that it can view, manage and respond to risk, both threats and opportunities, in a robust, systematic and documented way. Never before has this approach been tested in the way it has been since March 2020 in response to the global pandemic.

The County Council very quickly activated its Gold, Silver and Bronze emergency planning structure across the organisation, including through its new responsibilities for outbreak control. Close working with partners through the Local Resilience Forum and SCG have also been in place. Regular reports have been presented to Cabinet summarising the action taken by the County Council across all departments and through the work of the County Council's Health Protection Board under the leadership of the Director of Public Health and in close liaison with the Local Outbreak Engagement Board led by the Leader of the County Council. In addition, as the crisis has progressed, the financial implications have been captured and reported regularly to Members and to the Minister for Housing, Communities and Local Government (MHCLG).

Despite the significant impact of the pandemic, the County Council has continued to focus clearly on business as usual activity including the assessment of risks as part of their day to day activities and in particular for major projects under their control. This is overseen by the Risk Management Board.

The County Council has developed a performance framework for its business risk management and health and safety management systems. These are based on the Alarm National Risk Management Maturity Model. The County Council uses this performance framework to measure the performance of its management of risk, set robust targets for improvement, report on progress and demonstrate value for money. Self-assessment is supported by documentary evidence, audits and reviews and performance indicators. Assurance on our services is provided by Internal Audit and our External Auditors.

The Corporate Risk Register plays an integral role to support production of the Corporate Plan and is subject to annual review by the Audit Committee when it approves the final accounts.

The impact of the current economic climate on the County Council is taken into account when the County Council sets its budget in the February preceding the start of the financial year. The significant movements and events in the year are reported to Cabinet. Monitoring of spend against the budget takes place throughout the year and is reported to CMT regularly and to Cabinet on a periodic basis.

**Summary Position**

Against the backdrop of unprecedented national and global circumstances, the County Council's financial and non-financial performance in 2021/22 continues to be strong.

The revenue outturn, with savings against departmental budgets of £30.1m after substantial transformation costs have been met in year (largely due to the early delivery of savings), is testament to the strong financial focus that has been maintained throughout the year. This has allowed the County Council to set aside resources that can then be used to meet the costs of change, to cash flow the delivery of savings or to offset service pressures in future years.

In 2021/22 the ambitious capital programme has seen schemes costing £235m started from the approved capital programme for the year of £359m and capital payments of £241m incurred which can be financed within available resources.

All treasury activity has complied with the County Council's Treasury Management Strategy and Investment Strategy for 2021/22, the County Council has complied with all of the prudential indicators set in its Treasury Management Strategy and excluding the unpredictable future impact of Covid-19, has sufficient reserves and balances to provide financial resilience for 2022/23 and future years.

In 2021/22, Hampshire County Council has faced and dealt successfully with significant change. Beyond 2021 the County Council faces the biggest ever challenge to its overall financial sustainability which, on top of the longer lasting effects of the Covid-19 pandemic, will be impacted by government policy on fair funding, business rate retention, adults' and children's social care and waste and recycling. However, there are well established and robust risk management processes in place and, together with robust financial management and reporting, Hampshire County Council is in a strong position as it moves into 2022/23. As tough as the forward agenda is, we also know that the County Council continues to be as well placed as any other local authority to deliver on the continuing financial challenges that apply in the sector.

## Changes to the Accounts

In December 2021, the Department for Levelling-up, Housing and Communities (DLUHC) announced an intention for the following dates to apply for the 2021/22 accounts and audit process in England:

Publication of unaudited accounts by 31 July 2022

Publication of audited accounts by 30 November 2022

However, the Accounts and Audit Regulations currently require publication of audited accounts by 30 September and will need to be amended before the date is formally moved back two months.

The 2021/22 Code of Practice on Local Authority Accounting made changes to some accounting standards but none of them have had a material effect upon our accounts.

## Explanation of the Statement of Accounts

The Financial Statements bring together all the financial activities of the County Council for the year and its financial position as at the 31 March 2022. They detail both revenue and capital elements for the General Fund and separately provide detail for the Pension Fund.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the County Council is required to produce a set of accounts in order to inform stakeholders of the County Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the County Council is on a secure basis.

The accounts for 2021/22 are set out on pages 40-119. They consist of:

- **Statement of Responsibilities for the Statement of Accounts –** Outlines the key responsibilities in respect of the accounts, together with statements from the Chief financial Officer and Chairman of the Audit Committee.
- **Movement in Reserves Statement** – Analyses the change in net worth between the general fund, other useable reserves and unusable reserves.
- **Balance Sheet** – This sets out assets and liabilities at 31 March 2022 compared with 31 March 2021.
- **Cash Flow Statement** – This summarises the movement in cash and cash equivalents during the course of the year.
- **Comprehensive Income and Expenditure Statement** – Shows the accounting cost in the year of providing services measured in accordance with

international accounting standards rather than on the basis of the costs that are required to be financed from taxation.

- **Notes to the Accounts** – Which explain some of the key items and disclosures in the accounts.
- **Pension Fund Accounts** – These are the accounts of the Pension Fund, which is operated for employees of the County Council, Hampshire unitary and district councils and other bodies.

### Relationship between Accounting Statements

The Movement in Reserves Statement shows the movement in the year on the different reserves held by the County Council, analysed into ‘usable’ reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and ‘unusable’ reserves that mainly deal with technical accounting adjustments.

The Cash Flow statement reconciles to the balance on the Comprehensive Income and Expenditure account for the year and the movement in Balance Sheet liquid assets and liabilities.

The Total Comprehensive Income and Expenditure represents the change for the year in total net worth as shown on the Balance.

## Where you can get further information

You can get more information about the accounts from the Director of Corporate Operations, Hampshire County Council, The Castle, Winchester, SO23 8UB, Telephone: 0370 779 7883, e-mail: budget@hants.gov.uk.

## 1. The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Chief Financial Officer
- Manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- Approve the Statement of Accounts.

## 2. The Chief Financial Officer's responsibilities

The Chief Financial Officer is responsible for preparing the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice
- The Chief Financial Officer has also:
- Kept proper accounting records which are up to date
- Taken reasonable steps to prevent fraud and other irregularities.

## 3. The Chief Financial Officer's Statement

I certify that the Statement of Accounts presents a true and fair view of the financial position of the County Council and Hampshire Pension Fund as at 31 March 2022 and the income and expenditure for the year ended 31 March 2022.

*Rob Carr* 27 July 2022

Chief Financial Officer and Section 151 Officer

## Movement in Reserves Statement

This Statement shows the movement in the year on the different reserves held by the County Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year.

## Movement in Reserves Statement

| | General Fund Balance* £'000 | Capital Grants Unapplied Reserve £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Reserves £'000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2020** | **(476,503)** | **(166,637)** | **(643,140)** | **(2,296,792)** | **(2,939,932)** |
| Reporting of schools budget deficit to a new adjustment account at 01 April 2020 | **(22,754)** | **0** | **(22,754)** | **22,754** | **0** |
| **(Surplus)/Deficit on the provision of services** | 85,757 | 0 | **85,757** | 167,939 | **253,696** |
| Adjustments between accounting basis & funding basis under regulations (note 2) | (174,677) | (35) | **(174,712)** | 174,712 | **0** |
| **(Increase) / decrease in Year** | **(111,674)** | **(35)** | **(111,709)** | **365,405** | **253,696** |
| **Balance at 31 March 2021** | **(588,177)** | **(166,672)** | **(754,849)** | **(1,931,387)** | **(2,686,236)** |

* includes earmarked reserves

| | General Fund Balance* £'000 | Capital Grants Unapplied Reserve £'000 | Total Usable Reserves £'000 | Unusable Reserves £'000 | Total Reserves £'000 |
|---|---|---|---|---|---|
| **Balance at 31 March 2021** | **(588,177)** | **(166,672)** | **(754,849)** | **(1,931,387)** | **(2,686,236)** |
| Reporting of schools budget deficit to a new adjustment account at 01 April 2021 | | **0** | **0** | | **0** |
| **(Surplus)/Deficit on the provision of services** | 29,702 | 0 | **29,702** | (630,726) | **(601,024)** |
| Adjustments between accounting basis & funding basis under regulations (note 2) | (128,058) | (29,775) | **(157,833)** | 157,833 | **0** |
| **(Increase) / decrease in Year** | **(98,356)** | **(29,775)** | **(128,131)** | **(472,893)** | **(601,024)** |
| **Balance at 31 March 2022** | **(686,533)** | **(196,447)** | **(882,980)** | **(2,404,280)** | **(3,287,260)** |
| * includes earmarked reserves | (note 4) | | | (note 3) | |

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the County Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the capital receipts reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line “Adjustments between accounting basis and funding basis under regulations”.

## Balance Sheet

| 31 March 2021 £'000 | | 31 March 2022 £'000 | See note |
|---|---|---|---|
| 4,433,280 | Property, plant & equipment (PPE) | 4,521,166 | *19* |
| 105,147 | Investment property | 145,302 | *20* |
| 259,613 | Long-term investments | 236,939 | *22* |
| 127,973 | Long-term debtors | 47,569 | *22b* |
| **4,926,013** | **Long-term assets** | **4,950,976** | |
| 1,250 | Current assets held for sale | 3,043 | |
| 195,795 | Short-term investments | 440,336 | *22* |
| 3,379 | Inventories | 3,066 | |
| 226,824 | Short-term debtors | 248,739 | *22c* |
| 88,128 | Cash and cash equivalents | (1,202) | *22a* |
| **515,376** | **Current assets** | **693,982** | |
| (215,598) | Short-term Creditors | (184,735) | *22g* |
| (51,323) | Short-term borrowing | (53,821) | *22d* |
| (8,392) | Deferred liability repayable within one year | (7,669) | *18* |
| (31,147) | Grants receipts in advance - revenue | (22,951) | *6* |
| (67,511) | Grants receipts in advance - capital | (64,981) | *6* |
| **(373,971)** | **Current liabilities** | **(334,157)** | |
| **141,405** | **Net current assets** | **359,825** | |
| **(1,842,286)** | Net liability related to defined benefit pension schemes | **(1,498,505)** | *24f* |
| (23,713) | Provisions | (15,051) | *23* |
| (249,293) | Long-term borrowing | (241,183) | *22d* |
| (133,080) | Deferred liabilities | (121,391) | *18* |
| (132,810) | Developers' contributions | (147,411) | *22f* |
| **(2,381,182)** | **Long term liabilities** | **(2,023,541)** | |
| **2,686,236** | **Total net assets** | **3,287,260** | |
| | **Financed by:** | | |
| | **Usable reserves** | | |
| (588,178) | General Fund and earmarked reserves | (686,533) | *4* |
| (166,672) | Capital grants unapplied reserve | (196,447) | *4D* |
| **(754,849)** | **Usable reserves** | **(882,980)** | |
| **(1,931,387)** | **Unusable reserves** | **(2,404,280)** | *3* |
| **(2,686,236)** | **Total Reserves** | **(3,287,260)** | |

*Rob Carr* Chief Financial Officer

## Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the County Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 85,757 | Net (surplus) or deficit on the provision of services | 29,702 |
| (164,829) | Adjustments to net surplus or deficit on the provision of services for non-cash movements | (373,921) |
| 129,347 | Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 194,672 |
| **50,275** | **Net cash (inflow) or outflow from Operating Activities** | **(149,547)** |
| 27,695 | Investing Activities | 226,135 |
| 14,143 | Financing Activities | 12,743 |
| **92,113** | **Net (increase) or decrease in cash and cash equivalents** | **89,331** |
| (180,241) | Cash and cash equivalents at the beginning of the reporting period | (88,128) |
| **(88,128)** | **Cash and cash equivalents at the end of the reporting period** | **1,202** |

# Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with statutory requirements: this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

# Comprehensive Income and Expenditure Statement

| 2020/21 restated Gross expenditure £'000 | 2020/21 restated Gross Income £'000 | 2020/21 restated Net expenditure £'000 | | 2021/22 Gross expenditure £'000 | 2021/22 Gross Income £'000 | 2021/22 Net expenditure £'000 | Note |
|---|---|---|---|---|---|---|---|
| 663,380 | (311,650) | **351,730** | Adults' Health and Care | 723,622 | (328,890) | **394,732** | |
| 1,110,963 | (978,919) | **132,044** | Schools | 1,176,828 | (1,014,642) | **162,186** | |
| 257,769 | (38,145) | **219,624** | Children's Services Non-Schools | 308,569 | (53,359) | **255,210** | |
| 224,893 | (45,316) | **179,577** | Economy, Transport & Environment | 219,077 | (40,202) | **178,875** | |
| 102,293 | (35,917) | **66,376** | Culture, Communities & Business Services | 109,596 | (36,093) | **73,503** | |
| 114,249 | (35,335) | **78,914** | Corporate Services & Other Corporate | 104,646 | (35,484) | **69,162** | |
| 1,366 | 0 | **1,366** | Change in Provisions | (4,095) | 0 | **(4,095)** | |
| 50,419 | (42,601) | **7,818** | Other items not allocated to services | 26,155 | (17,328) | **8,827** | |
| **2,525,332** | **(1,487,883)** | **1,037,449** | **Cost of Services** | **2,664,398** | **(1,525,998)** | **1,138,400** | 11 |
| | | | **Other operating expenditure** | | | | |
| 1,453 | (3,866) | **(2,413)** | (Gain)/Loss on disposal of assets | 18,322 | (12,203) | 6,119 | |
| 13,332 | | **13,332** | Assets transferred to academy/foundation trust schools | 9,336 | | **9,336** | |
| 56,958 | (41,220) | **15,738** | Total financing and investment income & expenditure | 56,678 | (81,771) | **(25,093)** | 5 |
| | | | **Taxation and non-specific grant income** | | | | |
| | (154,808) | | Non-ringfenced government grants | | (167,518) | | 6 |
| | (26,782) | | Locally retained business rates | | (48,095) | | |
| | (671,278) | | Council tax income | | (700,978) | | |
| | (125,481) | | Capital grants and contributions | | (182,469) | | 6 |
| | | **(978,349)** | **Total taxation and non-specific grant income** | | | **(1,099,060)** | |
| | | **85,757** | **(Surplus)/Deficit on the provision of services** | | | **29,702** | |
| | (55,621) | | Net gains on revaluation of property, plant & equipment and financial instruments | | (94,908) | | 3a |
| | 223,560 | | Actuarial loss/(gain) on pension fund assets and liabilities | | (535,818) | | 24c |
| | | **167,939** | **Other Comprehensive (Income)/Expenditure** | | | **(630,726)** | |
| | | **253,696** | **Total Comprehensive (Income)/Expenditure** | | | **(601,024)** | |

# Notes to the Core Financial Statements

## Contents

## 1 Expenditure and Funding Analysis

| 2020/21 (restated) Net Expenditure chargeable to the General Fund Balance £'000 | 2020/21 (restated) Adjustments between accounting and funding basis (see note 2) £'000 | 2020/21 (restated) Net expenditure in the CIES £'000 | | 2021/22 Net Expenditure chargeable to the General Fund Balance £'000 | 2021/22 Adjustments between accounting and funding basis (see note 2) £'000 | 2021/22 Net expenditure in the CIES £'000 |
|---|---|---|---|---|---|---|
| 478,392 | (126,662) | 351,730 | Adults' Health and Care | 498,273 | (103,541) | 394,732 |
| 895,862 | (763,818) | 132,044 | Schools | 952,863 | (790,677) | 162,186 |
| 228,257 | (8,633) | 219,624 | Children's Services Non-Schools | 259,043 | (3,833) | 255,210 |
| 127,759 | 51,818 | 179,577 | Economy, Transport & Environment | 118,066 | 60,809 | 178,875 |
| 50,222 | 16,154 | 66,376 | Culture, Communities & Business Services | 45,570 | 27,933 | 73,503 |
| 68,903 | 10,011 | 78,914 | Corporate Services & Other Corporate | 51,611 | 17,551 | 69,162 |
| (1,094,483) | 1,094,483 | 0 | Specific Grants | (1,133,211) | 1,133,211 | 0 |
| 6,689 | 2,495 | 9,184 | Other items not allocated to services | 2,997 | 1,735 | 4,732 |
| **761,601** | **275,848** | **1,037,449** | **Net cost of services** | **795,212** | **343,188** | **1,138,400** |
| (850,521) | (101,171) | (951,692) | Other income and expenditure | (893,568) | (215,130) | (1,108,698) |
| **(88,920)** | **174,677** | **85,757** | **(Surplus) or deficit on the provision of services** | **(98,356)** | **128,058** | **29,702** |
| **(476,503)** | | | **Opening General Fund (including earmarked reserves) balance at 1 April** | **(588,177)** | | |
| (88,920) | | | Plus (surplus)/deficit on provision of services | (98,356) | | |
| (22,754) | | | Adjustment for the Dedicated Schools Grant Deficit now established as a separate unusable reserve | | | |
| **(588,177)** | | | **Closing General Fund (including earmarked reserves) balance at 31 March** | **(686,533)** | | |

The Expenditure and Funding Analysis (EFA) shows how annual expenditure is used and funded from resources (government grants, council tax precept and business rates) in comparison with those resources consumed or earned in accordance with generally accepted accounting practice as presented in the Comprehensive Income and Expenditure Statement. The EFA also shows how this expenditure is allocated for decision making purposes between the County Council's services.

## 2 Adjustments between funding and accounting basis

| 2021/22<br>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts | Adjustments for Capital Purposes (Note a) | Net change for the Pensions Adjustments (Note b) | Other Adjustments (Note c) | Total Adjustments |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Adults & Health | 15,702 | 29,129 | (148,372) | (103,541) |
| Schools | 97,356 | 60,205 | (948,238) | (790,677) |
| Children's Services non-schools | 3,407 | 20,222 | (27,462) | (3,833) |
| Economy, Transport and Environment | 64,553 | 7,667 | (11,411) | 60,809 |
| Culture, Communities & Business Services | 10,562 | 17,625 | (254) | 27,933 |
| Corporate Services and other Corporate | 690 | 17,469 | (608) | 17,551 |
| Other items not allocated to services: | | | | |
| Specific Grants | 0 | 0 | 1,133,211 | 1,133,211 |
| Other | 3 | 1,936 | (204) | 1,735 |
| **Net cost of services** | **192,273** | **154,253** | **(3,338)** | **343,188** |
| Other income and expenditure from the funding analysis | (252,326) | 37,784 | (588) | (215,130) |
| **Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit** | **(60,053)** | **192,037** | **(3,926)** | **128,058** |
| **Note a) Adjustments for capital purposes:** | | | | |
| Charges to services for depreciation and impairment | 197,833 | | | 197,833 |
| Service revenue expenditure funded from capital under statute | (2,319) | | | (2,319) |
| Current value of assets disposed | 18,308 | | | 18,308 |
| Current value of assets transferred to academies | 9,336 | | | 9,336 |
| Statutory minimum revenue provision for capital financing | (27,646) | | | (27,646) |
| External contribution to minimum revenue provision | 584 | | | 584 |
| Revenue contributions to capital | (7,806) | | | (7,806) |
| Capital grants and contributions applied (note i) | (182,469) | | | (182,469) |
| Movement in the market value of investment properties | (53,671) | | | (53,671) |
| Total transferred to capital adjustment account (including note i) | (47,850) | | | (47,850) |
| Transfer asset sale proceeds to capital receipts reserve | (12,203) | | | (12,203) |
| **Note a) Total** | **(60,053)** | | | (60,053) |

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| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts | Adjustments for Capital Purposes (Note a) | Net change for the Pensions Adjustments (Note b) | Other Adjustments (Note c) | Total Adjustments |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Note b) Adjustments for pensions:** | | | | |
| Current service cost of funded local government pensions | | 239,153 | | 239,153 |
| Past service cost of funded local government pensions | | 1,401 | | 1,401 |
| Interest on net pension liability | | 37,784 | | 37,784 |
| Total transferred to Pension Reserve | | 278,338 | | 278,338 |
| Employer's contributions payable to the pension fund transferred from the Pension Reserve | | (86,301) | | (86,301) |
| **Note b) Total** | | **192,037** | | 192,037 |
| **Note c) Other adjustments:** | | | | |
| Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account | | | (3,338) | (3,338) |
| Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account | | | (12,321) | (12,321) |
| Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account | | | (12,844) | (12,844) |
| Increase in the DSG deficit | | | 24,577 | 24,577 |
| **Note c) Total** | | | **(3,926)** | (3,926) |
| **Total adjustments** | | | | 128,058 |
| (note i) transfer from capital grants unapplied reserve | | | | 29,775 |
| **Total adjustments between accounting and funding basis under statute** | | | | 157,833 |

| 2020/21<br>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts | Adjustments for Capital Purposes (Note a) | Net change for the Pensions Adjustments (Note b) | Other Adjustments (Note c) | Total Adjustments |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Adults & Health | 5,087 | 15,826 | (147,575) | (126,662) |
| Schools | 112,198 | 32,811 | (908,827) | (763,818) |
| Children's Services non-schools | 1,289 | 9,002 | (18,924) | (8,633) |
| Economy, Transport and Environment | 59,838 | 4,028 | (12,048) | 51,818 |
| Culture, Communities & Business Services | 9,146 | 9,751 | (2,743) | 16,154 |
| Corporate Services and other Corporate | 1,100 | 10,118 | (1,207) | 10,011 |
| Other items not allocated to services: | | | | |
| Specific Grants | 0 | 0 | 1,094,483 | 1,094,483 |
| Other | 3 | 2,492 | 0 | 2,495 |
| **Net cost of services** | **188,661** | **84,028** | **3,159** | **275,848** |
| Other income and expenditure from the funding analysis | (152,766) | 33,587 | 18,008 | (101,171) |
| **Difference between the General Fund surplus or deficit and the Comprehensive Income and Expenditure surplus or deficit** | **35,895** | **117,615** | **21,167** | **174,677** |
| **Note a) Adjustments for capital purposes:** | | | | |
| Charges to services for depreciation and impairment | 191,348 | | | 191,348 |
| Service revenue expenditure funded from capital under statute | (95) | | | (95) |
| Current value of assets disposed | 1,439 | | | 1,439 |
| Current value of assets transferred to academies | 13,331 | | | 13,331 |
| Statutory minimum revenue provision for capital financing | (16,756) | | | (16,756) |
| External contribution to minimum revenue provision | 372 | | | 372 |
| Revenue contributions to capital | (17,662) | | | (17,662) |
| Capital grants and contributions applied (note i) | (125,481) | | | (125,481) |
| Movement in the market value of investment properties | (6,735) | | | (6,735) |
| Total transferred to capital adjustment account (including note i) | 39,761 | | | 39,761 |
| Transfer asset sale proceeds to capital receipts reserve | (3,866) | | | (3,866) |
| **Note a) Total** | **35,895** | | | **35,895** |

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Accounts | Adjustments for Capital Purposes (Note a) | Net change for the Pensions Adjustments (Note b) | Other Adjustments (Note c) | Total Adjustments |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Note b) Adjustments for pensions:** | | | | |
| Current service cost of funded local government pensions | | 165,850 | | 165,850 |
| Past service cost of funded local government pensions | | 2,333 | | 2,333 |
| Interest on net pension liability | | 33,587 | | 33,587 |
| Total transferred to Pension Reserve | | 201,770 | | 201,770 |
| Employer's contributions payable to the pension fund transferred from the Pension Reserve | | (84,155) | | (84,155) |
| **Note b) Total** | | **117,615** | | **117,615** |
| **Note c) Other adjustments:** | | | | |
| Difference between accrued cost of employee holiday benefits and those taken, transferred to the accumulated Absences Account | | | 3,159 | 3,159 |
| Amortisation of premiums and discounts on financial instruments transferred to the Financial Instruments Adjustment Account | | | (17,953) | (17,953) |
| Difference between accrued income from council tax and business rates and that required by statute to be paid over by Billing Authorities, transferred to the Collection Fund Adjustment Account | | | 23,270 | 23,270 |
| Increase in the DSG deficit | | | 12,691 | 12,691 |
| **Note c) Total** | | | **21,167** | **21,167** |
| **Total adjustments** | | | | 174,677 |
| (note i) transfer from capital grants unapplied reserve | | | | 35 |
| **Total adjustments between accounting and funding basis under statute** | | | | **174,712** |

## 3 Unusable reserves

| | Balance 1 April 2021 £'000 | Movement £'000 | Balance 31 March 2022 £'000 | *Note* |
|---|---|---|---|---|
| Revaluation reserve | (1,568,037) | (48,115) | (1,616,152) | *3a* |
| Capital adjustment account | (2,282,764) | (77,071) | (2,359,835) | *3b* |
| Pensions reserve | 1,842,287 | (343,781) | 1,498,506 | *3c* |
| Accumulated absences account | 16,906 | (3,338) | 13,568 | *3d* |
| Financial instrument adjustment accounts | 11,932 | (12,321) | (389) | *3e* |
| Collection fund adjustment account | 12,844 | (12,844) | 0 | *3f* |
| DSG deficit | 35,445 | 24,577 | 60,022 | *3g* |
| | **(1,931,387)** | **(472,893)** | **(2,404,280)** | |

## 3a Revaluation reserve

The Revaluation Reserve contains the gains made by the County Council since 1 April 2007, arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

| 2020/21 | | 2021/22 |
|---|---|---|
| (1,559,801) | Balance at 1 April | (1,568,037) |
| (55,621) | (Surplus) or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | (94,908) |
| 40,778 | Difference between fair value depreciation and historical cost depreciation | 39,756 |
| 7,508 | Write off net gains for assets transferred to Academy/Foundation schools | 3,911 |
| (901) | Accumulated gains on assets sold, scrapped or transferred to/from current assets | 3,126 |
| 47,385 | **Amount written off to the Capital Adjustment Account** | 46,793 |
| **(1,568,037)** | **Balance at 31 March** | **(1,616,152)** |

### 3b Capital adjustment account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. This account contains expenditure financed from revenue and capital receipts together with the statutory amount required to provide for the repayment of external loans less the amounts included for depreciation, impairment and revenue expenditure financed by capital under statute and the historic cost of asset disposals. The reserve is not cash backed. The movement in the account is analysed below:

| 2020/21 £'000 | | 2021/22 £'000 | 2021/22 £'000 |
|---|---|---|---|
| **(2,271,309)** | Balance brought forward 1 April | | **(2,282,764)** |
| 0 | HCC debtors | 0 | |
| | Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | |
| 191,348 | Charges for depreciation and impairment of non-current assets | 197,833 | |
| (95) | Revenue expenditure funded from capital under statute | (2,319) | |
| 1,439 | Assets disposals current value | 18,308 | |
| 13,331 | Assets transferred to Academy/Foundation schools current value | 9,336 | |
| **(2,065,286)** | | | **(2,059,606)** |
| (47,385) | Adjusting amounts written out of Revaluation Reserve | | (46,793) |
| **(2,112,671)** | **Net amount written out of the cost of assets consumed in the year** | | **(2,106,399)** |
| | **Capital financing applied in the year:** | | |
| (6,767) | Capital receipts applied | (17,502) | |
| (16,756) | Statutory minimum revenue provision for capital financing | (27,646) | |
| 372 | External contribution to minimum revenue provision | 584 | |
| (17,662) | Revenue contributions to capital expenditure | (7,806) | |
| (125,446) | Capital grants and contributions applied | (152,694) | |
| **(166,259)** | | | **(205,064)** |
| (6,735) | Movement in the market value of investment properties and pooled property fund | | (53,671) |
| 2,901 | Write down of capital debtors | | 5,299 |
| **(2,282,764)** | **Balance as at 31 March** | | **(2,359,835)** |

### 3c Pensions reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The County Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs.

However, statutory arrangements require benefits earned to be financed as the County Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a shortfall in the resources the Council has set aside to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 1,501,112 | Balance at 1 April | 1,842,287 |
| 223,560 | Actuarial losses / (gains) on pensions assets and liabilities | (535,818) |
| 201,770 | Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 278,338 |
| (84,155) | Employer's pensions contributions and direct payments to pensioners payable in the year | (86,301) |
| **1,842,287** | **Balance at 31 March** | **1,498,506** |

### 3d Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

Non-teaching staff work under Employment in Hampshire County Council (EHCC) terms and conditions which permit them to carry forward, in exceptional circumstances, up to 5 days (37 hours) annual leave per year, pro-rated for those working part time. In addition, some staff may have flexible working conditions which permit them to accumulate up to a maximum of 40 hours flexi-time. In this case they can theoretically carry forward up to 40 hours flexi-time from one financial year to another.  However, the actual amounts of annual leave and flexi-time carried forward are much lower than the maximum amounts and are similar each year, so an accrual for non-teaching staff is not required.

The Conditions of Service for School Teachers state that teachers should not receive less than one-third of a year's salary for each full term's service. Due to the County Council's policy of a fixed Easter break during April, the pay and leave entitlement for the spring term straddles two financial years. Therefore an accrual is made by charging children's services for the cost of Easter holiday entitlements earned by teachers but not taken until the next financial year.

### 3e Financial instruments adjustment account

The County Council uses this account to manage premiums paid on the early redemption of loans and fair value changes for pooled investment funds. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, and reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in reserves statement. The expense is posted back to the General Fund balance in accordance with statutory arrangements for spreading the burden on council tax. Fair value changes debited or credited to the provision of services are reversed out of the General Fund balance to the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### 3f Collection fund adjustment account

The collection fund adjustment account manages the differences arising from the recognition of council tax and business rate income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and business rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Billing Authorities' Collection Funds.

### 3g Dedicated schools grant adjustment account

This unusable reserve was established by regulation on 1 April 2020 in order to keep separate from the County Council's general fund, any deficits arising from schools budget expenditure that exceeds the available funding provided through the annual dedicated schools grant (DSG). This accounting treatment is limited to the financial reporting periods 2020/21, 2021/22 and 2022/23 to provide time for Government and local authorities to look at budgetary and financial management strategies to reduce the deficits.

## 4 General Fund and earmarked reserves

The County Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate heading within the Comprehensive Income and Expenditure Statement in that year and is included in the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

| | Balance 1 April 2020 £'000 | Movement in 2020/21 £'000 | Balance 31 March 2021 £'000 | Movement in 2021/22 £'000 | Balance 31 March 2022 £'000 | See note |
|---|---|---|---|---|---|---|
| **Revenue Reserves** | | | | | | |
| **A. General Fund Balance** | (22,298) | (900) | **(23,198)** | (900) | **(24,098)** | *a* |
| | | | | | | |
| **B. County Council Earmarked Revenue Reserves** | | | | | | |
| **Fully Committed to Existing Spend Programmes** | | | | | | |
| Revenue Grants Unapplied | (38,111) | 19,142 | **(18,969)** | 10,532 | **(8,438)** | *b* |
| General Capital Reserve | (112,357) | (36,606) | **(148,963)** | (18,452) | **(167,414)** | *c* |
| Street Lighting Reserve | (27,527) | 299 | **(27,228)** | 393 | **(26,835)** | *d* |
| Public Health Reserve | (5,480) | (278) | **(5,758)** | (3,111) | **(8,869)** | *e* |
| Other | (1,071) | (126) | **(1,197)** | (164) | **(1,361)** | *f* |
| | **(184,546)** | **(17,569)** | **(202,115)** | **(10,802)** | **(212,917)** | |
| **Departmental / Trading Reserves** | | | | | | |
| Trading Accounts | (6,725) | (2,075) | **(8,800)** | (2,238) | **(11,038)** | *g* |
| Departmental Cost of Change | (85,492) | (55,198) | **(140,690)** | (34,379) | **(175,079)** | *h* |
| | **(92,217)** | **(57,273)** | **(149,490)** | **(36,617)** | **(186,117)** | |
| **Risk Reserves** | | | | | | |
| Insurance | (40,955) | 1,366 | **(39,589)** | (4,095) | **(43,684)** | *i* |
| Investment Risk | (4,958) | (1,292) | **(6,250)** | 0 | **(6,250)** | *j* |
| | **(45,913)** | **74** | **(45,839)** | **(4,095)** | **(49,934)** | |
| **Corporate Reserves** | | | | | | |
| Budget Bridging Reserve | (78,509) | 10,339 | **(68,170)** | (30,801) | **(98,971)** | *k* |
| Invest To Save | (22,290) | 5,075 | **(17,215)** | 1,634 | **(15,581)** | *l* |
| Corporate Policy | (6,852) | (448) | **(7,300)** | (807) | **(8,107)** | *m* |
| Organisational Change | (3,442) | 20 | **(3,422)** | 259 | **(3,163)** | *n* |
| | **(111,093)** | **14,986** | **(96,107)** | **(29,715)** | **(125,822)** | |
| **Total Earmarked Revenue Reserves available to the County Council** | **(433,769)** | **(59,783)** | **(493,552)** | **(81,229)** | **(574,790)** | |
| | | | | | | |
| **C. Other Earmarked Revenue Reserves** | | | | | | |
| EM3 LEP Reserve | (5,081) | 321 | **(4,760)** | 1,019 | **(3,741)** | *p* |
| Schools Reserves | (15,355) | (51,312) | **(66,667)** | (17,236) | **(83,903)** | *q* |
| **Total Revenue Reserves and Balances** | **(476,503)** | **(111,675)** | **(588,178)** | **(98,345)** | **(686,533)** | |
| | | | | | | |
| **D. Capital Reserves** | | | | | | |
| Capital Grants Unapplied | (166,637) | (35) | **(166,672)** | (29,775) | **(196,447)** | *r* |
| **Total Capital Reserves and Balances** | **(166,637)** | **(35)** | **(166,672)** | **(29,775)** | **(196,447)** | |
| | | | | | | |
| **Total Usable Reserves** | **(643,140)** | **(111,709)** | **(754,849)** | **(128,121)** | **(882,980)** | |

a The General Fund Balance is the surplus of revenue income over expenditure. It can be used to supplement income in future years

b The revenue grants unapplied reserve was established to reflect change in accounting practice under IFRS, requiring grants to be accounted for in advance of the matched spending being incurred, where there is no repayment condition.

c The general capital reserve is to assist in matching the timing of the availability of capital financing resources with the timing of capital payment.

d The street lighting reserve represents the anticipated surplus generated by the financial model for this PFI scheme that is invested up front and then applied to the contract payments for future years.

e The Public Health reserve represents the balance of the ring-fenced government grant carried forward for future Public Health expenditure.

f Other smaller reserves are sums set aside for specific future purposes.

g The trading accounts reserve enable business units to carry forward planned surpluses to cover future investment or possible losses.

h The departmental cost of change reserve enables individual services to carry forward underspends in order to invest in technology and other service improvements and meet the cost of significant change programmes and restructures

i The County Council self-insures against certain types of risks and the level of the insurance reserve is based on an independent valuation of past claims experience and the level and nature of current outstanding claims.

j The Investment Risk reserve was established in 2014/15 to mitigate the slight additional risk associated with the revised approved investment strategy as a prudent response to targeting investments with higher returns.

k The budget bridging reserve, formerly known as the grant equalisation reserve, is used to smooth the impact of funding reductions and service and inflationary pressures.

l The invest-to-save reserve is to provide funding for investment which will generate further revenue savings in the future.

m The corporate policy reserve is available to fund new budget initiatives that are agreed as part of the overall budget. It offers the opportunity to introduce specific service initiatives that might not have otherwise gained funding and are designed to have a high impact on service users or locations where they are applied.

n The organisational change reserve was established in 2010/11 from contributions from the corporate policy and invest to save reserves to fund the additional cost of the voluntary redundancy scheme implemented to facilitate staffing reductions on a voluntary basis, and provide funding for organisational development.

p The EM3 LEP reserve represents underspending of EM3 LEP funding carried forward for future expenditure.

q The purpose of the Schools reserve is to earmark the balance of unspent delegated budgets. They are not available to other services.

r The capital grants unapplied reserve holds capital grants that have been received in advance of the matched spending being incurred. They are not available for revenue purposes.

## 5 Financing and investment income and expenditure

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 20,752 | Interest payable | 17,275 |
| (14,738) | Interest receivable | (14,062) |
| (24,142) | Pooled Investment Funds & Investment property (gains) and losses | (65,447) |
| 33,587 | Pension interest | 37,784 |
| (2,340) | (Surplus)/deficit on internal trading undertakings | (2,262) |
| 2,619 | Increase in Expected Credit Losses | 1,619 |
| **15,738** | **Total within other operating expenditure** | **(25,093)** |

## 6 Government Grants and other contributions

Government grants and third party contributions are recognised as income at the date that the County Council satisfies the conditions of entitlement to the grant or contribution.

Grants and contributions which have outstanding conditions are carried in the Balance Sheet as creditors (receipts in advance). When conditions are satisfied, or where there are no conditions attached to the grant or contribution and there is reasonable assurance that the monies will be received and that the expenditure for which the grant has been given has been or will be incurred, the income is credited to the Comprehensive Income and Expenditure Statement as follows:

- To the relevant service for revenue grants and contributions and capital grants used to fund revenue expenditure funded by capital under statute
- To the Taxation and Non-Specific Grant Income section for non-ring-fenced revenue grants and contributions and all other capital grants and contributions.

In deciding if developer contribution agreements have conditions attached the County Council has applied the substance over form concept and assumed that all agreements have a constructive obligation to repay contributions if not used even if this is not explicit in the agreement.

Capital grants credited to the Comprehensive Income and Expenditure Statement, are reversed out of the General Fund in the Movement in Reserves Statement. Capital grants applied in the year, are posted to the Capital Adjustment Account. Where the grant has yet to be used to finance capital expenditure, it is transferred to the Capital

Grants and Contributions Unapplied Reserve. Amounts in the Capital Grants and Contributions Unapplied Reserve that are subsequently applied in future years will be transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Where revenue grants have been credited to the Comprehensive Income and Expenditure Statement but are yet to be used, they are transferred to an earmarked reserve in the Movement in Reserves Statement. Once used in subsequent years, they are transferred to the General Fund to fund the revenue expenditure.

**Grant and contribution income credited to the Comprehensive Income and Expenditure Statement:**

| 2020/21 £'000 | Credited to Taxation and Non Specific Grant Income | 2021/22 £'000 |
|---|---|---|
| | Capital Grants and Contributions: | |
| (420) | Contributions from other Local Authorities | (2,275) |
| (13,533) | Department for Transport Grants | (22,536) |
| (24,396) | Developer's contributions | (30,374) |
| (14,252) | Disabled Facilities Grant | (14,252) |
| (31,546) | EM3 Local Enterprise Partnership | (7,598) |
| (402) | Emergency Active Travel Fund Tranche 2 | (1,075) |
| (23,115) | ESFA Free School Grant | (2,747) |
| 0 | Homes England HIF - Capacity Fund | (1,250) |
| (5,659) | Housing Infrastructure Fund (HIF) Grant | (4,341) |
| (23,956) | Local Transport Capital Block Funding Grant | (11,145) |
| (4,638) | National Productivity Incentive Fund | (1,408) |
| (4,495) | National Productivity Incentive Grant | (3,721) |
| (43,150) | Other contributions & Misc Income | (28,072) |
| (11) | Public Sector Decarbonisation Scheme Grant | (25,627) |
| (1,243) | Schools Basic Needs Grant | (40,904) |
| (22,933) | Schools Condition Allocation | (20,270) |
| (3,857) | Schools Devolved Formula Capital | (3,034) |
| 0 | Schools High Needs Grant | (6,789) |
| **92,125** | **Less: Capital income used to fund revenue expenditure under statute** | **44,950** |
| (125,481) | | (182,469) |
| (154,808) | Non-ringfenced Government grants | (167,518) |
| **(280,289)** | **Total** | **(349,987)** |

| 2020/21 £'000 | Credited to services | 2021/22 £'000 |
|---|---|---|
| (18,908) | Better Care Fund | (18,908) |
| (1,069) | Bus Service Operators Grant | (1,069) |
| (3,527) | Covid-19 Adult Social Care Rapid Testing Fund | (382) |
| (33,675) | Covid-19 Adults Social Care Infection Control Fund (ICTF) | (27,078) |
| (3,803) | Covid-19 Clinically Extremely Vulnerable (CEV) Grant | (243) |
| (1,037) | Covid-19 Emergency Assistance Grant | 0 |
| (315) | Covid-19 Holiday Activities Food Programme (HAF) | (2,863) |
| 0 | Covid-19 Local Support Grant Allocation | (3,410) |
| (699) | Covid-19 Mass Testing Fund | (1,335) |
| 0 | Covid-19 Omicron Support Fund | (1,189) |
| 0 | Covid-19 Practical Support (Self Isolation) | (2,203) |
| 0 | Covid-19 Recovery Premium | (1,899) |
| (3,483) | Covid-19 Sales, Fees and Charges Grant | (194) |
| (6,803) | Covid-19 School Catch Up Grant | (4,863) |
| (1,917) | Covid-19 School Fund Grant | 0 |
| (14,395) | Covid-19 Surge Funding / additional Contain Outbreak Management F | (15,946) |
| (3,810) | Covid-19 Winter Grant Scheme (WGS) | (97) |
| (2,127) | Covid-19 Workforce Capacity Grant | (251) |
| (1,513) | Covid-19 Other Specific Grants | (3,119) |
| (811,186) | Dedicated Schools Grant (DSG) | (874,186) |
| 0 | Domestic Abuse Capacity Building Fund | (1,353) |
| (16,452) | Free School Meals - Universal (UIFSM) | (13,608) |
| (11,452) | Improved Better Care Fund | (11,452) |
| (4,082) | Independent Living Fund | (4,082) |
| (1,717) | Music Grant | (1,723) |
| 0 | New Household Fund Grant | (6,834) |
| (7,730) | Other Specific Grants | (8,118) |
| (1,056) | Partners in Practice (PiP) | (350) |
| (7,566) | PE & Sport Grant | (7,472) |
| (34,850) | Per Pupil Premium | (36,033) |
| (9,373) | PFI Street Lighting Grant | (9,373) |
| (52,388) | Public Health Grants | (52,925) |
| (1,882) | School Improvement Grant & Brokering Grant | (1,741) |
| 0 | School-led Tutoring | (1,730) |
| (1,729) | Supporting Troubled Families (SFP) | (2,050) |
| (7,804) | Teachers Pay Grant | (77) |
| (22,952) | Teachers Pensions Grant | (218) |
| (5,186) | Unaccompanied Asylum Seeking Children (UASC) | (5,783) |
| 0 | Workforce Recruitment and Retention Fund for Adult Social Care | (9,047) |
| (152,066) | Other grants and contributions | (164,111) |
| (1,889) | Developers Contributions | (2,636) |
| (92,125) | Capital grants and contributions released to fund revenue expenditure (REFCUS) | **(44,950)** |
| **(1,340,566)** | **Total** | **(1,344,900)** |

The County Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver if the condition is not met.

| 31 March 2021 £'000 | Capital grants and contributions receipts in advance | 31 March 2022 £'000 |
|---|---|---|
| (1,408) | Additional Highways Funding | 0 |
| (17,647) | Department for Transport Grant | (34,298) |
| (5,005) | DfT Sect 31 Grant - Safer Routes | (4,653) |
| (2,146) | ESFA Free School Grant | 0 |
| (2,654) | Getting Building Fund | (497) |
| (1,201) | Other Capital grants receipts in advance | (1,370) |
| (11,978) | Pot Hole Grant | 0 |
| (12,375) | Public Sector Decarbonisation Grant (Salix) | (3,610) |
| (6,472) | Schools Devolved Formula Capital | (6,784) |
| (3,054) | Special Educational Needs and Disability | (2,072) |
| (3,571) | Transforming Cities Fund | (11,697) |
| **(67,511)** | **Total** | **(64,981)** |

| 31 March 2021 £'000 | Revenue grants receipts in advance | 31 March 2022 £'000 |
|---|---|---|
| 0 | Afghan Citizens Resettlement Scheme - Adults & Childrens | (1,334) |
| (18,102) | Covid-19 Contain Outbreak Management Fund | (8,344) |
| (1,082) | Covid-19 Rapid Testing Fund | 0 |
| (4,790) | Covid-19 Track and Trace Grant | (4,790) |
| (697) | Covid-19 Other Revenue grants receipts in advance | (971) |
| (5,531) | Other Revenue grants receipts in advance | (6,511) |
| (945) | Single Farm Payments European Grant | (1,001) |
| **(31,147)** | **Total** | **(22,951)** |

## 7 Dedicated Schools Grant (DSG)

DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget, as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each maintained school.

Details of the deployment of DSG receivable for 2021/22 are as follows:

| | Central expenditure £'000 | Individual Schools Budget £'000 | 2021/22 Total £'000 |
|---|---|---|---|
| Final DSG for 2021/22 before Academy and High Needs Recoupment | | | (1,105,898) |
| Academy and High Needs figure recouped for 2021/22 | | | 232,744 |
| Total DSG after Academy and High Needs recoupment for 2021/22 | | | (873,154) |
| Plus brought forward from 2020/21 | | | 0 |
| Less carry forward to 2022/23 agreed in advance | | | 0 |
| Agreed initial budgeted distribution in 2021/22 | (126,372) | (746,782) | (873,154) |
| In year adjustments | | (1,032) | (1,032) |
| **Final budget distribution in 2021/22** | **(126,372)** | **(747,814)** | **(874,186)** |
| Less Actual central expenditure | 152,573 | | 152,573 |
| Less Actual ISB deployed to schools | | 746,190 | 746,190 |
| **In year carry forward to 2022/23** | **26,201** | **(1,624)** | **24,577** |
| **DSG deficit unusable reserve at 1 April 2021** | | | **35,445** |
| Addition to DSG unusable reserve at the end of 2021/22 | | | 24,577 |
| **Total of DSG unusable reserve at 31 March 2022** | | | **60,022** |
| **Net DSG position at the end of 2021/22** | | | **60,022** |

## 8 Officers' remuneration (including senior employees' remuneration and termination agreements)

### Employee benefits

**Benefits payable during employment**
Short-term employee benefits, such as salaries, paid annual leave, paid sick leave and non-monetary benefits for current employees, are recognised as an expense in the year in which employees render service to the County Council.

**Termination benefits**
Termination benefits are amounts payable as a result of a decision by the County Council to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy. These costs are charged on an accruals basis to the Comprehensive Income and Expenditure Statement (as part of the cost of services) when a termination notice has been issued to an employee. A provision for termination costs is included in the Comprehensive Income and Expenditure Statement (as part of the cost of services) where there is an agreed business case setting out the estimated termination costs resulting from a proposed restructuring.

Where termination benefits involve the enhancement of pensions by way of added years, legislation requires the General Fund Balance to be charged with the amount payable by the County Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional charges for termination benefits and replace them with a charge for the actual amounts payable to the former employee and the pension fund.

## 8a Officer remuneration

The number of employees whose remuneration during the year was £50,000 or more, in bands of £5,000, is shown below, excluding those that are senior employees (see note 8b). Remuneration includes all amounts paid to an employee, including the taxable value of expenses.

| Number of employees 2020/21 | | | Including termination payments | Number of employees 2021/22 | | |
|---|---|---|---|---|---|---|
| Schools | Other | Total | | Schools | Other | Total |
| 323 | 287 | **610** | £50,000 - £54,999 | 332 | 239 | **571** |
| 201 | 129 | **330** | £55,000 - £59,999 | 189 | 234 | **423** |
| 126 | 136 | **262** | £60,000 - £64,999 | 123 | 80 | **203** |
| 140 | 57 | **197** | £65,000 - £69,999 | 138 | 119 | **257** |
| 70 | 30 | **100** | £70,000 - £74,999 | 85 | 17 | **102** |
| 42 | 23 | **65** | £75,000 - £79,999 | 44 | 36 | **80** |
| 27 | 45 | **72** | £80,000 - £84,999 | 25 | 36 | **61** |
| 14 | 6 | **20** | £85,000 - £89,999 | 12 | 10 | **22** |
| 9 | 16 | **25** | £90,000 - £94,999 | 13 | 3 | **16** |
| 4 | 6 | **10** | £95,000 - £99,999 | 3 | 9 | **12** |
| 7 | 8 | **15** | £100,000 - £104,999 | 9 | 11 | **20** |
| 1 | 3 | **4** | £105,000 - £109,999 | 2 | 6 | **8** |
| 1 | 3 | **4** | £110,000 - £114,999 | 1 | 0 | **1** |
| 4 | 0 | **4** | £115,000 - £119,999 | 3 | 3 | **6** |
| 1 | 1 | **2** | £120,000 - £124,999 | 0 | 0 | **0** |
| 0 | 0 | **0** | £125,000 - £129,999 | 1 | 1 | **2** |
| 0 | 2 | **2** | £130,000 - £134,999 | 0 | 0 | **0** |
| 0 | 0 | **0** | £135,000 - £139,999 | 1 | 2 | **3** |
| 0 | 1 | **1** | £140,000 - £144,999 | 0 | 1 | **1** |
| **970** | **753** | **1,723** | | **981** | **807** | **1,788** |

| Number of employees 2020/21 | | | Excluding termination payments | Number of employees 2021/22 | | |
|---|---|---|---|---|---|---|
| Schools | Other | Total | | Schools | Other | Total |
| 323 | 287 | **610** | £50,000 - £54,999 | 329 | 233 | **562** |
| 201 | 126 | **327** | £55,000 - £59,999 | 187 | 235 | **422** |
| 126 | 134 | **260** | £60,000 - £64,999 | 121 | 79 | **200** |
| 140 | 57 | **197** | £65,000 - £69,999 | 137 | 119 | **256** |
| 70 | 29 | **99** | £70,000 - £74,999 | 85 | 18 | **103** |
| 42 | 22 | **64** | £75,000 - £79,999 | 43 | 36 | **79** |
| 27 | 45 | **72** | £80,000 - £84,999 | 25 | 37 | **62** |
| 14 | 5 | **19** | £85,000 - £89,999 | 12 | 10 | **22** |
| 9 | 16 | **25** | £90,000 - £94,999 | 13 | 3 | **16** |
| 4 | 6 | **10** | £95,000 - £99,999 | 3 | 8 | **11** |
| 7 | 8 | **15** | £100,000 - £104,999 | 9 | 12 | **21** |
| 1 | 3 | **4** | £105,000 - £109,999 | 2 | 6 | **8** |
| 1 | 3 | **4** | £110,000 - £114,999 | 1 | 0 | **1** |
| 4 | 0 | **4** | £115,000 - £119,999 | 3 | 3 | **6** |
| 1 | 1 | **2** | £120,000 - £124,999 | 0 | 0 | **0** |
| 0 | 0 | **0** | £125,000 - £129,999 | 1 | 1 | **2** |
| 0 | 2 | **2** | £130,000 - £134,999 | 0 | 0 | **0** |
| 0 | 0 | **0** | £135,000 - £139,999 | 1 | 1 | **2** |
| 0 | 1 | **1** | £140,000 - £144,999 | 0 | 0 | **0** |
| **970** | **745** | **1,715** | | **972** | **801** | **1,773** |

## 8b Senior employees' remuneration

This statement covers the remuneration of Chief Officers.

| Senior employees 2021/22 | Salary, (Including fees and allowances) £ | Expense Allowances £ | Benefits in Kind £ | Compensation for Loss of Office £ | Pension contribution £ | Total remuneration including pension contributions £ |
|---|---|---|---|---|---|---|
| Chief Executive (01/04/2021 - 18/07/2021) | | | | | | |
| John Coughlan | 77,827 | - | - | - | - | 77,827 |
| Chief Executive (19/07/2021 - 31/03/2022) | 164,909 | - | - | - | - | 164,909 |
| Carolyn Williamson | | | | | | |
| Deputy Chief Executive and Director of Corporate Resources (01/04/2021 - 18/07/2021) | | | | | | |
| Carolyn Williamson | 59,726 | - | - | - | - | 59,726 |
| Director of Children's Services | | | | | | |
| Steve Crocker | 172,271 | - | - | - | 31,698 | 203,969 |
| Director of Adults' Health & Care | | | | | | |
| Graham Allen | 173,300 | - | - | - | 31,887 | 205,187 |
| Director of Economy, Transport and Environment | | | | | | |
| Stuart Jarvis | 157,483 | - | - | - | - | 157,483 |
| Director of Community, Culture and Business Services | | | | | | |
| Felicity Roe | 157,483 | - | - | - | 28,977 | 186,460 |
| Director of Public Health | 125,003 | - | - | - | 23,001 | 148,004 |
| Director of Corporate Operations (19/07/2021 - 31/03/2022) | | | | | | |
| Rob Carr | 116,775 | - | - | - | - | 116,775 |
| Director of HR, Organisational Development and Communications and Engagement (19/07/2021 - 31/03/2022) | 103,514 | - | - | - | 20,364 | 123,878 |
| Head of Law and Governance (12/05/2021 - 31/03/2022) | 85,770 | - | - | - | 15,782 | 101,551 |
| Director of Transformation and Governance and Deputy Director of Adults' Health and Care (01/04/2021 - 11/05/2021) | 15,364 | - | - | - | 2,153 | 17,517 |
| Assistant Chief Executive (01/04/2021 - 24/10/2021) | 59,714 | - | - | - | 10,987 | 70,701 |
| Assistant Chief Executive (01/01/2022 - 31/03/2022) | 33,069 | - | - | - | 6,383 | 39,452 |

Salary costs for the Director of Corporate Operations and the Director of HR, Organisational Development and Communications and Engagement are partly funded from partnership income. This also applied to the Deputy Chief Executive and Director of Corporate Resources up to 18 July 2021. In addition, offset against the salary costs of the Director of Children's Services and the Director of Public Health are contributions from the Isle of Wight Council as part of the County Council's partnership agreement.

2020/21 has been restated to include the Director of Public Health on the same basis, as they had not been included in the note published previously.

| Senior employees 2020/21 | Salary, (Including fees and allowances) £ | Expense Allowances £ | Benefits in Kind £ | Compensation for Loss of Office £ | Pension contribution £ | Total remuneration including pension contributions £ |
|---|---|---|---|---|---|---|
| Chief Executive | | | | | | |
| John Coughlan | 231,115 | - | - | - | 299,646 | 530,761 |
| Deputy Chief Executive and Director of Corporate Resources | | | | | | |
| Carolyn Williamson | 196,719 | - | - | - | - | 196,719 |
| Director of Children's Services | | | | | | |
| Steve Crocker | 163,575 | - | - | - | 30,098 | 193,673 |
| Director of Adults' Health & Care | | | | | | |
| Graham Allen | 163,575 | - | - | - | 30,098 | 193,673 |
| Director of Economy, Transport and Environment | | | | | | |
| Stuart Jarvis | 154,774 | - | - | - | - | 154,774 |
| Director of Community, Culture and Business Services | | | | | | |
| Felicity Roe | 154,774 | - | - | - | 28,478 | 183,252 |
| Director of Public Health | 123,025 | - | - | - | 22,637 | 145,662 |
| Director of Transformation and Governance and Deputy Director of Adults' Health and Care | 140,426 | - | - | - | 25,838 | 166,264 |
| Assistant Chief Executive | 105,779 | - | - | - | 19,463 | 125,242 |

The pension contribution shown for the Chief Executive relates to the discharge of a contractual commitment in respect of his pension benefits.

## 8c Exit Packages

The exit package cost includes compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. The information for 2020/21 has been restated to add pension contributions in respect of added years, ex-gratia payments and other departures costs. Exit packages relating to employees in Hampshire County Council maintained schools have also been added to the Schools 2020/21 restated note.

**Schools 2020/21**

| Exit package cost band | Number of Compulsory Redundancies | Number of other departures agreed | Total number of exit packages by cost band | Total redundancy costs in each band £'000 |
|---|---|---|---|---|
| £0-£40,000 | 42 | 41 | 83 | 485 |
| £60,001-£80,000 | 2 | 0 | 2 | 151 |
| | **44** | **41** | **85** | **636** |

**Non schools 2020/21**

| Exit package cost band | Number of Compulsory Redundancies | Number of other departures agreed | Total number of exit packages | Total redundancy costs in each band £'000 |
|---|---|---|---|---|
| £0 - £20,000 | 23 | 128 | 151 | 733 |
| £20,001 - £40,000 | 0 | 10 | 10 | 267 |
| £40,001 - £60,000 | 0 | 5 | 5 | 237 |
| £60,001 - £80,000 | 0 | 2 | 2 | 151 |
| £80,001 - £100,000 | 0 | 2 | 2 | 165 |
| £100,001 - £200,000 | 0 | 5 | 5 | 620 |
| | **23** | **152** | **175** | **2,173** |

**Schools 2021/22**

| Exit package cost band | Number of Compulsory Redundancies | Number of other departures agreed | Total number of exit packages | Total redundancy costs in each band £'000 |
|---|---|---|---|---|
| £0 - £20,000 | 54 | 74 | 128 | 707 |
| £20,001 - £40,000 | 5 | 4 | 9 | 260 |
| £40,001 - £80,000 | 3 | 1 | 4 | 220 |
| | **62** | **79** | **141** | **1,187** |

**Non schools 2021/22**

| Exit package cost band | Number of Compulsory Redundancies | Number of other departures agreed | Total number of exit packages | Total redundancy costs in each band £'000 |
|---|---|---|---|---|
| £0 - £20,000 | 21 | 76 | 97 | 397 |
| £20,001 - £40,000 | 4 | 9 | 13 | 352 |
| £40,001 - £60,000 | 0 | 4 | 4 | 203 |
| £60,001 - £80,000 | 1 | 1 | 2 | 133 |
| £80,001 - £100,000 | 0 | 2 | 2 | 181 |
| £100,001 - £150,000 | 0 | 3 | 3 | 348 |
| £200,001 - £250,000 | 0 | 2 | 2 | 458 |
| **Total number of packages** | **26** | **97** | **123** | **2,072** |

## 9 Members' allowances

The Authority paid the following amounts to members of the council during the year.

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 1,395 | Allowances | 1,386 |
| 16 | Expenses | 38 |
| **1,411** | **Total** | **1,424** |

## 10 External Audit fees

Fees charged by the County Council's external auditor can be analysed as follows:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 90 | Fees payable to EY with regard to external audit services carried out by the appointed auditor for the year | 90 |
| 8 | Grant Claims audited by other audit firms | 6 |
| **98** | | **96** |

## 11 Nature of Expenses

The Cost of Services includes the following items of income and expenditure:

| 2020/21 £'000 | | 2021/22 £'000 | Note |
|---|---|---|---|
| 667,886 | Employee Benefit Expenses - schools | 718,748 | a |
| 489,855 | Employee Benefit Expenses - other | 551,229 | a |
| 1,178,929 | Other Service Expenses | 1,169,327 | b |
| 188,662 | Depreciation and Impairment | 225,094 | c |
| **2,525,332** | **Total Expenditure** | **2,664,398** | |
| | | | |
| (1,340,566) | Grants, contributions and reimbursements | (1,344,900) | |
| (147,317) | Fees, charges and other service income | (181,098) | 12 |
| **(1,487,883)** | **Total Income** | **(1,525,998)** | |
| **1,037,449** | **Net Cost of Services** | **1,138,400** | |

a) Employee benefit expenses include pay, employer national insurance contributions, employer pension contributions and other employee benefits. Accounting adjustments are then made under IAS19 so that the expenditure in the CIES reflects the current service cost of the benefit granted in the period, rather than the payments made.

b) Other service expenses includes costs relating to premises, transport, supplies and services. An accounting adjustment is made so that the charge to the CIES also includes revenue expenditure funded by capital under statute (REFCUS).

c) Depreciation and impairment charges are made to the CIES to reflect the use of fixed assets during the period. These are not chargeable to the general fund.

## 12 Income received from external customers

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| (67,744) | Adults & Health | (74,137) |
| (20,771) | Schools | (43,197) |
| (1,937) | Children's Services Non-Schools | (3,596) |
| (17,760) | Economy, Transport & Environment | (19,238) |
| (31,258) | CCBS | (33,618) |
| (4,269) | Corporate Services & Other Corporate | (4,469) |
| (3,578) | Other items not allocated to services | (2,844) |
| **(147,317)** | **Total income from external customers analysed by service** | **(181,099)** |

## 13 Related party transactions

The Council is required to disclose material transactions with related parties. Related parties are bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosing these shows the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Central Government

Central Government has effective control over the general operations of the Council - it is responsible for providing the statutory framework within which the Council operates, provides funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grant receipts are shown in note 6.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in note 9. Before every decision making meeting, members are required to disclose any conflicts of interest. There were 16 related party transactions totalling £14,089 arising from disbursements from members' devolved budgets. All such payments were counter signed by a member other than the budget-holding member.

### Officers

There were no related-party transactions involving chief officers of the Council. Details of senior officer remuneration are given in note 8.

## Limited Companies

Hampshire County Council owns a 51% share in the Reading Hampshire Property Partnership Ltd (RHPP), which commenced operations on 1 April 2014. This is a public to public venture, based on the Teckal principal, to provide property services to Reading Borough Council. The Board of Directors is made up of two Assistant Directors from Hampshire County Council and two from Reading Borough Council. The turnover during 2021/22 was £2.1 million (£1.4 million 2020/21).

The County Council is an equal partner with Basingstoke and Deane Borough Council in the Manydown Garden Communities Limited Liability Partnership (MGCLLP) which was first registered on 6 August 2018. MGCLLP has been set up to act on behalf of the two councils in the Manydown development. http://manydownbasingstoke.co.uk/
MGCLLP will own and manage the land interests until they are transferred to end owner occupiers. Transactions in 2020/21 totalled £0.2m for administrative and professional fees.

The County Council has a 50% share of Hampshire & Kent Commercial Services LLP incorporated on 1 November 2018. This joint operation commenced operations on 1 April 2019 for the purposes of creating a new agency staff solution primarily for Hampshire and Kent County Councils. During 2021/22, Hampshire County Council purchased agency staff to the value of £30 million (£26.6 2020/21) and this expenditure is included in the consolidated income and expenditure statement. The estimated net profit of the partnership for the year is £503,100 (subject to audit). The Authority's share of the dividend is expected to be £251,550.

## Other Public Bodies

The County Council administers the Hampshire Pension Fund on behalf of its non-teaching employees and those of other local authorities in the county area. There are a total of 350 contributing scheduled, admitted, community admission, transferee admission, and resolution bodies in the Pension Fund (337 in 2020/21). The County Council's administration charge to the Pension Fund in 2021/22 was £3.1 million (£3.0 million in 2020/21).

## 14 Collaborative Arrangements and Group Accounts

In accordance with the Code of Practice the County Council has carried out an assessment of its interests in other entities to determine the nature of any group relationships that exist. This includes an assessment of the extent of the County Council's control over the entity considered either through ownership (such as shareholding) or representation on an entity's board of directors. The main interests held by the County Council in other entities are detailed below. However, none are considered material and thus the production of group accounts is not required.

The County Council has pooled budget arrangements with NHS bodies and joint working agreements with Hampshire Constabulary, Hampshire Fire and Rescue Service, Oxfordshire County Council, Westminster City Council, London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea. These involve joint use of the assets and resources of each organisation rather than the establishment of a separate entity. The County Council recognises the assets that it controls and the liabilities that it incurs on its Balance Sheet, and the expenditure it incurs and the share of income it earns from the activity of the operation on its Comprehensive Income and Expenditure Statement.

The County Council owns a 51% share of the Reading Hampshire Property Partnership Limited which was formally incorporated on 4 March 2014 with Companies House. This is a joint public to public venture entirely owned by Hampshire County Council and Reading Borough Council and is limited by shares. It commenced operations in April 2014 and its financial impact on the County Council is anticipated to be immaterial following the elimination of intragroup transactions.

The County Council has a 50% share of the Manydown Community Gardens Limited Liability Partnership (LLP) incorporated on 6 August 2018. This joint venture with Basingstoke and Deane Borough Council has been set up to act on behalf of the two councils on the Manydown development. Transactions in 2020/21 totalled £0.2m for administrative and professional fees. The County Council's 50% share of this total is not material.

The County Council has a 50% share of Hampshire & Kent Commercial Services LLP incorporated on 1 November 2018. This joint operation commenced operations on 1 April 2019 for the purposes of creating a new agency staff solution primarily for Hampshire and Kent County Councils. The estimated net profit of the partnership for the year is £503,100 (subject to audit).

The County Council is the accountable body for the funding of the Enterprise EM3 Local Enterprise Partnership (EM3 LEP). The EM3 LEP will either grant or loan funds to organisations in the private and public sectors to generate economic growth in the local area. The Government now expects all LEPs to have put "into place appropriate arrangements for the proper use and administration of funding, building on the existing local government systems and which fall under the annual audit of the local authorities accounts". The accountable local authority is also deemed to have "responsibility for the decisions of the LEP in approving projects (for example if subjected to legal challenge)". The County Council has therefore included the EM3 LEP's income, expenditure, assets and liabilities in its accounts.

The County Council is corporate trustee or the designated treasurer for a number of trust funds. These are not disclosed in the accounts as they have no effect on the financial performance or position of the County Council.

## 15 Structured entities – Hampshire Cultural Trust

From November 2014 the County Council's Arts and Museums Service transferred to an independent charitable trust, the Hampshire Cultural Trust. It has been funded by grants from Hampshire County Council, local district and borough councils, central government bodies such as the Arts Council and by individual donations.

The County Council does not have a controlling influence over the Trust, and therefore will not consolidate into group accounts. However, Hampshire Cultural Trust requires the use of assets retained by the County Council to operate the arts and museums service and is therefore being accounted for as a structured entity.

The County Council has planned a level of revenue grant funding with the trust for the next 3 years totalling £7.5 million.

### Hampshire Cultural Trust Nature of risks

The maximum exposure to loss from the Trust is the annual grant paid to the Trust for services not yet delivered. At 31 March 2022 the exposure to risk was nil as the service had been received. Future risk is minimised by the terms within the Management and Funding Agreement between the County Council and the Trust.

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 46,527 | Operational land and buildings retained by the County Council and used by the Trust | 55,444 |
| 2,886 | Community assets retained by the County Council and used by the Trust | 2,886 |
| | Collections of heritage assets retained by the County Council and managed by the Trust (not valued as explained in note 19) | |
| (2,309) | Annual County Council revenue grant provided to the Trust | (2,315) |
| (3,146) | Other unrestricted income received by the Trust | (3,840) |
| 5,147 | Unrestricted expenditure by the Trust | 6,077 |
| (1,778) | Trusts' unrestricted reserves | (1,836) |

## 16 Capital financing

The County Council's borrowing for capital purposes is controlled under the CIPFA Prudential Code for Capital Finance in Local Authorities. The total borrowing is expressed as the Capital Financing Requirement and is derived from the opening Balance Sheet.

### Capital Financing Requirement

The total amount of capital expenditure incurred in the year is shown in the table (including the value of assets acquired under finance leases and expenditure of the EM3 Local Enterprise Partnership), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 783,477 | *Opening capital financing requirement* | 776,456 |
| | *Capital investment:* | |
| 149,675 | Capital spending on property, plant and equipment | 211,184 |
| 92,029 | Revenue expenditure funded by capital under statute | 42,631 |
| 0 | Loans advanced for capital expenditure | 0 |
| 10,000 | Pooled Investment Property Fund | 0 |
| 1,035,181 | | 1,030,271 |
| | *Funded by:* | |
| (6,767) | Capital receipts | (17,502) |
| (217,540) | Grants and other income | (196,998) |
| | Revenue contributions to capital outlay | |
| (12,915) | - main contribution | (11,319) |
| (4,747) | - reserves | 3,513 |
| (16,756) | Minimum revenue provision | (27,646) |
| **776,456** | **Closing capital financing requirement** | **780,319** |
| | **Explanation of movements in year** | |
| (357) | Increase/(decrease) in borrowing (supported by government financial assistance) | (5,411) |
| 1,298 | Increase/(decrease) in borrowing (unsupported by government financial assistance) | 21,686 |
| (7,962) | Increase/(decrease) in borrowing related to PFI contracts | (12,412) |
| **(7,021)** | **Increase/(decrease) in Capital Financing Requirement** | **3,863** |

### Revenue expenditure funded from capital under statute

Legislation allows some expenditure (such as grants to external organisations for capital purposes and spending on buildings not owned by the County Council) to be funded from capital resources. Such expenditure is not carried on the Balance Sheet and is charged to the Income and Expenditure Statement in the year it is incurred. However, so that it does not impact on the year's council tax, an adjustment is made in the Movement in Reserves Statement.

### Minimum Revenue Provision

Minimum Revenue Provision (MRP) is the minimum amount the County Council must charge to its revenue account to provide for the repayment of debt.

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 requires the County Council to determine for the current financial year an amount of MRP which it considers to be prudent. In calculating MRP the County

Council is required by the Local Government Act (2003) to have regard to guidance issued by the Secretary of State. The relevant guidance for 2021/22 was issued by the MHCLG in 2018. Under this guidance, the County Council's agreed policy is to charge MRP on a straight line basis on supported borrowing from 2008 based on the capital financing requirement at the start of the financial year, where supported borrowing refers to historical borrowing prior to 2008 that was originally supported by grant income rolled into Revenue Support Grant.

This policy was implemented in 2015, therefore the actual supported borrowing MRP was based on 43 remaining years. Had the County Council been applying the new policy on a 50 year straight line calculation starting in 2008 it would have made £68m less in MRP payments by 31 March 2016. Starting in 2016/17 the County Council paused making MRP payments on supported borrowing until it had realigned the total amount of MRP payments with the new policy, which happened during 2021/22. This policy continues the County Council's prudent approach of repaying expenditure financed by borrowing sooner, on a straight line basis.

For unsupported borrowing incurred after 1 April 2008, the County Council's policy is to apply the asset life or depreciation methods provided by the guidance. MRP charges commence in the financial year following the one in which the capital expenditure was incurred. Where the borrowing is in effect a bridging loan from a guaranteed future income source, such as Section 106 Developers Contributions, MRP will not be applied. For deferred liabilities relating to PFI and service concessions, minimum revenue provision will match the principal repayment of the associated deferred liability over the life of the related asset.

## 17 Leases

Leases are arrangements that convey the right to use an asset in return for a payment or series of payments even if the arrangement does not take the legal form of a lease. Leases are classified as either finance leases or operating leases. A finance lease is any arrangement where substantially all of the risks and rewards, incidental to ownership of the asset, transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risks and rewards are classified as operating leases.

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification and, in general, leases of land are considered to be operating leases.

Lease classifications are determined individually by carrying out a number of qualitative and quantitative tests and then making a judgement based on the overall outcomes of the tests. For the purposes of lease classifications a de minimis level is used of £500,000.

At 31 March 2022 the County Council has not taken or granted any finance leases over the de minimis level of £500,000.

**17a The County Council as lessee**:

**Operating Leases -** Where the County Council leases a material asset under an operating lease the asset is not recognised in the balance sheet. Rentals payable under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense to the services that benefit from use of the leased asset. Charges are made on a straight-line basis over the life of the lease.

Some property, items of equipment and vehicles are used by entering into operating leases. The expenditure charged to the Comprehensive Income and Expenditure Statement during the year in relation to these leases was £2.33 million (£3.23 million in 2020/21).

The future minimum lease payments due under non-cancellable leases in future years are:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 3,400 | Not later than one year | 2,310 |
| 5,802 | Later than one year and not later than five years | 5,494 |
| 9,598 | Later than five years | 8,831 |
| **18,800** | **Total payments** | **16,635** |

**17b The County Council as lessor**:

**Operating Leases**

The County Council leases out property under operating leases for the provision of community services, such as community centres and for economic development purposes to provide suitable affordable accommodation for local businesses. The asset is retained in the Balance Sheet. Rentals receivable are credited to the relevant service area in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease and totalled £5.1 million in 2021/22 (£4.7 million in 2020/21).

The future minimum lease payments receivable under non-cancellable leases in future years are:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 4,509 | Not later than one year | 5,084 |
| 11,524 | Later than one year and not later than five years | 12,960 |
| 53,210 | Later than five years | 54,529 |
| **69,243** | **Total future minimum lease payments** | **72,573** |

## 18 PFI and service concessions

PFI and similar contracts are agreements to receive services, where the PFI contractor is responsible for making available the property, plant and equipment needed to provide the services. As the County Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the

County Council at the end of the contracts for no additional charge, the County Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) is balanced by the recognition of a deferred liability on the balance sheet for amounts due to the scheme operator to pay for the capital investment. During the life of the assets, any enhancement or replacement costs are added to the asset value and PFI liability.

The amounts payable to the PFI operators each year are analysed into three elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- principle repayment – applied to write down the Balance Sheet liability.

### 18a The South Coast Street Lighting PFI

The County Council has one PFI contract which is for street lighting. This came into effect from the financial year 2010/11. The South Coast Street Lighting PFI project was procured in partnership between Hampshire County Council, Southampton City Council and West Sussex County Council together with the service provider, Tay Valley Lighting. Each council has its own separate contract to deliver individualised lighting requirements under a standard contractual framework.

The Hampshire Street Lighting PFI involved the replacement or updating of approximately 150,000 street lights, illuminated signs and bollards with the latest energy efficient equipment during the first five years of the project. The long-term contract with Tay Valley Lighting (Hampshire) will run for 25 years, from 1 April 2010, and will also provide for the ongoing maintenance of the council’s street lighting network until 2034/35.

The five year Core Investment Period (CIP), commenced in 2010 and has now been delivered in full, with some 143,200 items of illuminated street furniture replaced or upgraded with modern, energy efficient equipment.  The combination of modern energy efficient equipment, combined with the Mayflower remote monitoring system has enabled

HCC to make energy savings of 51% over the period of the project to date. The focus for the remaining period of the contract is on maintaining and operating the new lighting to a high standard, with HCC's monitoring team verifying project delivery and operations. After March 2035 the risks relating to street lighting revert to the County Council. There are no options for contract renewal.

Following completion of the CIP, Equitix (the senior lender), in partnership with HCC, has achieved a refinancing annual gain-share of £190,450 per annum effective from April 2017. This reduction has been reflected in the future expected payments under the contract as a reduced interest charge. Other changes to the annual cost are determined by inflation and amendments to the inventory. The movement in the asset values were as follows:

| 2020/21 £'000 | Gross book value | 2021/22 £'000 |
|---|---|---|
| 127,810 | At 1 April | 127,810 |
| - | Additions | - |
| | Disposals | - |
| - | Revaluations | - |
| 127,810 | Gross book value at 31 March | 127,810 |
| | | |
| | Depreciation | |
| (28,029) | At 1 April | (32,289) |
| (4,260) | Depreciation for the year | (4,260) |
| - | Impairments | - |
| (32,289) | Depreciation at 31 March | (36,549) |
| | | |
| 99,781 | Net book value at 1 April | 95,521 |
| **95,521** | **Net book value at 31 March** | **91,261** |
| | | |
| | The movement in the deferred liability was: | |
| | | |
| (99,894) | Balance brought forward 1 April | (95,551) |
| | Adjustment to opening balance (note i) | 5,244 |
| 4,343 | Principal repayment in the year | 3,373 |
| - | Capital expenditure incurred in the year | - |
| **(95,551)** | **Balance at 31 March** | **(86,934)** |
| | | |
| (4,597) | Finance lease repayable in one year | (3,689) |
| (90,954) | deferred liability | (83,245) |
| **(95,551)** | | **(86,934)** |

Note i - The adjustment to opening balances relates to a recalculation of the model used to allocate the payment made between interest and principal. This has no impact on the cash payments made but means that expenditure previously recognised as interest charges has been reclassified to instead reduce the value of the outstanding liability.

The street lighting contract has 13 years to run. The expected payments are shown in the following table:

| | Principal repayment £'000 | Interest £'000 | Contingent Rental £'000 | Service Charge £'000 | Total £'000 |
|---|---|---|---|---|---|
| Next year | 3,689 | 7,933 | 785 | 6,219 | 18,627 |
| Years two to five | 18,565 | 28,035 | 1,045 | 29,746 | 77,390 |
| Years six to 10 | 34,870 | 23,718 | 1,389 | 43,522 | 103,498 |
| Years 11 to 13 | 29,810 | 5,603 | 879 | 29,595 | 65,887 |
| | **86,934** | **65,289** | **4,098** | **109,082** | **265,403** |

A PFI grant of £9 million from the Department of Transport was received by the County Council in 2021/22 with a balance of £122 million due to be received over the remainder of the contract. This grant is expected to be applied to offset the capital and financing costs built into the annual fee.

Energy for street lighting is provided through a separate contract. Estimated costs over the remainder of the contract are expected to be £92 million.

### 18b Project Integra

An existing contract for waste management meets the definition of a service concession. The contract with Hampshire Waste Services Ltd (a wholly owned subsidiary of Veolia UK) is administered by the County Council on behalf of Portsmouth and Southampton unitary authorities who are joint signatories. The contract began in January 1996 and runs until 31 December 2030.

Through a side agreement (Tripartite Agreement), Southampton and Portsmouth City Councils commit to paying a proportion of the costs of the scheme, which is broadly based on the proportion of waste contributed by each of the partner Councils.

The contract has three phases. During phases 1 and 2 the contractor planned, financed and constructed the three Energy Recovery Facilities, two Material Reprocessing Facilities and two composting sites. The contract is currently in Phase 3a covering the provision of waste disposal services in relation to the constructed facilities ending in 2030. The contract price mechanism is structured with an annual re-pricing each January linked to the retail price index in the previous October. During 2015/16 a Deed of Variation to the contract was completed. This delivered savings of £2.4 million per year from 2015 and has increased to savings of £4.9 million per year from 2018.

For sites built on County Council land the contract requires their transfer to the County Council at the end of the contract. Other sites on land contributed by Portsmouth or Southampton Councils will be subject to negotiation for continued utilisation (if required), at contract end. Contractor or third party owned sites may be acquired at contract end through assignment of leases, or options to purchase as negotiated at the time.

The County Council's apportionment of the waste disposal assets, constructed under the contract, is included in the balance sheet together with a deferred liability to pay for the assets over the life of the contract

The movement in the asset values during the year were as follows:

| 2020/21 £'000 | Gross book value | 2021/22 £'000 |
|---|---|---|
| 80,469 | At 1 April | 80,469 |
| - | Additions | - |
| - | Disposals | - |
| | Revaluations | |
| 80,469 | Gross book value at 31 March | 80,469 |
| | **Depreciation** | |
| (9,485) | At 1 April | (14,850) |
| (5,365) | Depreciation for the year | (5,365) |
| - | Impairments | - |
| | Revaluations | |
| (14,850) | Depreciation at 31 March | (20,215) |
| 70,984 | Net book value at 1 April | 65,619 |
| **65,619** | **Net book value at 31 March** | **60,254** |
| | The movement in the deferred liability was: | |
| (49,540) | Balance brought forward 1 April | (45,921) |
| 3,619 | Principal repayment in the year | 3,795 |
| **(45,921)** | **Balance at 31 March** | **(42,126)** |
| (3,795) | Finance lease repayable in one year | (3,980) |
| (42,126) | deferred liability | (38,146) |
| **(45,921)** | **Balance at 31 March** | **(42,126)** |

The waste management contract has 9 years to run. Based on the current contract inflation rate, the expected payments are shown below.

| | Principal repayment £'000 | Interest £'000 | Service Charge £'000 | Total £'000 |
|---|---|---|---|---|
| Next year | 3,980 | 2,049 | 49,095 | 55,124 |
| Years two to five | 17,951 | 6,165 | 231,589 | 255,705 |
| Years six to nine | 20,195 | 2,407 | 300,395 | 322,997 |
| | **42,126** | **10,621** | **581,079** | **633,826** |

## 19 Property, plant and equipment (PPE)

Assets that have a physical substance and are held for use in the provision of services or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

**Recognition**

Expenditure on the acquisition, creation or enhancement of PPE assets is capitalised on an accruals basis. Expenditure that maintains, but does not extend, the previously assessed standards of performance of the asset (e.g. repairs and maintenance) is charged to the relevant service area within the Comprehensive Income and Expenditure Statement as it is incurred.

**Measurement**

PPE assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the Balance Sheet using the following measurement bases:

- Operational Land and Buildings - current value, determined as the amount that would be paid for the asset in its existing use. Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value. Assets valued at under £10,000 are not recognised as they do not add to the future economic benefits or service potential of the Council.
- Surplus Land and Buildings – at fair value in highest and best use, the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date
- Vehicles, Plant and Equipment are measured at depreciated historical cost (as this is not materially different from the current value).
- Infrastructure Assets are measured at depreciated historical cost.
- Community Assets and Assets Under-Construction are measured at historical cost.

PPE assets included in the Balance Sheet at fair value or current value (i.e. land and buildings) are re-valued where there have been material changes in the value, but as a minimum every five years. The freehold and leasehold properties of the County Council's property portfolio have been valued under a rolling programme by the County Council's property services staff. Valuations were carried out in accordance with the methodologies and bases of estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. For assets not included in the current year’s valuation programme, the change in value is estimated using Building Cost Information Services (BCIS) indices

Increases in valuations are matched by credits to the Asset Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the relevant service area within the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to the service area. The Asset Revaluation Reserve only contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date form part of the Capital Adjustment Account.

**Impairment**

Decreases in value (due to either physical impairment or market prices) are either charged to the Asset Revaluation Reserve (to the extent that it has any balance relating to the specific asset) or to the relevant service area within the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised. However, revaluation losses and subsequent reversals are not permitted by statutory arrangements to impact on the General Fund Balance and therefore any gains or losses are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

**Depreciation**

Depreciation is provided for on all PPE assets with a determinable and finite life by allocating the value of the asset in the Balance Sheet over their useful lives. An exception is made for assets without finite lives (e.g. land and community assets), assets that are not yet available for use (e.g. assets under construction) and assets held for sale.

The accounting standard IAS16 requires each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item to be depreciated separately. However, where parts of the item are individually not significant and there are varying expectations for these parts, approximation techniques may be necessary to depreciate them in a manner that faithfully represents the consumption pattern and/or useful life of its parts. For building assets, the County Council uses a weighted average of all components rather than depreciating components separately. The difference in the depreciation calculated is not material.

Depreciation commences in the year after the year of acquisition and a full year's depreciation is charged in the year of disposal, except for vehicles disposed of in the first six months of a financial year when no depreciation is charged in the final period. Depreciation is calculated on the following basis:

- Dwellings and other buildings – straight-line allocation over the useful life of the

property as estimated by the valuer *
- Furniture and equipment – between five and 10 years
- Vehicles - between five and 10 years
- Infrastructure – 20 years
- Street lighting – 30 years

* The useful life of a building is the weighted average of all its components. Where material, replaced components are derecognised by disposing of their gross book value and accumulated depreciation.

Depreciation is charged to the relevant revenue service area within the Comprehensive Income and Expenditure Statement. However, depreciation charges are not permitted by statutory arrangements to have an impact on the General Fund Balance and therefore all depreciation charges are reversed out of the General Fund Balance (in the Movement in Reserves Statement) and are transferred to the Capital Adjustment Account.

Where assets have been re-valued, the revaluation gains held in the Asset Revaluation Reserve are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been charged, based on their historic cost, being transferred each year from the Asset Revaluation Reserve to the Capital Adjustment Account.

**Disposals and assets held for sale**

When a material PPE asset is to be disposed of, and meets all of the criteria of an asset held for sale, it is reclassified as Assets Held for Sale. If the carrying amount at the time of reclassification is higher than the fair value less costs to sell the asset, then the asset held for sale will be impaired. This impairment is charged to other costs in the Comprehensive Income and Expenditure Statement. Assets that are being abandoned, scrapped or have fully depreciated are written out without being reclassified.

When the asset is disposed of, decommissioned, the carrying value of the asset is written out to the Other Operating Income and Expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement. Any revaluation gains accumulated for the asset in the Asset Revaluation Reserve are written out to the Capital Adjustment Account by way of a transfer between the accounts.

Amounts received in excess of £10,000 are categorised as capital receipts and are credited to the other operating expenditure line within the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. They are then appropriated to the Capital Receipts Reserve from the General Fund Balance within the Movement in

Reserves Statement and then can only be used for new capital investment or set aside to reduce the County Council's underlying need to borrow (the capital financing requirement).

**School Assets**

The County Council has foundation, voluntary aided schools (VA schools) and voluntary controlled schools (VC schools). The County Council owns some of the assets in relation to these schools but some of the assets are owned and controlled by another party (e.g. the diocese). The County Council recognises the value of the assets it owns in relation to VA schools in the Balance Sheet. All assets of Foundation and VC schools are recognised by the County Council, even those it does not own, as the County Council controls the service and economic potential of these assets. The property, plant and equipment assets of foundation trust schools are controlled by the Trust and are not included in the County Council's Balance Sheet.

Details on the different types of schools in Hampshire can be found on the government website: https://get-information-schools.service.gov.uk/

**Heritage assets**

Heritage assets are assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture.  The principal heritage assets owned by the County Council are its museum collections, archives collection and a small number of historic buildings and archaeological sites. Since 1 November 2014, the County Council's museum collection is managed by the Hampshire Cultural Trust

It is the County Council's opinion that due to the size and variety of the museum and archives collection and the fact that many of the items are unique and irreplaceable, it is not possible to obtain a fair value at a cost commensurate to the benefit derived by the users of the accounts. The historical cost of buildings and archaeological sites, where known, is not material. Therefore, asset values are not included in the balance sheet, but details of heritage assets are given in the notes to the accounts.

The County Council also owns a number of operational heritage assets that, in addition for being held for their contribution to knowledge and culture, are also used for other activities or to provide other services. Operational heritage assets are accounted for as operational assets and valued in the same way as other assets of that type.

Detailed information about the County Council's Heritage assets can be found on the Hampshire Cultural Trust and Hampshire Archives websites:

https://hampshireculturaltrust.org.uk/

https://www.hants.gov.uk/librariesandarchives/archives

## Intangible assets

Intangible assets are assets which bring benefits for more than one year, are identifiable and controlled by the County Council, but lack physical substance. Typical examples include software licences, and websites developed to deliver services rather than information about services. The County Council does not have any material intangible assets.

### Property, Plant and Equipment (PPE)

The movements in property plant and equipment during 2021/22 were as follows:

| Cost or valuation | Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure Assets | Community Assets | Assets under construction | Surplus Assets | Total Property, Plant and Equipment | PFI Assets included in Property Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 31 March 2021** | **3,817,550** | **86,490** | **1,434,032** | **16,676** | **83,498** | **22,887** | **5,461,132** | **208,279** |
| Additions in year | 51,909 | 4,067 | 67,479 | 259 | 87,470 | | **211,184** | 0 |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 17,622 | 0 | 0 | 0 | 0 | (3,056) | **14,566** | 0 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (20,910) | 0 | 0 | 0 | 0 | (2,336) | **(23,246)** | 0 |
| Derecognition - Disposals | (9,233) | (15,450) | | | 0 | (3,149) | **(27,832)** | 0 |
| Derecognition - Other | (12,039) | (110) | 0 | 0 | 0 | 0 | **(12,149)** | 0 |
| Assets reclassified to held for sale | (4,530) | 0 | 0 | 0 | 0 | 0 | **(4,530)** | 0 |
| Other movements in cost or valuation | 32,818 | 0 | 10,478 | 0 | (43,089) | (333) | **(126)** | 0 |
| **At 31 March 2022** | **3,873,187** | **74,997** | **1,511,989** | **16,935** | **127,879** | **14,013** | **5,618,999** | **208,279** |
| | | | | | | | | |
| **Accumulated depreciation and Impairment** | | | | | | | | |
| **At 31 March 2021** | **(465,367)** | **(40,397)** | **(517,813)** | **(242)** | **0** | **(4,033)** | **(1,027,852)** | **(47,139)** |
| Depreciation Charge | (92,226) | (9,387) | (56,468) | 0 | 0 | (282) | **(158,363)** | (9,625) |
| Depreciation written out on revaluation | 100,103 | 0 | 0 | 0 | 0 | 2,998 | **103,101** | 0 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 415 | 0 | 0 | 0 | 0 | | **415** | 0 |
| Impairment losses recognised in the Revaluation Reserve | (21,242) | 0 | 0 | 0 | 0 | (408) | **(21,650)** | 0 |
| Impairment losses recognised in the Surplus/Deficit on the Provision of Services | (14,030) | 0 | 0 | | 0 | (2,079) | **(16,109)** | 0 |
| Derecognition - Disposals | 4,762 | 12,342 | | | 0 | 2,549 | **19,653** | 0 |
| Derecognition - Other | 2,760 | 53 | 0 | 0 | 0 | 0 | **2,813** | 0 |
| Assets reclassified to held for sale | 150 | 0 | 0 | 0 | 0 | 0 | **150** | 0 |
| Other movements in depreciation and impairment | 66 | 0 | 0 | 0 | 0 | (57) | **9** | 0 |
| **At 31 March 2022** | **(484,609)** | **(37,389)** | **(574,281)** | **(242)** | **0** | **(1,312)** | **(1,097,833)** | **(56,764)** |
| | | | | | | | | |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2022** | **3,388,578** | **37,608** | **937,708** | **16,693** | **127,879** | **12,701** | **4,521,166** | **151,515** |
| **At 31 March 2021** | **3,352,183** | **46,093** | **916,219** | **16,434** | **83,498** | **18,854** | **4,433,280** | **161,140** |

The comparative movements in PPE during 2020/21 were as follows:

| Cost or valuation | Land and Buildings | Vehicles, Plant, Furniture & Equipment | Infrastructure Assets | Community Assets | Assets under construction | Surplus Assets | Total Property, Plant and Equipment | PFI Assets included in Property Plant & Equipment |
|---|---|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 31 March 2020** | **4,006,597** | **96,830** | **1,382,541** | **16,187** | **40,464** | **21,722** | **5,564,341** | **208,279** |
| **Adjustment to opening balance** | **-145,670** | **-9,229** | **-21,036** | | | **164** | **-175,771** | **0** |
| **Revised value as at 31 March 2020** | **3,860,927** | **87,601** | **1,361,505** | **16,187** | **40,464** | **21,886** | **5,388,570** | **208,279** |
| Additions in year | 14,066 | 6,286 | 63,110 | 489 | 65,710 | 12 | **149,673** | 0 |
| Donations | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **0** |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (28,035) | 0 | 0 | 0 | 0 | 546 | **(27,489)** | 0 |
| Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services | (26,953) | 0 | 0 | 0 | 0 | (586) | **(27,539)** | 0 |
| Derecognition - Disposals | (1,034) | (7,309) | | | 0 | (286) | **(8,629)** | 0 |
| Derecognition - Other | (14,935) | (88) | 0 | 0 | 0 | 0 | **(15,023)** | |
| Assets reclassified to held for sale | (300) | 0 | 0 | 0 | 0 | 0 | **(300)** | 0 |
| Other movements in cost or valuation | 13,814 | 0 | 9,417 | 0 | (22,676) | 1,315 | **1,870** | 0 |
| **At 31 March 2021** | **3,817,550** | **86,490** | **1,434,032** | **16,676** | **83,498** | **22,887** | **5,461,132** | **208,279** |
| **Accumulated depreciation and Impairment** | | | | | | | | |
| **At 31 March 2020** | **(593,783)** | **(47,471)** | **(486,008)** | **(242)** | **0** | **(4,093)** | **(1,131,597)** | **(37,514)** |
| Adjustment to opening balance | **145,670** | **9,229** | **21,036** | | | **(164)** | **175,771** | |
| **Revised value as at 31 March 2020** | **(448,113)** | **(38,242)** | **(464,972)** | **(242)** | **0** | **(4,257)** | **(955,826)** | **(37,514)** |
| Depreciation Charge | (94,402) | (9,521) | (52,841) | 0 | 0 | (184) | **(156,948)** | (9,625) |
| Depreciation written out on revaluation | 97,685 | 0 | 0 | 0 | 0 | 36 | **98,489** | 0 |
| Depreciation written out to the Surplus/Deficit on the Provision of Services | 5,839 | 0 | 0 | 0 | 0 | 0 | **5,925** | 0 |
| Impairment losses recognised in the Revaluation Reserve | (15,379) | 0 | 0 | 0 | 0 | 0 | **(15,379)** | 0 |
| Impairment losses recognised in the Surplus/Deficit on the Provision of Services | (12,787) | 0 | 0 | | 0 | | **(12,787)** | 0 |
| Derecognition - Disposals | 212 | 7,302 | | | 0 | 37 | **7,551** | 0 |
| Derecognition - Other | 1,628 | 64 | 0 | 0 | 0 | 0 | **1,692** | 0 |
| Assets reclassified to held for sale | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 |
| Other movements in depreciation and impairment | (50) | 0 | 0 | 0 | 0 | (519) | **(569)** | 0 |
| **At 31 March 2021** | **(465,367)** | **(40,397)** | **(517,813)** | **(242)** | **0** | **(4,033)** | **(1,027,852)** | **(47,139)** |
| **Net Book Value** | | | | | | | | |
| **At 31 March 2021** | **3,352,183** | **46,093** | **916,219** | **16,434** | **83,498** | **18,854** | **4,433,280** | **161,140** |

note i) The adjustment to opening balances relates to a presentation change for assets with a nil Net Book Value and historic capital repairs balances. Both differences relate to the period prior to 2014/15 and have no impact on the NBV of the assets or any other sections of the accounts.

## 19a Capital commitments

Commitments for major contracts entered into up to 31 March 2022 are estimated at £28.2 million (£58.1 million in 2020/21). This includes £18.0 million (£29.6 million in 2020/21) for highways and £9.9 million (£25.6 million in 2020/21) for buildings.

## 20 Investment properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between separate and knowledgeable parties. Further information on asset valuations is included in note 30.
Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The same treatment is applied to gains and losses on disposal.

Material rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The following table summarises the movement in the fair value of investment properties over the year:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 100,831 | Balance at start of the year | 105,147 |
| | Additions: | |
| 0 | - purchases | 0 |
| 0 | - construction | 0 |
| 2 | - subsequent expenditure | 0 |
| (73) | Disposals | (9,180) |
| 5,688 | Net gains/(losses) from fair value adjustments | 49,218 |
| | Transfers: | |
| (1,301) | - (to)/from Property, Plant and Equipment | 117 |
| **105,147** | **Balance at end of the year** | **145,302** |

There are no restrictions on the County Council's ability to realise the value inherent in its investment property or on the County Council's right to the remittance of income and the proceeds of disposal. The County Council has no contractual obligations to purchase, construct or develop investment property or to carry out repairs, maintenance or enhancement.

## 21 Valuation of non-financial assets carried at fair value

### Fair Value Hierarchy

Information about the fair value hierarchy levels for investment and surplus properties are as follows:

| Values at 31 March 2022 | Quoted market price Level 1 £'000 | Using observable inputs Level 2 £'000 | significant unobservable inputs Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Investment Assets | 65 | 141,730 | 3,507 | 145,302 |
| Surplus Assets | | 12,250 | 451 | 12,701 |
| **Total** | **65** | **153,980** | **3,958** | **158,003** |

### Valuation Techniques used to Determine Level 2 and 3 Fair Values

**Significant Observable Inputs - Level 2**
The fair value for the properties within level 2 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions are such that similar properties are actively purchased and sold and the level of observable inputs are significant, leading to the properties being categorised at Level 2 in the fair value hierarchy.

**Significant Unobservable Inputs - Level 3**
The fair value for the properties within level 3 has been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets, but with a level of valuer judgement as the recent sales prices and other relevant information are not as significant as with Level 2. This results in more significant unobservable inputs being used in order to determine the fair value.
The assets are therefore categorised as Level 3 in the fair value hierarchy as the measurement technique uses significant unobservable inputs to determine the fair value measurements (and there is no reasonably available information that indicates that market participants would use different assumptions).

## 22 Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants do not give rise to financial instruments. Financial instruments are recognised in the Balance Sheet when the authority becomes a party to the contractual provisions of the instrument.

### Financial assets

Financial assets are classified into one of three categories dependent on both:

- the reason the authority is holding the asset (e.g. to collect the contractual cash flows until maturity and / or to sell before maturity); and
- the nature of the asset’s contractual cash flows (e.g. just principal and interest or something more complicated).

The classification categories are set out in the following table:

| Reason for holding the asset | Nature of the contractual cash flows | Classification category |
|---|---|---|
| Holding assets in order to collect contractual cashflows | Solely payments of principal and interest | Amortised Cost |
| Holding assets in order to collect contractual cashflows as well as selling the assets | Solely payments of principal and interest | Fair value through other comprehensive income |
| Holding assets that do not fall into either of the above categories | Not solely payments of principal and interest | Fair value through profit and loss |

All financial assets are initially measured at fair value and recognised on the balance sheet. How the financial assets are subsequently measured, and how unrealised gains or losses are shown in the accounts is dependent on what category the asset has been classified as.

| Classification category | Subsequent measurement basis | Presentation of unrealised gains & losses |
|---|---|---|
| Amortised Cost | Amortised Cost | A disclosure note |
| Fair Value through Other Comprehensive Income (FVOCI) | Fair Value | The 'Other comprehensive income' section of the Comprehensive Income & Expenditure Statement (CIES) |
| Fair Value through Profit & Loss (FVPL) | Fair Value | The 'Financing and investment income & expenditure' section of the CIES. |

A financial asset is derecognised from the Balance Sheet when the contractual rights to the cash flows expire, or the financial asset is transferred.

Interest or dividends are credited to the Financing and Investment Income and Expenditure line in the CIES. Dividends are credited when they become receivable by the authority. Interest income is credited based on the amortised cost of the asset multiplied by its effective interest rate.

### Financial liabilities

All financial liabilities are classified as subsequently measured at amortised cost. This means they are initially measured at fair value before subsequently being measured at amortised cost. The amount presented in the Balance Sheet is therefore the outstanding principal repayable (plus accrued interest);

Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. The amount payable each year therefore matches to the loan agreement.

### Impairment of Financial Instruments – Expected Credit Loss (ECL) model

At each reporting date, using reasonable and supportable forward-looking information that is available without undue cost or effort, an authority shall assess whether the risk of default occurring over the life of the financial instrument has increased significantly since it was initially recognised.

The basis of this assessment determines the ECL that is then charged to the ‘Financing and investment income & expenditure’ section of the CIES:

| | |
|---|---|
| Risk of default has increased significantly | ECL equal to the anticipated loss over the lifetime of the financial instrument |
| Risk of default has not increased significantly | ECL equal to the anticipated loss over the next 12 month period |

A simplified approach for calculating the ECL can be used for trade receivables, contract assets and lease receivables that do not contain a significant financing component.

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following categories:

| | Long term | | Current | | |
|---|---|---|---|---|---|
| **Financial assets:** | **31 March 2021 £'000** | **31 March 2022 £'000** | **31 March 2021 £'000** | **31 March 2022 £'000** | *see note* |
| Investments: | | | | | |
| At amortised cost | | | | | |
| - Principal | 76,680 | 37,451 | 184,673 | 429,440 | |
| - Accrued interest | 84 | 256 | 1,120 | 1,047 | |
| - Loss Allowance | (8) | (4) | (15) | (18) | |
| At Fair Value through Other Comprehensive Income (FVOCI) | | | | | |
| - Principal at amortised cost | | | | | |
| - Accrued interest | | | | | |
| - Fair value adjustment | | | | | |
| - Equity investments elected FVOCI | | | | | |
| At Fair Value through profit & loss | | | | | |
| - Fair value | 182,857 | 199,236 | 10,017 | 9,867 | |
| **Total investments** | **259,613** | **236,939** | **195,795** | **440,336** | |
| Cash & cash equivalents: | | | | | |
| - Cash (including bank accounts) | | | (24,341) | (23,632) | |
| - At amortised cost | | | 34,489 | 1,010 | |
| - At Fair Value through Profit & Loss | | | 77,980 | 21,420 | |
| **Total cash and cash equivalents** | | | **88,128** | **(1,202)** | |
| Loans & receivables - Debtors | 26,994 | 20,793 | 77,883 | 123,790 | |
| **Total debtors** | **26,994** | **20,793** | **77,883** | **123,790** | |
| **Total Financial Instrument Assets** | **286,607** | **257,732** | **361,806** | **562,924** | |
| **Financial liabilities at amortised cost:** | | | | | |
| Borrowing | (249,293) | (241,183) | (51,323) | (53,821) | *22d* |
| Developers' contributions | (132,810) | (147,411) | - | - | *22f* |
| Creditors and receipts in advance | - | - | (135,617) | (145,382) | *22g* |
| PFI & finance lease liabilities | (133,080) | (121,391) | (8,392) | (7,669) | *18* |
| **Financial liabilities at amortised cost** | **(515,183)** | **(509,985)** | **(195,332)** | **(206,872)** | |

### 22a Cash and cash equivalents

Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

| 31 March 2021 £'000 | | 31 March 2022 £'000 |
|---|---|---|
| 324 | Cash in hand | 450 |
| 34,489 | Cash equivalents measured at amortised cost | 1,010 |
| 77,980 | Cash equivalents measured at fair value through profit & loss | 21,420 |
| (24,665) | Bank overdraft | (24,082) |
| **88,128** | | **(1,202)** |

### 22b Long-term debtors

| 31 March 2021 £'000 | | 31 March 2021 £'000 |
|---|---|---|
| | **Financial instrument debtors** | |
| 501 | Car loans to staff | 376 |
| 26,493 | Other (principally loans granted by the EM3 Local Enterprise Partnership) | 20,417 |
| **26,994** | | **20,793** |
| | **Non-financial instrument debtors** | |
| 26,757 | Transferred debt | 26,776 |
| 74,222 | Prepayment of employer pension contributions | 0 |
| **127,973** | | **47,569** |

Transferred debt represents amounts of capital advances due to be repaid after statutory transfers of former services to Portsmouth and Southampton Unitary Authorities. These are not financial instruments and are shown at the book value of the amount outstanding.

Prepayments relate to advanced payment of employer pension contributions to the Local Government Pension Scheme (LGPS) permissible within the LGPS Regulations. These pre-payments are classified as non-financial instruments and will be written down in the year to which the contribution relates.

By value, the majority of these loans are for a period of less than five years. Their amortised cost in the Balance Sheet is a reasonable assessment of fair value. All loans are expected to be repaid in full, so a reduction for impairment is not considered necessary.

### 22c Short-term debtors

Debtors are shown net of the expected loss allowance for receivables detailed below.

| 31 March 2021 £'000 | | 31 March 2022 £'000 |
|---|---|---|
| 77,883 | Financial instrument debtors | 123,790 |
| 148,941 | Non-financial instrument debtors | 124,949 |
| **226,824** | **Total debtors and prepayments** | **248,739** |

### 22d Borrowing

The financial liabilities disclosed in the Balance Sheet are analysed across the following categories:

| Long term | | | Short term | |
|---|---|---|---|---|
| 31 March 2021 £'000 | 31 March 2022 £'000 | | 31 March 2021 £'000 | 31 March 2022 £'000 |
| | | Loans at amortised cost: | | |
| (208,000) | (200,000) | -Public Works Loan Board (PWLB) | (10,432) | (9,886) |
| (41,293) | (41,183) | -Market loans | (562) | (553) |
| | | -Other short-term borrowing | (40,329) | (43,382) |
| **(249,293)** | **(241,183)** | | **(51,323)** | **(53,821)** |

### 22e Fair values

#### Fair Value Measurement

The County Council measures some of its assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The County Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

When measuring the fair value of a non-financial asset, the County Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

All financial instruments excluding those classified at amortised cost are carried in the Balance Sheet at fair value. For money market funds and pooled funds, the fair value is taken from the market price.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2020, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.

- The value of "Lender's Option Borrower's Option" (LOBO) loans have been increased by the value of the embedded options. Lenders' options to propose an increase to the interest rate on the loan have been valued according to a proprietary model for Bermudan cancellable swaps. Borrower's contingent options to accept the increased rate or repay the loan have been valued at zero, on the assumption that lenders will only exercise their options when market rates have risen above the contractual loan rate.

- The fair values of finance lease assets and liabilities and of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.

- No early repayment or impairment is recognised for any financial instrument.

- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the following tables, split by their level in the fair value hierarchy.

Level 1 - fair value is only derived from quoted prices in active markets for identical assets or liabilities e.g. bond prices

Level 2 - fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments

Level 3 - fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

| 2020/21 Balance Sheet £'000 | 2020/21 Fair Value £'000 | | Fair Value Level | 2021/22 Balance Sheet £'000 | 2021/22 Fair Value £'000 |
|---|---|---|---|---|---|
| | | **Financial Assets held at fair value:** | | | |
| 77,980 | 77,980 | Money market funds | 1 | 21,420 | 21,420 |
| 116,145 | 116,145 | Equity, bond and multi-asset funds | 1 | 120,780 | 120,780 |
| 76,729 | 76,729 | Property funds - (note i) | 2 | 88,323 | 88,323 |
| 0 | 0 | Corporate & government bonds | 1 | 0 | 0 |
| **270,854** | **270,854** | **Total** | | **230,523** | **230,523** |
| | | **Financial Assets held at amortised cost:** | | | |
| 20,018 | 20,094 | Corporate & government bonds | 1 | 10,018 | 10,036 |
| 1,738 | 2,472 | Long-term company loans | 3 | 14,280 | 16,367 |
| 55,000 | 60,889 | Long-term loans to local authorities & housing associations | 2 | 31,155 | 29,998 |
| **76,756** | **83,455** | **Total** | | **55,453** | **56,401** |
| 300,803 | | Assets for which fair value is not disclosed - (note ii) | | 534,680 | |
| **648,413** | **354,309** | **Total financial instrument assets** | | **820,656** | **286,924** |
| | | | | | |
| | | Recorded on balance sheet as: | | | |
| 259,613 | | Long-term investments | | 236,939 | |
| 26,994 | | Long-term debtors | | 20,793 | |
| 195,795 | | Short-term investments | | 440,336 | |
| 77,883 | | Short-term debtors | | 123,790 | |
| 88,128 | | Cash and cash equivalents | | (1,202) | |
| **648,413** | | **Total financial instrument assets** | | **820,656** | |

note i- Property funds totalling £88.3m have been moved from level 1 to level 2 of the hierarchy for 2021/22.

note ii - The fair value of short-term financial assets including trade receivables is assumed to approximate to the carrying amount.

The fair value of financial assets held at amortised cost is lower than their balance sheet carrying amount because the interest rate on similar investments is now higher than that obtained when the investment was originally made.

| 2020/21 Balance sheet £'000 | 2020/21 Fair Value £'000 | Financial Liabilities | Fair Value Level | 2021/22 Balance sheet £'000 | 2021/22 Fair Value £'000 |
|---|---|---|---|---|---|
| (216,500) | (276,321) | PWLB loans - principal | 2 | (208,000) | (241,349) |
| (1,933) | | PWLB loans - interest | | (1,886) | |
| (41,293) | (54,860) | Market loans - principal | 2 | (41,183) | (49,234) |
| (562) | | Market loans - interest | | (553) | |
| (141,472) | (183,979) | PFI arrangements (deferred liability) | 2 | (129,060) | (174,908) |
| **(401,760)** | **(515,160)** | **Total** | | **(380,682)** | **(465,491)** |
| (308,803) | | Liabilities for which fair value is not disclosed (note i) | | (336,175) | |
| **(710,563)** | | **Total financial instrument liabilities** | | **(716,857)** | |
| | | **Recorded on balance sheet as:** | | | |
| (135,617) | | Short-term creditors | | (145,382) | |
| (51,323) | | Short-term borrowing | | (53,821) | |
| (8,392) | | Deferred liability repayable within one year | | (7,669) | |
| (249,293) | | Long-term borrowing | | (241,183) | |
| (133,080) | | Deferred liabilities | | (121,391) | |
| (132,810) | | Developers' contributions | | (147,411) | |
| **(710,515)** | | **Total financial instrument liabilities** | | **(716,857)** | |

note i - The fair value of short-term financial liabilities including trade payables and developers contributions is assumed to approximate to the carrying amount.

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the authority’s portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

### 22f Developers' contributions

Developers' contributions arise mainly as a result of agreements under Section 106 of the Town and Country Planning Act 1990 and also Section 278 of the Highways Act 1980 if a development derives special benefit from highway works, developers can be required to contribute towards the costs. Before being applied, deposits are credited with interest on the basis of market rates. Therefore, the carrying amount is a reasonable assessment of the fair value of the financial liability

| 2020/21 | | | | 2021/22 | | |
|---|---|---|---|---|---|---|
| Highways £'000 | Other £'000 | Total £'000 | | Highways £'000 | Other £'000 | Total £'000 |
| (89,266) | (36,259) | (125,525) | Balance at 1 April | (96,276) | (36,534) | (132,810) |
| (12,889) | (24,058) | (36,947) | Income | (17,629) | (33,694) | (51,323) |
| 5,879 | 23,783 | 29,662 | Contributions applied | 12,813 | 23,909 | 36,722 |
| **(96,276)** | **(36,534)** | **(132,810)** | **Balance at 31 March** | **(101,092)** | **(46,319)** | **(147,411)** |

### 22g Short-term creditors

Short-term creditors includes deposits, creditors and receipts in advance as detailed below:

| 31 March 2021 £'000 | | 31 March 2022 £'000 |
|---|---|---|
| (135,665) | Financial instrument creditors | (145,382) |
| (79,933) | Non-financial instrument creditors | (39,353) |
| (215,598) | **Total short term creditors** | **(184,735)** |

### 22h Nature and extent of risks arising from financial instruments

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance on Local Authorities, both revised in 2017.

In line with the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. Revenue budget report appendix 10 Treasury Management Strategy

The Strategy sets out the parameters for the management of risks associated with financial instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Investment Strategy in compliance with the Ministry for Housing, Communities and Local Government Guidance on Local

Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

**Credit risk**: The possibility that one party to a financial instrument will fail to meet their contractual obligations, causing a loss to the County Council.

**Liquidity risk**: The possibility that the County Council might not have the cash available to make contracted payments on time.

**Market risk**: The possibility financial loss will materialise because of changes in market variables such as interest rates or equity prices.

### Credit risk

The County Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy

The table below summarises the credit risk exposures of the County Council's investment portfolio by the type of counterparty:

| | **Long term** | | **Short term** | |
|---|---|---|---|---|
| Credit Rating | **31 March 2021 £'000** | **31 March 2022 £'000** | **31 March 2021 £'000** | **31 March 2022 £'000** |
| AAA | 20,018 | 10,018 | 10,669 | 103,908 |
| AA+ | - | - | - | - |
| AA | - | - | - | - |
| AA- | - | | - | 41,019 |
| A+ | - | - | - | 27,055 |
| A | - | - | 69,500 | 55,005 |
| A- | - | - | | |
| AAA Money market funds | - | - | 77,980 | 21,420 |
| Unrated local authorities | 55,000 | 25,000 | 140,095 | 204,486 |
| Unrated companies | 1,738 | 2,685 | 3 | 6 |
| Unrated pooled funds | 182,857 | 199,236 | 10,017 | 9,867 |
| **Total** | **259,613** | **236,939** | **308,264** | **462,766** |

### Invoiced debtors risk

The invoiced debtors have been reviewed by age to determine an appropriate allowance for debts that are likely to be uncollectable. This excludes debts of £9.5 million considered to be low risk as they were either paid in early 2020/21, secured on property or have agreed repayment plans.

An expected loss allowance (ELA) of £13.8 million (£11.7 million in 2020/21) has been calculated.

| Outstanding debt raised in | Outstanding balance due at 31 March 2022 £'000 | Individually assessed impairment £'000 | Collectively assessed impairment £'000 | Total Expected Loss Allowance for receivables £'000 |
|---|---|---|---|---|
| 2021/22 | | 369 | 946 | 1,315 |
| 2020/21 | 28,830 | 1,025 | 1,465 | 2,490 |
| 2019/20 | 7,535 | 337 | 2,679 | 3,016 |
| 2018/19 | 3,590 | 124 | 1,556 | 1,680 |
| 2017/18 and earlier | 9,243 | 964 | 4,358 | 5,322 |
| | **49,198** | **2,819** | **11,004** | **13,823** |

## Liquidity risk

The County Council has ready access to borrowing from the Public Works Loan Board, other local authorities, and from banks and building societies. There is no perceived risk that the County Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it will need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the County Council's borrowing that matures in any one financial year.

The maturity analysis of the principal sums borrowed at 31 March 2022 was as follows:

| Discounted (principal) 31 March 2021 £'000 | Undiscounted (principal plus interest) 31 March 2021 £'000 | | Discounted (principal) 31 March 2022 £'000 | Undiscounted (principal plus interest) 31 March 2022 £'000 |
|---|---|---|---|---|
| (8,610) | (20,612) | Not over one year | (8,110) | (19,578) |
| (8,110) | (19,572) | Between one and two years | (8,080) | (19,217) |
| (27,074) | (59,003) | Between two and five years | (29,003) | (59,468) |
| (55,000) | (97,589) | Between five and 10 years | (59,000) | (98,899) |
| (135,000) | (169,528) | Between 10 and 20 years | (127,000) | (155,556) |
| (24,000) | (26,284) | Between 20 and 40 years | (18,000) | (19,264) |
| | | Over 40 years | | |
| **(257,793)** | **(392,588)** | **Total** | **(249,193)** | **(371,982)** |

## Market risk

### Interest rate risk

The County Council is exposed to risks arising from interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the County Council. For instance a rise in interest rates would have the following effects:

- borrowings at variable rates – the interest rate expense will rise
- borrowings at fixed rates – the fair value of the liabilities will fall
- investments at variable rates – the interest income will rise

- investments as fixed rates – the fair value of the assets will fall

Investments measured at amortised cost and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments measured at fair value will

be reflected in Other Comprehensive Income or the Surplus or Deficit on the Provision of Services as appropriate.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2022, £229 million of principal borrowed was at fixed rates and £20 million at variable rates. The value of the County Councils investments (excluding accrued interest) held at variable rates (including investments with less than one year to maturity) was £657 million at 31 March 2022 and fixed rates was £25 million.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

| **Interest rate risk** | **£'000** |
|---|---|
| Increase in interest payable on variable rate borrowing | 131 |
| Increase in interest receivable on variable rate investments | (3,533) |
| Decrease in fair value of investments held at FVPL | 991 |
| **Impact on (Surplus) or Deficit on the Provision of Services** | **(2,411)** |
| Decrease in fair value of investments held at FVOCI | |
| **Impact on Comprehensive Income and Expenditure** | **(2,411)** |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**Price risk**

The market prices of the County Council's fixed rate bond investments are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The County Council's investment in pooled property funds are subject to the risk of falling commercial property prices and its investment in pooled equity funds are subject to the risk of falling share prices. These risks are limited by the County Council's investment strategy. A fall in commercial property or share prices would result in a charge to the surplus or deficit on the Provision of Services which is then transferred to the Financial Instrument Adjustment Account – this would have no impact on the General Fund until the investment was sold.

### Foreign exchange risk

The County Council has no financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

### 23 Provisions

Provisions are liabilities of uncertain timing or amount. Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the County Council has a present obligation (legal or constructive), and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that payments will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Comprehensive Income and Expenditure Statement.

### Change in provisions

| | note | 31 March 2021 | Use of Provision In Year | Increase or decrease in 2020/21 | | | 31 March 2022 |
|---|---|---|---|---|---|---|---|
| | | | | Central Provision | Service Provision | Taxation Provision | |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Insurance claims | a | (17,128) | 5,489 | 4,095 | (7,016) | 0 | (14,560) |
| Business rates appeals | b | (6,059) | 6,059 | 0 | 0 | 0 | 0 |
| Other | c | (526) | 71 | 0 | (36) | 0 | (491) |
| **Total Provisions** | | **(23,713)** | **11,619** | **4,095** | **(7,052)** | **0** | **(15,051)** |

**a.** The insurance provision represents an assessment of the likely cost of liability claims known to the County Council at 31 March 2022. The risks covered from the provision are as follows:

### Liabilities

Employer’s liability, public liability, product liability and pollution liability – the maximum liability for any one claim being £5 million. The maximum amount for which the provision is liable (the commercial insurance aggregate) is £12.5 million in any one year.

### Property

Reinstatement of buildings for loss or damage as a result of fire, lightning, explosion and (for schools only) major storm and flood. This applies to buildings owned by the Council and those leased to it where the lease allows.

Contents owned by the Council for loss or damage as a result of fire, lightning, explosion and theft.

**Additional cover**

Personal accident scheme
Fidelity guarantee

Schools - balance of perils
Schools – community use

**b.** This is the County Council's share of the provision made by billing authorities for refunding ratepayers who are successful in appealing against the rateable value of their properties on the rating list. This includes amounts relating to non-domestic rates charged to businesses in 2012/13 and earlier financial years.

**c**. This provision covers other liabilities, including that relating to the estimated redundancy costs following agreed service restructuring and estimated restoration costs anticipated at the end of property leases.

### 24 Post-employment benefits

As part of the terms and conditions of employment of its staff, the County Council makes contributions towards the cost of post-employment benefits. These will be paid only when employees retire but in accordance with IAS19 the County Council must account for the commitments at the time that employees earn their future entitlement.

The Council participates in three pension schemes:

a) Pension schemes accounted for as defined contribution schemes:
   - The Teachers Pension Scheme
   - The NHS Pension Scheme
b) The Local Government Pension Scheme (LGPS)

### 24a Pensions Schemes Accounted for as Defined Contribution Schemes

#### Teachers' Pension Scheme

This is a defined benefit scheme administered by the Department for Education (DfE). The scheme provides teachers with specified benefits upon their retirement, and the County Council’s only obligation is to pay contributions towards these costs based on a percentage of member’s pensionable salaries. The scheme is unfunded so the pensions of past employees are paid from current revenues. The DfE uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes, and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Schools line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to Teachers' Pensions in the year.

In 2021/22 total employer's contributions were £72 million representing 23.83% of pensionable pay (£70 million representing 23.86% of pensionable pay in 2020/21).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in note 24c.

**NHS Pension Scheme**

On 1 April 2013, Public Health staff transferred from the NHS to the County Council. These staff have maintained their membership in the NHS Pension Scheme. The Scheme provides these staff with specified benefits upon their retirement and the County Council's only obligation is to pay contributions towards these costs based on a percentage of member's pensionable salaries.
The scheme is an unfunded defined benefit scheme administered by EA Finance NHS Pensions. As such the County Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes and therefore this scheme is accounted for as if it is a defined contribution scheme and no liability for future payment of benefits is recognised in the Balance Sheet.

The Adults' Health and Care line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the NHS Pension Scheme in the year. In 2021/22 total employer's contributions were £0.05 million.

**24b Local Government Pension Scheme**

**Participation in Pension Schemes**

The County Council participates in and administers the Hampshire LGPS. This is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits earned after 31 March 2014 are based on a Career Average Revalued Earnings. Details of the benefits earned over the period covered by this disclosure are set out in 'The Local Government Pension Scheme Regulations 2013' and 'The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014'. This disclosure includes an estimate of the impact of the anticipated changes to scheme regulations that will be made to remove age discrimination as a result of the McCloud and Sargeant legal cases.

The funded nature of the LGPS requires that Hampshire County Council and employees pay contributions into the Fund, calculated at a level intended to balance the Fund's liabilities with its investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement.

The LGPS is accounted for as a defined benefits scheme where:

- The liabilities of the scheme attributable to the County Council are included in the Balance Sheet on an actuarial basis using the projected unit method (i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees).

- Liabilities are discounted to their value at current prices using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.

- The assets of the pension fund attributable to the County Council are included in the Balance Sheet at their fair value: for quoted securities this means the current bid price; for unquoted securities this is based on a professional estimate; for unitised securities this means the current bid price; for property this means an estimate of the market value.

As at March 2021, Pension Fund assets and liabilities have been included in the Balance Sheet based on a formal actuarial valuation at 31 March 2019. As part of the 2019 valuation, employer contribution rates were set for a three year period.

Statutory provisions limit the County Council to raising council tax to cover the actual amounts payable by the County Council to the pension fund in the year. In the Movement in Reserves Statement an appropriation is made between the General Fund and the Pension Fund Reserve to remove the notional debits and credits for retirement benefits included in the Comprehensive Income and Expenditure Statement and replace them with debits for the actual amounts paid to the pension fund and any amounts due to the fund but unpaid at the year-end.

**Discretionary benefits**
The County Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. These are not funded by the assets of the Pension Fund but by the County Council when they are paid. Any liabilities estimated to arise as a result of a discretionary award are accrued for in the year of the decision to make the award and accounted for using the same policies as are applied to the LGPS.

### 24c Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is required to be made against council tax is based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The change in the net pension liability is analysed into the following components:

- **Current service cost:** this is the increase in liabilities resulting from employee service in the current period. This is shown as a cost in the Comprehensive Income and Expenditure Statement for the service where the employee worked.
- **Past service cost:** this is the increase in liabilities arising from current year decisions whose effect relates to the number of years of service earned in earlier years. This is shown in other costs in the Comprehensive Income and Expenditure Statement.
- **Gains/losses on settlements and curtailments:** this is the result of members of the scheme leaving, joining or stopping their contributions to the scheme. These actions relieve the County Council of liabilities or reduce the expected future service or accrual of benefits of employees. This is shown in other costs in the Comprehensive Income and Expenditure Statement
- **Net interest on the net defined benefit liability:** this is the change during the period in the net defined benefit liability that arises from the passage of time. This is charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement.
- **Re-measurement comprising:**
  **1. The return on assets -** excluding amounts included in net interest on the net defined benefit liability – charged as Other Comprehensive Income and Expenditure.
  **2. Actuarial gains and losses:** these are changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are shown as other income and expenditure within the Comprehensive Income and Expenditure Statement.
- **Contributions paid to the Hampshire County Council pension fund:** these are amounts paid as employer contributions to the pension fund and are not included within the cost of services.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| | **Included in the Comprehensive Income and Expenditure Statement:** | |
| | *Cost of Services* | |
| 165,850 | Current service cost of funded LGPS pensions | 239,153 |
| 2,333 | Past service cost of funded LGPS pensions | 1,401 |
| | Charge to non-distributed costs for early retirement in the year | |
| 0 | Settlement costs | 0 |
| 0 | Net increase in liabilities from acquisitions | 0 |
| | *Financing and Investment Income and Expenditure* | |
| 33,587 | Interest on net defined liability | 37,784 |
| **201,770** | **Total post employment benefits charges to the surplus/deficit on the provision of services** | **278,338** |
| | **Remeasurements in Other Comprehensive Income:** | |
| (595,597) | Return on plan assets (excluding that recognised in net interest) | (166,956) |
| | Actuarial (gains)/losses arising:- | |
| 869,108 | Actuarial (gains) / losses due to change in financial assumptions | (334,331) |
| 0 | Actuarial (gains) / losses due to change in demographic assumptions | (50,938) |
| (49,951) | Actuarial (gains) / losses due to liability experience | 16,407 |
| **223,560** | **Total amount recognised in Other Comprehensive Income and Expenditure** | **(535,818)** |
| **425,330** | Total post employment benefits charges to the Comprehensive Income and Expenditure Statement | **(257,480)** |

| | | |
|---|---|---|
| | *Movement in reserves statement* | |
| (201,770) | Reversal of net changes made to the surplus/deficit for the provision of services for post employment benefits in accordance with IAS19 | (278,338) |
| | *Actual amount charged against the General Fund Balance for pensions in the year* | |
| 79,795 | Employer's contributions payable to the fund | 82,092 |
| | Added years and early retirement cash flows in the year: | |
| 1,812 | - LGPS | 1,747 |
| 2,548 | - Teachers | 2,462 |
| **84,155** | Charge on General Fund | **86,301** |

## 24d Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| Period ended 31 March 2022 | LGPS funded £'000 | LGPS Unfunded £'000 | Teachers' Unfunded £'000 | Total £'000 |
|---|---|---|---|---|
| **Opening present value of liabilities** | (5,064,644) | (22,142) | (31,537) | **(5,118,323)** |
| Current service cost | (239,153) | 0 | 0 | **(239,153)** |
| Interest expense on defined benefit obligation | (105,448) | (447) | (637) | **(106,532)** |
| Contributions by participants | (24,976) | 0 | 0 | **(24,976)** |
| Actuarial gains/(losses) on liabilities: | | | | |
| - financial assumptions | 333,214 | 483 | 634 | **334,331** |
| - demographic assumptions | 50,041 | 357 | 540 | **50,938** |
| - liability experience | (16,210) | (81) | (116) | **(16,407)** |
| Net benefits paid out (note i) | 113,132 | 1,747 | 2,462 | **117,341** |
| Past service cost | (1,401) | 0 | 0 | **(1,401)** |
| Net increase in liabilities from acquisitions | 0 | 0 | 0 | **0** |
| **Closing present value of liabilities** | (4,955,445) | (20,083) | (28,654) | **(5,004,182)** |

| Period ended 31 March 2021 | LGPS funded £'000 | LGPS Unfunded £'000 | Teachers' Unfunded £'000 | Total £'000 |
|---|---|---|---|---|
| **Opening present value of liabilities** | (4,061,501) | (22,253) | (31,823) | **(4,115,577)** |
| Current service cost | (165,850) | 0 | 0 | **(165,850)** |
| Interest expense on defined benefit obligation | (92,607) | (491) | (703) | **(93,801)** |
| Contributions by participants | (28,988) | 0 | 0 | **(28,988)** |
| Actuarial gains/(losses) on liabilities: | | | | |
| - financial asssumptions | (865,589) | (1,518) | (2,000) | **(869,107)** |
| - demographic assumptions | 0 | 0 | 0 | **0** |
| - liability experience | 49,202 | 308 | 441 | **49,951** |
| Net benefits paid out (note i) | 103,022 | 1,812 | 2,548 | **107,382** |
| Past service cost | (2,333) | 0 | 0 | **(2,333)** |
| Net increase in liabilities from acquisitions | 0 | 0 | 0 | **0** |
| **Closing present value of liabilities** | (5,064,644) | (22,142) | (31,537) | **(5,118,323)** |

### 24e Reconciliation of the Movements in the Fair Value of Scheme Assets

| 31 March 2021 £'000 | | 31 March 2022 £'000 |
|---|---|---|
| **2,614,465** | **Opening fair value of assets** | **3,276,037** |
| 60,214 | Interest income on assets | 68,748 |
| 595,597 | Remeasurement gains/(losses) on assets | 166,956 |
| 84,155 | Contributions by employer | 86,301 |
| 28,988 | Contributions by participants | 24,976 |
| (107,382) | Net benefits paid out (note i) | (117,341) |
| **3,276,037** | **Closing fair value of assets** | **3,505,677** |

note i - Consists of net cash flow out of the Fund in respect of the employer, excluding contributions and any death-in-service lump sums paid, and including an approximate allowance for the expected cost of death-in-service lump sums.

### 24f Pensions Assets and Liabilities Recognised in the Balance Sheet

The share of the assets and liabilities of the Hampshire LGPS attributable to the County Council has been assessed by the Pension Fund's actuary, along with the unfunded benefits of LGPS members and teachers. The actuary estimated that the following overall assets and liabilities for pension costs should be included in the balance sheet.

| 31 March 2021 £'000 | | 31 March 2022 £'000 |
|---|---|---|
| | Present value of the defined benefit obligation: | |
| (5,064,644) | LGPS funded | (4,955,445) |
| | Unfunded Liabilities: | |
| (22,142) | LGPS | (20,083) |
| (31,537) | Teachers | (28,654) |
| **(5,118,323)** | | **(5,004,182)** |
| | | |
| 3,276,037 | Fair value of assets in the scheme | 3,505,677 |
| **(1,842,286)** | **Net liability arising from defined benefit obligation** | **(1,498,505)** |

The liabilities show the underlying long-term commitments that the authority has to pay post employment (retirement) benefits. The net deficit reduces the net worth of the authority as recorded on the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy:

- the deficit will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the Fund's actuary.
- finance is only required to be raised to cover discretionary (unfunded) benefits when the pensions are actually paid.

The proportion of assets by category is shown below:

| 31 March 2021 % | | 31 March 2022 Quoted % | 31 March 2022 Unquoted % | 31 March 2022 Total % |
|---|---|---|---|---|
| 57.0 | Equities | 44.7 | 11.0 | 55.7 |
| 17.3 | Government bonds | 18.0 | 0.0 | 18.0 |
| 6.1 | Property | 0.9 | 6.0 | 6.9 |
| 0.0 | Corporate bonds | 0.0 | 0.0 | 0.0 |
| 0.0 | Multi Asset Credit | 9.2 | 0.0 | 9.2 |
| 1.4 | Cash | 0.9 | 0.0 | 0.9 |
| 18.2 | Other (hedge funds, currency holdings, futures, private equities) | 5.8 | 3.5 | 9.3 |
| **100.0** | | **79.5** | **20.5** | **100.0** |

## 24g Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using an estimate of the pensions that will be payable in future years, dependent on assumptions about mortality rates, salary levels etc.

The significant assumptions used by the actuary have been:

| 31 March 2021 | | 31 March 2022 |
|---|---|---|
| 2.7% | Rate of Inflation (CPI) | 3.0% |
| 3.7% | Rate of increase in salaries | 4.0% |
| 2.7% | Rate of increase in pensions | 3.0% |
| 2.1% | Rate for discounting scheme liabilities | 2.7% |
| | | |
| | Longevity at 65 for current Pensioners (years): | |
| 23.1 | Men (LGPS) | 22.9 |
| 25.5 | Women (LGPS) | 25.4 |
| | | |
| | Longevity at 65 for future Pensioners (years): | |
| 24.8 | Men (LGPS) | 24.7 |
| 27.3 | Women (LGPS) | 27.1 |

Each member is assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

### Sensitivity analysis of financial assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the preceding table. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all other assumptions remain constant. For example, the assumptions around longevity assume that life expectancy increases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous method. A sensitivity analysis has not been undertaken on unfunded benefits as it is not material.

### Impact on the present value of the defined benefit obligation at 31 March 2022 from changes in assumptions

| | Increase in assumption | | Decrease in assumption | |
|---|---|---|---|---|
| | £'000 | % | £'000 | % |
| Discount rate (increase / decrease 0.1% per annum) | (104,064) | -2.1 | 104,064 | 2.1 |
| Salary increase rate (increase / decrease 0.1% per annum) | 9,911 | 0.2 | (9,911) | -0.2 |
| Pension increase rate (increase / decrease 0.1% per annum) | 94,153 | 1.9 | (94,153) | -1.9 |
| Longevity (increase / decrease by 1 year) | 168,485 | 3.4 | (168,485) | -3.4 |

### Impact on the County Council's Cash Flows

The objectives of the scheme are to keep employers' contribution rates as stable as possible. The aim is to achieve a funding level of 100% over a period of 19 years from 1 April 2017. Funding levels are monitored on an annual basis. The latest triennial valuation was completed on 31 March 2019, and is reflected in the 2019/20 financial statements.

From 1 April 2014 the scheme became a career average revalued earnings scheme following changes introduced in the Public Pensions Services Act 2013. Prior to this the scheme was based on a member's final salary and length of pensionable service. More information on the nature of the scheme can be found in the Pension Fund Accounts.

The total regular and fixed contributions expected to be made to the Hampshire LGPS by the County Council in the year to 31 March 2022 is £88.4 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period.

The weighted average duration of the defined benefit obligation for scheme members is 21.1 years (21.1 years in 2020/21).

## 25 Contingent Liabilities

A contingent liability arises where an event has taken place that gives the County Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that payments will be required, or the amount of the payment cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but are disclosed below.

The County Council self-insures and therefore funds its own liability claims. The liabilities are uncertain but to cover them a provision is maintained for known liability claims, assessed at £14.56 million at 31 March 2022 (see note 23) and a reserve earmarked for potential future claims, £43.68 million at 31 March 2022 (see note 4i).

The County Council has received claims under part 1 of the Land Compensation Act 1973 relating to the highway alterations in Havant and Fareham. It is unlikely that these claims will be resolved in the near future, so it is not possible to quantify reliably the potential liability associated with them.

## 26 Events after the Reporting Period

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 27 July 2022. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

A written statement by the Ministry for Housing, Communities and Local Government was published on 13 May 2021 confirming the key changes to the Local Government Pension Scheme regulations that will be made to remove age discrimination. This follows the Court of Appeal ruling in December 2018 in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement when the scheme changed on 1 April 2014, is age discrimination. The precise financial impact of the remedy announced in May remains difficult to determine but will potentially impact contributions to the Pension Fund. Draft regulations are expected to be published later this year.

## 27 Cash Flow Statements

In the Cash Flow Statements, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the County Council’s cash management.

Cash is represented by cash in hand in the County Council’s main bank account, in schools’ local bank accounts and in petty cash accounts held for minor day-to-day expenses by service units, including schools, across the whole county.

Cash equivalents are investments that are readily convertible the same day to known amounts of cash with insignificant risk of change in value.

### 27a Cash flow statement - operating activities

The cash flows for operating activities include the following items:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 20,814 | Interest paid | 17,330 |
| (14,738) | Interest received | (14,062) |
| | Dividends received | |
| **6,076** | | **3,268** |
| | Adjustments to net surplus or deficit on the provision of services | |
| (156,948) | Depreciation | (158,363) |
| (34,400) | Impairments and downward revaluations | (39,470) |
| (2,619) | (Increase)/decrease in expected credit losses | (1,619) |
| (17,913) | (Increase)/decrease in creditors | 27,935 |
| 158,178 | Increase/(decrease) in debtors | (61,763) |
| 543 | Increase/(decrease) in inventory | (313) |
| (117,615) | Pension Liability | (192,037) |
| (1,439) | Carrying amount of non-current assets sold | (18,308) |
| (13,331) | Carrying amount of assets transferred to academy / foundation Trust schools | (9,336) |
| (3,424) | Adjustment for provisions | 8,662 |
| 24,142 | Movement in the value of investment properties and financial assets | 65,447 |
| 0 | Adjustment to interest charges arising from the PFI model | 5,244 |
| (3) | Property, plant & equipment (PPE) written off as revenue (REFCUS) | 0 |
| **(164,829)** | **Non-cash movement** | **(373,921)** |

The following table adjusted for items included in the net surplus or deficit on the provision of services that are investing and financing activities:

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| 3,866 | Proceeds from the sale of PPE etc | 12,203 |
| 125,481 | Capital grants and contributions | 182,469 |
| **129,347** | **Investing/financing cash flows** | **194,672** |

### 27b Cash Flow Statement - investing activities

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| | **Cash outflows** | |
| 110,261 | Purchase of property, plant and equipment | 222,885 |
| 323,797 | Purchase of short-term and long-term investments | 929,500 |
| 0 | Other expenditure | 0 |
| | | |
| | **Cash inflows** | |
| (3,269) | Proceeds from the sale of property, plant and equipment | (12,599) |
| (250,144) | Proceeds from the sale of short-term and long-term investments | (723,985) |
| (150,049) | Capital grants | (184,367) |
| (2,901) | Other income | (5,299) |
| **27,695** | **Net cash outflow from investing activities** | **226,135** |

### 27c Cash Flow Statement - financing activities

| 2020/21 £'000 | | 2021/22 £'000 |
|---|---|---|
| | **Cash outflows** | |
| 7,962 | Cash payments for the reduction of the outstanding liabilities relating to PFIs | 7,168 |
| 0 | Other payments for financing activities | 0 |
| | | |
| | **Cash inflows** | |
| (18,947) | Cash receipts of short- and long-term borrowing | (8,252) |
| (357) | Other receipts from financing activities | 19 |
| **14,143** | **Net cash outflow from financing activities** | **12,743** |

## 28 Accounting Policies and critical judgements in applying accounting policies

### General principles

The Statement of Accounts summarises the County Council's transactions for the 2021/22 financial year and its position at the year-end of 31 March 2022. The County Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These require the accounts to be prepared in accordance with proper accounting practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

### 28.1 Going concern basis of preparation

Local authorities cannot be created or dissolved without statutory prescription, therefore within CIPFA's Accounting Code of Practice there is a presumption that the Council's accounts will be prepared on a going concern basis for as long as a local authority's services will continue to operate. Notwithstanding the statutory basis for going concern, the Chief Financial Officer has separately assessed the underlying financial sustainability of the organisation and this is outlined below.

### Financial sustainability

The Chief Financial Officer has a statutory obligation to keep the financial position of Hampshire County Council under review and to ensure that budgets set are realistic and deliverable, and that reserves are adequate. The County Council regularly reviews and updates its Medium-Term Financial Strategy, incorporating known factors that will have a positive or negative impact upon its financial strategy and making realistic assumptions to allow for the inevitable risk and uncertainty that accompanies any financial forecast. This is underpinned by the County Council's well established reserves policy and approach to identifying and delivering required savings from the budget, with regular monitoring through monthly financial resilience reporting. The medium-term strategy and current assumptions on funding, priorities and pressures informs the annual budget setting process, with outcomes monitored throughout each financial year taking a risk based approach with the escalation of issues through senior officers and elected members as appropriate.

At the end of 2021/22 reserves stood at £883m of which 2.7% comprised the General Fund balance with a further 5.7% held in the insurance and investment risk reserves. The County Council's significant reserves balance ensures that it can conduct its Treasury Management activity to make sure sufficient cash is available to meet its operational obligations whilst also taking a longer-term view to investments where appropriate, enabling greater returns to be made in support of the revenue budget, whilst also adhering to the CIPFA Treasury Management Code in prioritising the security of its investment balances.

The County Council's financial forecast for 2022/23 has been reviewed alongside assumptions for 2023/24 and a prudent profile of cashflows to support the Chief Financial Officer in assessing and confirming the County Council's financial sustainability to March 2023. The reserves balance coupled with the anticipated timing of cash flows and the liquidity profile of its investments means that that County Council can meet its operational obligations over the period, with the option to sell longer-term investments and make use of its borrowing headroom as a short-term solution to any unforeseen liquidity pressures, although this would have an impact on the longer-term financial sustainability of the County Council.

### Accounting Policies

### 28.2 Accruals of income and expenditure

Sums due to, or from, the County Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year – that is, on an accruals basis. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the County Council provides the relevant goods or services
- Supplies and services expenditure is recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as stock in the Balance Sheet
- Employee benefits, including pension benefits are accounted for as they are earned
- Interest payable and receivable on borrowing and lending is accounted for on the basis of an effective interest rate calculated for the relevant financial instrument rather than the actual cash paid or received in accordance with the contract.

However, there are some exceptions, as follows:

- Payments to casual staff and overtime are accounted for with the basic pay with which they are paid.
- Electricity and other utility companies' quarterly payments are accounted for at the date of meter reading rather than being shared between financial years.
- Pension Fund income includes dividends declared in the income tax year.

The above exceptions apply every year, so they do not have a material effect on the year's accounts.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Amounts below £10,000 are not routinely accrued at year end even if they meet the other conditions. This is because they are not material in the scale of the County Council's overall income and expenditure. Where items of income or expenditure fall below this amount, they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £10,000 threshold may be aggregated if they could be said to have a similar material effect upon the reporting of a particular type of income, expenditure or cost centre.

### 28.3 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may result from a change in accounting policies or to correct a material error.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the County Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.
Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

### 28.4 Stock and long-term contracts

Stocks held in the balance sheet are valued according to their differing nature and purpose. This does not accord with the International Accounting Standard 2 which requires stock to be valued at the lower of the original purchase price and current value but the differences in the valuations are not material. For example, County Supplies stock is valued at the latest buying price, while other stock is mainly on an historical cost basis. Spending on consumable items is accounted for in the year of purchase.

Long-term contracts are accounted for on the basis of charging services with the value of works and services received under the contract during the financial year. The cost of capital schemes that are in progress at the date of the balance sheet are included as assets under construction within Property, Plant and Equipment.

### 28.5 Contingent assets

A contingent asset arises where an event has taken place that gives the County Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the County Council.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 28.6 VAT

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

### 28.7 Transferred functions

The County Council has transferred to a charitable company, the operational responsibility for its Arts and Museums service with effect from 1 November 2014. The County Council retains ownership of the collections and the land and buildings occupied by the service and makes an annual revenue grant towards the running costs of the service.

## Critical judgements in applying accounting principles

In applying its accounting policies, the County Council has had to make certain judgements about complex transactions or those involving uncertainty about future events as set out in notes 28.8 to 28.13.

### 28.8 Asset classifications

The County Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment (PPE). The classification determines the valuation and depreciation method to be used. These judgements are based on the main reason that the County Council is holding the asset. Further details can be found in the PPE and Investment Property notes.

### 28.9 Lease classifications

The County Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. For the purposes of lease classifications, a de minimis level is used of £500,000.

As a result, no material finance leases have been identified. In addition, judgements have been made on whether any contracts for services include embedded leases. None have been identified.

### 28.10 Providing for potential liabilities

The County Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. This includes appeals against the rateable value of business properties and legal claims that could eventually result in the payment of compensation or other settlement. The judgements are based on the degree of certainty around the results of pending cases based on experience in previous years or in other local authorities.

### 28.11 Production of group accounts

In accordance with the Code of Practice the County Council has carried out an assessment of its interests in other entities to determine the nature of any group relationships that exist. This includes an assessment of the extent of the County Council's control over the entity considered either through ownership (such as shareholding) or representation on an entity's board of directors. The main interests held by the County Council in other entities are detailed in the Collaborative Arrangements and Group

Accounts section of this statement of accounts. However, none are considered material and thus the production of group accounts is not required.

### 28.12 Reportable segments

The service analysis within the Comprehensive Income and Expenditure Statement and the segmental analysis within the Expenditure and Funding Analysis is based on the County Council's internal management reporting as set out in the budget report. The majority of spend is controlled by departmental directors, with central control of capital financing, contingencies and specific grant income.

## 29 Uncertainties relating to assumptions and estimates used

There are two significant items on the County Council's Balance Sheet at 31 March 2022 for which there is a risk of adjustment in the forthcoming financial year owing to uncertain economic and political events. These are the estimated values for the pension liability and property, plant and equipment (PPE). However, variations in these values do not impact the usable reserves of the County Council.

Estimation of the net liability to pay pensions depends on a number of complex assumptions related to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates, expected returns on pension fund assets and the actual remedy agreed for transition provisions. The County Council engages a firm of consulting actuaries to provide expert advice on the assumptions to be applied. The effects of changes in individual assumptions on the pension liability can be measured and a sensitivity analysis is provided in note 24g.

The County Council commissions a 5 year rolling programme of PPE and Investment Property valuations, unless events indicate that a valuation is required ahead of the next planned valuations. Valuations are undertaken by qualified valuers within Hampshire County Council's Property department in accordance with the Royal Institute of Chartered Surveyors (RICS) professional standards using recognised measurement techniques. These take account of current trends in building costs, local planning policies and other relevant factors. For assets not included in the current year's valuation programme, the change in value is estimated using Building Cost Information Services (BCIS) indices. However, because valuations cannot be determined with complete certainty, actual results could be different from the assumptions and estimates. A 1% change in valuations equates to £34m.

## 30 Accounting standards issued not yet adopted

The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

The additional disclosures that will be required in the 2022/23 financial statements in respect of accounting changes introduced in the 2022/23 Code are:

- Property, Plant and Equipment (PPE): Proceeds before Intended Use (Amendments to IAS 16)
  - This amendment prohibits organisations deducting from the cost of PPE the proceeds of items produced using that PPE before it was fully operational as intended. This accounting standard is aimed at manufacturing, so as our focus is on providing public services we do not expect it to have any impact on our accounts.

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes the following changed standards:

  - IFRS 1 (First-time adoption)
    - This amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS. We do not expect this to have any impact on us as we have no plans to acquire subsidiaries with foreign operations.

  - IAS 37 (Onerous contracts)
    - The change clarifies what should be classified as an onerous cost. We do not have any onerous contracts so do not expect this to have any impact on us.

  - IAS 41 (Agriculture)
    - This accounting standard relates to farming and how biological assets (plants and animals) should be valued when they are harvested. The Council owns a number of farms but almost all of them are let out to tenants. As the Council does not own the animals and plants on tenanted farms this change has no impact on the Council's accounts for these farms. The Council does own and run some small farms as visitor attractions in country parks, such as Manor Farm and Staunton. However, the value of their biological assets is not material enough to affect the Council's accounts.

The Code only requires items to be mentioned here which will be adopted in 2022/23. However, it is also useful to note that the adoption of IFRS 16 (which is about accounting for leases) has been delayed again and we are currently planning to adopt it in 2024/25.

## Pension Fund Accounts

| Fund Account | See note | 2020/21 £'000 | 2021/22 £'000 |
|---|---|---|---|
| **Dealings with members, employers and others directly involved in the Fund** | | | |
| Contributions | 7 | 497,238 | 199,267 |
| Transfers in from other pension funds | | 13,748 | 16,178 |
| | | **510,986** | **215,445** |
| Benefits | 8 | (270,665) | (285,525) |
| Payments to and on account of leavers | | (14,630) | (18,758) |
| | | **(285,295)** | **(304,283)** |
| **Net additions from dealings with members** | | **225,691** | **(88,838)** |
| Management expenses | 9 | **(53,871)** | **(63,956)** |
| Net additions inc. fund management expenses | | 171,820 | (152,794) |
| **Returns on investments** | | | |
| Investment income | 10 | 102,410 | 106,521 |
| Taxes on income | | (350) | 176 |
| Profits and losses on disposal of investments and changes in the market value of investments | 11a | 1,888,455 | 600,156 |
| **Net return on investments** | | **1,990,515** | **706,853** |
| **Net increase in the net assets available for benefits during the year** | | **2,162,335** | **554,059** |
| Opening net assets of the scheme | | 6,910,480 | 9,072,815 |
| Closing net assets of the scheme | | 9,072,815 | 9,626,874 |

| Net Assets Statement for the year ending 31 March 2022 | See note | 31 March 2021 £'000 | 31 March 2022 £'000 |
|---|---|---|---|
| Investment assets | | 8,938,561 | 9,508,612 |
| Cash deposits | | 26 | 27 |
| Investment liabilities | | 0 | (40) |
| **Total net investments** | **11** | **8,938,587** | **9,508,599** |
| Current assets | 18 | 140,155 | 125,033 |
| Current liabilities | 19 | (5,927) | (6,758) |
| **Net assets of the Fund available to fund benefits at the period end** | | **9,072,815** | **9,626,874** |

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17.

## Notes to the Pension Fund accounts

### 1. Description of Fund

The Hampshire Pension Fund (the 'Fund') is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the Scheme.

#### a) General

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:
- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended).

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Hampshire Pension Fund Panel and Board, which is a committee of Hampshire County Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hampshire Pension Fund include:
- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar

bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 350 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

| Hampshire Pension Fund | 31 March 2021 | 31 March 2022 |
|---|---|---|
| Number of employers with active members | 337 | 350 |
| **Number of employees in Scheme** | | |
| County Council | 27,234 | 28,049 |
| Other employers | 31,766 | 32,995 |
| **Total** | **59,000** | **61,044** |
| **Number of pensioners** | | |
| County Council | 19,813 | 20,949 |
| Other employers | 25,763 | 27,087 |
| **Total** | **45,576** | **48,036** |
| **Deferred pensioners** | | |
| County Council | 39,019 | 40,914 |
| Other employers | 39,815 | 41,432 |
| **Total** | **78,834** | **82,346** |
| **Total members in the Pension Fund** | **183,410** | **191,426** |

## c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay in the Main Section, and 2.75% to 6.25% of pensionable pay in the 50/50 Section, for the financial year ending 31 March 2021. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2019. Employer contribution rates for most employers were a range from 16.7% to 25.2% of pensionable pay. A small number of employers also pay a past service deficit contribution.

## d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Hampshire Pension Fund's website: https://www.hants.gov.uk/hampshire-services/pensions

## 2. Basis of preparation

The Statement of Accounts summarises the Fund’s transactions for the 2021/22 financial year and its position at year end at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The Code only requires items to be mentioned here which will be adopted in 2022/23. However, it is also useful to note that the adoption of IFRS 16 (which is about accounting for leases) has been delayed again and adoption is planned in 2024/25. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 17.

The vast majority of employers in the pension scheme (91% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet is ongoing obligations to pay pensions from its cash balance for at least 12 months from the date of signing the accounts. In the event that investments need to be sold 78% of the Fund’s investments can be converted into cash within 3 months.

## 3. Summary of significant accounting policies

### Fund Account – revenue recognition

### a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate. As set out in the Fund Actuary's Rates and Adjustment certificate, certain employers can pay the primary and/or secondary contributions for the 3 years of the valuation period.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

### b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received/paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

### c) Investment income

i) Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Rental income from operating leases on properties owned by the Fund is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

## Fund Account – expense items

### d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing that the payment has been approved.

### e) Management expenses

The Fund discloses its management expenses in line with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs* (2016), as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows.

**Administrative expenses**

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses to the Fund.

**Oversight and governance costs**

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

**Investment management expenses**

Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the income receivable.

Investment fees of the external investment managers and custodian are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Where an investment manager’s fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2021/22 £2.3 million of fees is based on such estimates (2020/21 £3.4 million).

### f) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

## Net Assets Statement

### g) Financial assets

All investment assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 11a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### h) Freehold and leasehold properties

Properties are valued annually as at the year-end date by an independent external valuer, Mark White, BSc MRICS of Colliers International, on a fair value basis in accordance with the *Royal Institute of Chartered Surveyors' Valuation – Current Global Standards*; see Note 13 for more details.

### i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

## j) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 12).

## k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. All cash balances are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

## l) Financial liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year

## m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

## n) Additional voluntary contributions

The fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Utmost, but only by legacy contributors (closed to new members).

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds)

Regulations 2016 but are disclosed as a note only (see Note 20).

**o) Contingent assets and contingent liabilities**

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events. A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

## 4. Critical judgements in applying accounting policies

### Unquoted alternative investments

It is important to recognise the subjective nature of determining the fair value of alternative investments: private equity, infrastructure and private debt. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by the *International Private Equity and Venture Capital Valuation Guidelines*. The value of unquoted private equity investments was £598 million and infrastructure investments was £470 million at 31 March 2022 (£443 million and £269 million respectively at 31 March 2021). There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. The value of unquoted private debt investments at 31 March 2022 was £340 million (£220 million at 31 March 2021).

### Pension fund liability

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.

### Directly held property

The Fund's property portfolio includes a number of directly owned properties, which are leased commercially to various tenants with rental periods from less than a month to 116 years (based on current leases). The Fund has determined that these contracts all constitute operating lease arrangements under the classification permitted by IAS7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

### Wholly owned companies

The Pension Fund's investments include two companies that it owns that have been specifically created to hold the Pension Fund's investments. These companies have no other purpose and therefore the value of the companies is equal to value of the investments.

The Pension Fund accounts for these investments according to the types of investments held by the companies, in line with the rest of the Pension Fund's accounting and reporting.

**5. Assumptions made about the future and other major sources of estimation uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year end date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2022 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **Actuarial present value of promised retirement benefits (Note 17)** | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. | The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £1,023 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £47 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £372 million. |
| **Alternative** | Private equity investments are | The total private equity |

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| **investments - Private equity (Note 13)** | valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | investments in the financial statements are £598 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£60m) |
| **Alternative investments - Infrastructure (Note 13)** | Infrastructure investments are valued at fair value in accordance with the *International Private Equity Venture Capital Valuation Guidelines*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total infrastructure investments in the financial statements are £470 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£47m) |
| **Alternative investments - Private debt (Note 13)** | There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as *Duff & Phelps*. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. | The total private debt investments in the financial statements are £340 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£17m) |

## 6. Events after the reporting date

Following the Pension Fund's reporting date the war in Ukraine following Russia's invasion has continued. Whilst this has tragic humanitarian and significant political consequences, the financial impact on the Pension Fund has been negligible. Prior to the war the Pension Fund had £9m of investments in Russian companies. Following the outbreak of war and the suspension of trading on the Russian stock market it was not possible to sell any of these investments and they have been written down to zero in the Pension Fund's accounts.

## 7. Contributions receivable

| By category | | |
|---|---|---|
| | 2020/21 | 2021/22 |
| | £'000 | £'000 |
| | | |
| Employees' contributions | 73,431 | 77,554 |
| | | |
| Employers' contributions | | |
| Normal contributions | 413,577 | 116,347 |
| Deficit recovery contributions | 10,230 | 5,366 |
| Total employers' contributions | 423,807 | 121,713 |
| | | |
| **Total contributions receivable** | **497,238** | **199,267** |

| By type of employer | | |
|---|---|---|
| | 2020/21 | 2021/22 |
| | £'000 | £'000 |
| | | |
| Administering authority | 262,158 | 38,812 |
| Scheduled bodies | 222,631 | 146,326 |
| Admitted bodies | 12,449 | 14,129 |
| | | |
| **Total** | **497,238** | **199,267** |
| | | |
| | | |
| | | |

Employers contributions reduced in 2021/22 as a number of employers in the Fund choose to pre-pay their contributions for the 2020/21 to 2022/23 actuarial period in 2020/21, as set out in the Fund Actuary's Rates and Adjustments Certificate in the 2019 Actuarial Valuation report 2019-valuationreport.pdf (hants.gov.uk).

## 8. Benefits payable

| By category | | |
|---|---|---|
| | 2020/21 | 2021/22 |
| | £'000 | £'000 |
| | | |
| Pensions | 229,754 | 236,663 |
| Commutation and lump sum retirement benefits | 35,498 | 42,862 |
| Lump sum death benefits | 5,413 | 6,000 |
| | | |
| **Total** | **270,665** | **285,525** |

| By type of employer | | |
|---|---|---|
| | 2020/21 | 2021/22 |
| | £'000 | £'000 |
| Administering authority | 103,091 | 107,681 |
| Scheduled bodies | 154,467 | 162,994 |
| Admitted bodies | 13,107 | 14,850 |
| **Total** | **270,665** | **285,525** |

**By category**

| | 2020/21 £'000 | 2021/22 £'000 |
|---|---|---|
| Pensions | 229,754 | 236,663 |
| Commutation and lump sum retirement benefits | 35,498 | 42,862 |
| Lump sum death benefits | 5,413 | 6,000 |
| **Total** | **270,665** | **285,525** |

**By type of employer**

| | 2020/21 £'000 | 2021/22 £'000 |
|---|---|---|
| Administering authority | 103,091 | 107,681 |
| Scheduled bodies | 154,467 | 162,994 |
| Admitted bodies | 13,107 | 14,850 |
| **Total** | **270,665** | **285,525** |

## 9. Management expenses

| | 2020/21 £'000 | 2021/22 £'000 |
|---|---|---|
| Administrative costs | 2,306 | 2,455 |
| Investment management expenses | 50,799 | 60,722 |
| Oversight and governance costs | 766 | 779 |
| **Total** | **53,871** | **63,956** |

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, implicit costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).

## 9a) Investment Management Expenses

| 2021/22 | Management fees £000 | Transaction costs £000 | Total £000 |
|---|---|---|---|
| Bonds | 0 | 0 | **0** |
| Equities | 0 | 0 | **0** |
| Pooled investments* | 17,796 | 1,744 | **19,540** |
| Pooled property investments | 0 | 0 | **0** |
| Property | 1,263 | 4,251 | **5,514** |
| Alternatives | 26,927 | 8,522 | **35,449** |
| Cash | 0 | 9 | **9** |
| | 45,986 | 14,526 | **60,512** |
| Custody and other investment costs | | | **210** |
| Total | | | **60,722** |

*includes the following amounts paid as part of the ACCESS pool

| | |
|---|---|
| Link | 11,622 |
| UBS | 1,525 |

| 2020/21 | Management fees £000 | Transaction costs £000 | Total £000 |
|---|---|---|---|
| Bonds | 0 | 0 | **0** |
| Equities | 1,598 | 1,716 | **3,314** |
| Pooled investments* | 9,757 | 940 | **10,697** |
| Pooled property investments | 52 | 112 | **164** |
| Property | 964 | 6,833 | **7,797** |
| Alternatives | 24,970 | 3,742 | **28,712** |
| Cash | 0 | 11 | **11** |
| | 37,341 | 13,354 | **50,695** |
| Custody and other investment costs | | | **104** |
| Total | | | **50,799** |

*includes the following amounts paid as part of the ACCESS pool

| | |
|---|---|
| Link | 3,925 |
| UBS | 1,186 |

## 10. Investment income

| | 2020/21 £'000 | 2021/22 £'000 |
|---|---|---|
| Income from bonds | 0 | 0 |
| Income from equities | 17,464 | 0 |
| Pooled property investments | 261 | 2,496 |
| Pooled investments – unit trusts and other managed funds | 26,334 | 39,382 |
| Rents from property | 27,985 | 27,092 |
| Interest on cash deposits | 188 | 42 |
| Alternative investment income | 29,207 | 37,379 |
| Stock lending | 60 | 0 |
| Other | 911 | 130 |
| **Total before taxes** | **102,410** | **106,521** |

## 11. Investments

| | Market value 31 Mar 2021 £'000 | Market value 31 Mar 2022 £'000 |
|---|---|---|
| **Investment Assets** | | |
| **Bonds** | **0** | **0** |
| **Equities** | **762,741** | **0** |
| **Pooled funds** | | |
| - Fixed income unit trusts | 2,518,963 | 3,051,668 |
| - Unit trusts | 2,310,748 | 4,383,052 |
| | **4,829,711** | **7,434,720** |
| **Other investments** | | |
| Pooled property investments | 54,268 | 87,697 |
| Alternative investments | 645,310 | 1,408,541 |
| Property | 455,280 | 577,600 |
| Derivative contracts: | | |
| - Forward currency contracts | 4 | 14 |
| | **1,154,862** | **2,073,852** |
| Cash deposits | 105 | 27 |
| **Total investment assets** | **6,747,419** | **9,508,599** |

## 11a) Reconciliation of movements in investments and derivatives

| Period 2021/22 | Market value 1 April 2021 £'000 | Purchases and derivative payments £'000 | Sales and derivative receipts £'000 | Change in value during the year £'000 | Market value 31 Mar 2022 £'000 |
|---|---|---|---|---|---|
| Equities | 0 | 0 | 0 | 0 | 0 |
| Pooled investments | 7,463,982 | 884,759 | (1,186,157) | 272,136 | 7,434,720 |
| Pooled property investments | 72,435 | 12,841 | (94) | 2,515 | 87,697 |
| Alternative investments | 932,407 | 381,802 | (161,548) | 255,881 | 1,408,542 |
| Property | 471,250 | 54,705 | (31,657) | 83,302 | 577,600 |
| | **8,940,074** | **1,334,107** | **(1,379,456)** | **613,834** | **9,508,559** |
| Derivative contracts: | | | | | |
| - Forward foreign exchange | (1,513) | 23,500 | (6,546) | (15,428) | 13 |
| | **(1,513)** | **23,500** | **(6,546)** | **(15,428)** | **13** |
| Other investment balances: | | | | | |
| - Cash deposits | 26 | | | 1,750 | 27 |
| Net investment assets | **8,938,587** | | | **600,156** | **9,508,599** |

| Period 2020/21 | Market value 1 April 2020 £'000 | Purchases and derivative payments £'000 | Sales and derivative receipts £'000 | Change in value during the year £'000 | Market value 31 Mar 2021 £'000 |
|---|---|---|---|---|---|
| Bonds | 0 | 0 | 0 | 0 | 0 |
| Equities | 721,741 | 31,970 | (996,537) | 242,826 | **0** |
| Pooled investments | 4,870,711 | 2,185,617 | (1,057,932) | 1,465,586 | 7,463,982 |
| Pooled property investments | 54,268 | 20,712 | (593) | (1,952) | 72,435 |
| Alternative investments | 645,310 | 228,392 | (120,298) | 179,003 | 932,407 |
| Property | 455,280 | 32,323 | (8,222) | (8,131) | 471,250 |
| | **6,747,310** | **2,499,014** | **(2,183,582)** | **1,877,332** | **8,940,074** |
| Derivative contracts: | | | | | |
| - Forward foreign exchange | (7,338) | 11,029 | (22,661) | 17,457 | (1,513) |
| | **(7,338)** | **11,029** | **(22,661)** | **17,457** | **(1,513)** |
| Other investment balances: | | | | | |
| - Cash deposits | 105 | | | (6,335) | 26 |
| Net investment assets | **6,740,077** | | | **1,888,454** | **8,938,587** |

Purchases and sales of derivatives are recognised in Note 11a. Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

### 11b) Investments analysed by fund manager

| | Market value 31 March 2021 £'000 | % | Market value 31 March 2022 £'000 | % |
|---|---|---|---|---|
| **Investments part of the ACCESS pool** | | | | |
| ACCESS Pooled investments managed by Link | | | | |
| Acadian | 536,778 | 5.9 | 618,750 | 6.4 |
| Baillie Gifford | 1,599,468 | 17.7 | 1,423,598 | 14.8 |
| Dodge & Cox | 657,457 | 7.2 | 759,890 | 7.9 |
| ACCESS Pooled investments managed by UBS | 3,254,406 | 35.9 | 3,228,343 | 33.5 |
| | 6,048,109 | 66.7 | 6,030,581 | 62.6 |
| **Investments held outside of the ACCESS pool** | | | | |
| Abrdn | 447,385 | 4.9 | 602,678 | 6.3 |
| Alcentra | 463,141 | 5.1 | 476,204 | 4.9 |
| Barings | 388,622 | 4.3 | 386,687 | 4.0 |
| CBRE Global Investors | 543,487 | 6.0 | 665,297 | 6.9 |
| GCM Grovsnor | 269,609 | 3.0 | 474,273 | 4.9 |
| Insight | 284,849 | 3.1 | 272,305 | 2.8 |
| JP Morgan Alternative Asset Management | 218,876 | 2.4 | 342,050 | 3.6 |
| Twenty-four Asset Management | 279,261 | 3.1 | 268,942 | 2.8 |
| | 2,895,229 | 31.9 | 3,488,436 | 36.2 |
| Other investments | 225 | 0.0 | 24 | 0.0 |
| Other net assets | 129,252 | 1.4 | 107,833 | 1.2 |
| **Total** | **9,072,815** | **100.0** | **9,626,874** | **100.0** |

All the companies named above are registered in the United Kingdom.

The Pension Fund has no investment in a single company/asset that exceeds 5% of the net assets available for benefits.

All the companies named above are registered in the United Kingdom.

The Pension Fund has no investment in a single company/asset that exceeds 5% of the net assets available for benefits.

### 11c) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

The future minimum lease payments receivable by the Fund are as follows.

| | Year ending 31 March 2021 £'000 | Year ending 31 March 2022 £'000 |
|---|---|---|
| Within one year | 18,816 | 22,525 |
| Between one and five years | 61,038 | 62,749 |
| Later than five years | 157,336 | 183,942 |
| **Total future lease payments due under existing contracts** | **237,190** | **269,216** |

The above disclosures have been reduced by a credit loss allowance of 4.5% per annum, reflecting the Fund's expected loss from late or non-recovery of rents from tenants. This has been based on the Fund's own historic experience but also information on similar properties received from the Fund's property investment manager. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

### 12. Analysis of derivatives

#### Objectives and policies for holding derivatives

Investments in forward currency contracts were to hedge exposures to reduce risk in the Fund by removing the exposure to foreign (non-Sterling) currency. The forward foreign currency contracts are all OTC (over the counter) contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

## Open forward currency contracts

At 31 March 2022, the Fund had open forward currency contracts in place with a net unrealised gain of £0.014 million.

| Settlements | Currency bought | Local value '000 | Currency sold* | Local value '000 | Asset value £'000 | Liability value £'000 |
|---|---|---|---|---|---|---|
| 1 to 6 months | GBP | 305,095 | USD | (401,518) | 54 | 0 |
| 1 to 6 months | USD | 4,354 | GBP | (3,334) | 0 | (25) |
| 1 to 6 months | GBP | 3,340 | EUR | (3,958) | 0 | (15) |
| **Open forward currency contracts at 31 March 2022** | | | | | **54** | **(40)** |
| **Net forward currency contracts at 31 March 2022** | | | | | | **14** |

**Prior year comparative**

| Settlements | Currency bought | Local value '000 | Currency sold* | Local value '000 | Asset value £'000 | Liability value £'000 |
|---|---|---|---|---|---|---|
| Less than 1 month | EUR | **473** | GBP | **-405** | **0** | **(3)** |
| 1 to 6 months | GBP | 215,684 | USD | (299,742) | 60 | (1,579) |
| 1 to 6 months | USD | 956 | GBP | (696) | 0 | (4) |
| 1 to 6 months | GBP | 2,831 | EUR | (3,303) | 13 | 0 |
| Open forward currency contracts at 31 March 2021 | | | | | 73 | (1,586) |
| Net forward currency contracts at 31 March 2021 | | | | | | (1,513) |

* List of currencies EUR = Euro GBP = British Pound USD = United States Dollar

## 13. Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

| Description of asset | Valuation hierarchy – level | Basis of valuation | Observable and unobservable inputs | Key sensitivity affecting the valuation provided |
|---|---|---|---|---|
| Market quoted investments | 1 | Published bid market price ruling on the final day of the accounting period | Not required | Not required |
| Spot foreign exchange contracts | 1 | Market exchange rates at the year end | Not required | Not required |
| Exchange traded pooled | 1 | Closing bid value on published exchanges | Not required | Not required |

| Description of asset | Valuation hierarchy – level | Basis of valuation | Observable and unobservable inputs | Key sensitivity affecting the valuation provided |
|---|---|---|---|---|
| investments | | | | |
| Unquoted bonds | 2 | Average of broker prices | Evaluated price feeds | Not required |
| Forward foreign exchange derivatives | 2 | Market forward exchange rates at the year end | Exchange rate risk | Not required |
| Pooled investments – fixed income | 2 | Closing price on the final day of the accounting period | NAV-based pricing set on forward pricing basis | Not required |
| Pooled investments – property funds | 2 | Closing price on the final day of the accounting period | NAV-based pricing set on forward pricing basis | Not required |
| Freehold and leasehold properties | 2 | Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the *RICS Valuation – Current Global Standards* | Comparable recent market transactions on arm's-length terms | Not required |
| Alternative Investments – Hedge funds | 3 | Closing price on the final day of the accounting period | NAV-based pricing set on forward pricing basis | Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

| Description of asset | Valuation hierarchy – level | Basis of valuation | Observable and unobservable inputs | Key sensitivity affecting the valuation provided |
|---|---|---|---|---|
| Alternative Investments – Private equity, infrastructure and private debt | 3 | Comparable valuation of similar companies in accordance with *International Private Equity Venture Capital Valuation Guidelines* where appropriate or use of third-party valuers such as *Duff & Phelps*. | EBITDA multiple<br>Revenue multiple<br>Discount for lack of marketability<br>Control premium<br>Loan to value multiple | Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts |

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund's investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set below the consequent potential impact on the closing value of investments held at 31 March 2022.

| | Assessed valuation range (+/-) | Value at 31 March 2022 | Value on increase | Value on decrease |
|---|---|---|---|---|
| | | £'000 | £'000 | £'000 |
| Alternative Investments - Hedge funds | 5% | 24 | 26 | 23 |
| Alternative Investments - Private debt | 5% | 340,468 | 357,491 | 323,445 |
| Alternative Investments - Infrastructure | 10% | 470,486 | 517,536 | 423,438 |
| Alternative Investments - Private equity | 10% | 597,563 | 657,319 | 537,806 |

### 13a) Fair value hierarchy

Assets and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair value. Transfers between levels are recognised in the year in which they occur.

#### Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

#### Level 2

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

#### Level 3

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

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

| Values at 31 March 2022 | Quoted market price<br>Level 1<br>£'000 | Using observable inputs<br>Level 2<br>£'000 | With significant unobservable inputs<br>Level 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit and loss | 6,571,829 | 950,642 | 1,408,541 | 8,931,012 |
| Non-financial assets at fair value through profit and loss | 0 | 577,600 | 0 | 577,600 |
| Financial liabilities at fair value through profit and loss | 0 | (40) | 0 | (40) |
| **Net investment assets** | **6,571,829** | **1,528,202** | **1,408,541** | **9,508,572** |

| Values at 31 March 2021 | Quoted market price<br>Level 1<br>£'000 | Using observable inputs<br>Level 2<br>£'000 | With significant unobservable inputs<br>Level 3<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit and loss | 6,612,218 | 924,271 | 932,407 | 8,468,896 |
| Non-financial assets at fair value through profit and loss | 0 | 471,250 | 0 | 471,250 |
| Financial liabilities at fair value through profit and loss | (2) | (1,583) | 0 | (1,585) |
| **Net investment assets** | **6,612,216** | **1,393,938** | **932,407** | **8,938,561** |

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included.

## 13b) Reconciliations of fair value measurements within level 3

| Period 2021/22 | Market value 31 March 2021 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2022 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Alternative investments** | 932,407 | 381,802 | (161,548) | 255,881 | **1,408,542** |

| Period 2020/21 | Market value 31 March 2020 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in market value during the year | Market value 31 March 2021 |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Alternative investments** | 645,310 | 228,392 | (120,298) | 179,003 | **932,407** |

## 14 Financial instruments

### 14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

| 31 March 2021 Fair value through profit and loss £'000 | 31 March 2021 Assets at amortised cost £'000 | 31 March 2021 Liabilities at amortised cost £'000 | | 31 March 2022 Fair value through profit and loss £'000 | 31 March 2022 Assets at amortised cost £'000 | 31 March 2022 Liabilities at amortised cost £'000 |
|---|---|---|---|---|---|---|
| | | | **Financial assets** | | | |
| 0 | | | Fixed interest securities | 0 | | |
| 0 | | | Equities | 0 | | |
| 7,463,982 | | | Pooled investments | 7,434,720 | | |
| 72,435 | | | Pooled property investments | 87,697 | | |
| 932,407 | | | Alternatives | 1,408,541 | | |
| 73 | | | Derivative contracts | 54 | | |
| 12,590 | 90,477 | | Cash | 56,640 | 28,536 | |
| | 12,142 | | Debtors | | 11,039 | |
| **8,481,487** | **102,619** | **0** | | **8,987,652** | **39,575** | **0** |
| | | | **Financial liabilities** | | | |
| (1,586) | | | Derivative contracts | (40) | | |
| | | (4,570) | Creditors | | | (5,353) |
| **(1,586)** | **0** | **(4,570)** | | **(40)** | **0** | **(5,353)** |
| **8,479,901** | **102,619** | **(4,570)** | | **8,987,612** | **39,575** | **(5,353)** |

### 14b) Net gains and losses on financial instruments

| 31 March 2021 £'000 | | 31 March 2022 £'000 |
|---|---|---|
| | **Financial assets** | |
| 1,879,128 | Fair value through profit and loss | 532,283 |
| | **Financial liabilities** | |
| 17,457 | Fair value through profit and loss | (15,428) |
| **1,896,585** | **Total** | **516,855** |

The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 15. Nature and extent of risks arising from financial instruments

### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Pension Fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel and Board. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### 15a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

**Other price risk**

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

**Other price risk – sensitivity analysis**

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2021/22 reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

| Asset type | Potential market movements (+/-) |
|---|---|
| Overseas equities | 15.56% |
| UK bonds | 13.12% |
| Overseas bonds | 8.81% |
| Property | 5.09% |
| Alternative investments | 6.20% |
| Cash | 0.11% |

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the previous table, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

| Asset type | Value at 31 March £'000 | Potential market movement £'000 | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| **Total assets 2022** | **9,508,599** | **1,143,058** | **10,651,657** | **8,365,541** |
| Total assets 2021 | 8,938,587 | 1,076,231 | 10,014,818 | 7,862,356 |

**Interest rate risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevahnt benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

**Interest rate risk sensitivity analysis**

The Pension Fund recognises that interest rates can vary and can affect both income to the Fund and the carrying value of Fund assets, both of which affect the value of the net assets available to pay benefits. A 1% movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.

| Assets exposed to interest rate risk | Value as at 31 March 2022 | Potential movement on 1% change in interest rates | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cash & cash equivalents | 85,149 | 0 | 85,149 | 85,149 |
| Cash deposits | 27 | 0 | 27 | 27 |
| **Total** | **85,176** | **0** | **85,176** | **85,176** |

| Assets exposed to interest rate risk | Value as at 31 March 2021 | Potential movement on 1% change in interest rates | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Cash & cash equivalents | 103,042 | 0 | 103,042 | 103,042 |
| Cash deposits | 26 | 0 | 26 | 26 |
| **Total** | **103,068** | **0** | **103,068** | **103,068** |

| | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|
| Cash deposits / cash & cash equivalents | 42 | 941 | 983 | (899) |
| **Total** | **42** | **941** | **983** | **(899)** |

| | £'000 | £'000 | £'000 | £'000 |
|---|---|---|---|---|
| Cash deposits / cash & cash equivalents | 194 | 1,242 | 1,436 | (1,048) |
| **Total** | **194** | **1,242** | **1,436** | **(1,048)** |

Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

### Currency risk – sensitivity analysis

Following analysis of historical data, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 7.1% (as measured by one standard deviation).

A 7.1% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

| Asset type | Value at 31 March £'000 | Potential market movement £'000 | Value on increase £'000 | Value on decrease £'000 |
|---|---|---|---|---|
| **Total assets 2022** | 4,807,023 | **341,288** | **5,148,311** | **4,465,735** |
| Total assets 2021 | 4,333,409 | 254,950 | 4,588,359 | 4,078,459 |

### 15b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on OTC derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund’s credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years. The Fund’s cash holding under its treasury management arrangements at 31 March 2022 was £73.95 million (31 March 202: £97.75 million). This was held with the following institutions:

| | Rating as at 31 March 2022 | Balance as at 31 March 2021 £'000 | Balance as at 31 March 2022 £'000 |
|---|---|---|---|
| **Money market funds** | | | |
| abrdn (formerly Aberdeen Standard) | AAAm | 5,200 | 9,920 |
| Blackrock | AAAm | 0 | 8,840 |
| DWS | AAAm | 2,590 | 7,960 |
| Federated Investors UK | AAAm | 4,800 | 8,680 |
| Insight | AAAm | 0 | 9,610 |
| JP Morgan | AAAm | 0 | 11,630 |
| **Bank deposits** | | | |
| Lloyds | A+ | 8,670 | 2,810 |
| NatWest | A | 3,490 | 6,410 |
| Landesbank Baden-Wurttemberg | A | 12,000 | 0 |
| Handelsbanken | AA- | 0 | 8,090 |
| **Treasury bills** | | | |
| UK Government | AA- | 5,000 | 0 |
| **Local Authority deposits** | | | |
| Local Authority deposits | n/a | 56,000 | 0 |
| **Total** | | **97,750** | **73,950** |

## 15c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2022 the value of illiquid assets was £2,037 million, which represented 21.8% of the total fund assets (31 March 2021: £1,436 million, which represented 16.1% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. All financial liabilities at 31 March 2022 are due within one year.

### Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

## 16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2019 and the results are published on the Pension Fund's website https://documents.hants.gov.uk/pensions/2019-valuationreport.pdf. The next valuation will take place at 31 March 2022.

The key elements of the funding policy are:

- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met and that sufficient funds are available to meet all pension liabilities as they fall due for payment
- to ensure that employer contribution rates are as stable as possible
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to

do so

- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 16 years from 1 April 2020 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.

At the 2019 actuarial valuation, the Fund was assessed as 99% funded (81% at the March 2016 valuation). This corresponded to a deficit of £78 million (2016 valuation: £1,240 million) at that time.

The aggregate employer contributions were certified as 18.6% of Pensionable Pay, plus an additional total contribution amount of £7.2 million over 2020/21, £7.5 million over 2021/22 and £7.8 million over 2022/23.

The Fund operates three funding groups (or pools) in which participating employers share risks and pay a common primary contribution rate. All academies participate in the Academy Pool; all Town and Parish Councils participate in the Town and Parish Council Pool, and many of the charitable community admission bodies continue to participate in the Admission Body Group. Further information on these funding arrangements is contained within the Funding Strategy Statement. All other employers' liabilities and contribution rates are assessed individually.

Contribution schedules for the period to 31 March 2023 have been agreed for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); the approach taken to value the liabilities on exit; the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period. Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.1% p.a. until 31 March 2036 (or an earlier date in some cases depending on the employer's circumstances).

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

**Financial assumptions**

Full details of the assumptions used by the Fund’s actuary are set out in the 2019 actuarial valuation report and summarised in the Statement of the Actuary.

Generally, a common set of assumptions is adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, will have regard to the funding target that will be used in an exit valuation under Regulation 64.

The main actuarial assumptions that were used for the secure scheduled bodies in the March 2019 actuarial valuation were as follows:

Financial assumptions:

| | |
|---|---|
| Discount rate | 4.4% a year |
| Rate of general pay increases | 3.1% a year |
| Rate of increase to pension accounts and deferred pension increases | 2.1% a year |
| Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension) | 2.1% a year |

The assets were valued at market value.

Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2019 was assumed on average to live to 87.9 (rather than 89.1 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2019 was assumed on average to live to 90.4 (rather than 92.3).

Commutation assumption:

Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

50:50 option:

All active members were assumed to remain in the Scheme they were in at the valuation date.

## 17. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting the Fund's contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2019 was £10,141million (31 March 2016: £7,595 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2019 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2019 IAS 19 calculation were:

| | |
|---|---|
| Discount rate | 2.5% |
| CPI inflation / pension increase rate assumption | 2.1% |
| Salary increase rate | 3.1% |

## 18. Current assets

| | 31 March 2021 £'000 | 31 March 2022 £'000 |
|---|---|---|
| Debtors: | | |
| - Contributions due - employees | 369 | 317 |
| - Contributions due - employers | 19,894 | 24,848 |
| - Transfer values receivable (joiners) | 1,521 | 0 |
| - Tax | 3,187 | 3,680 |
| - Sundry debtors | 12,142 | 11,039 |
| Cash balances | 103,042 | 85,149 |
| **Total** | **140,155** | **125,033** |

**Analysis of debtors**

| | 31 March 2021 £'000 | 31 March 2022 £'000 |
|---|---|---|
| Central government bodies | 6,176 | 12,885 |
| Other local authorities | 14,634 | 19,358 |
| Other entities and individuals | 16,303 | 7,641 |
| **Total** | **37,113** | **39,884** |

## 19. Current liabilities

| | 31 March 2021 £'000 | 31 March 2022 £'000 |
|---|---|---|
| Sundry creditors | 4,570 | 5,353 |
| Transfer values payable (leavers) | 0 | 0 |
| Benefits payable | 495 | 465 |
| Tax | 862 | 940 |
| **Total** | **5,927** | **6,758** |

**Analysis of Creditors**

| | 31 March 2021 £'000 | 31 March 2022 £'000 |
|---|---|---|
| Central government bodies | 862 | 940 |
| Other local authorities | 745 | 2,049 |
| Other entities and individuals | 4,320 | 3,769 |
| **Total** | **5,927** | **6,758** |

## 20. Additional voluntary contributions

| | Market value 31 March 2021 £'000 | Market value 31 March 2022 £'000 |
|---|---|---|
| Prudential | 18,527 | 17,648 |
| Zurich | 5,800 | 5,525 |
| Utmost | 852 | 812 |
| **Total** | **25,179** | **23,983** |

During the year, AVCs of £2.300 million were paid directly to Prudential (2020/21: £2.309 million), £0.194 million to Zurich (2020/21: £0.263 million), and £0.003 million to Utmost (2020/21: £0.006 million).

## 21. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £8.475 million to the Fund in 2021/22 (2020/21 £233.465 million). The contributions paid in 2021/22 decreased significantly as a result of the County Council choosing to pre-pay its contributions for the 2020/21 to 2022/23 actuarial period in 2020/21, as set out in the Fund Actuary's Rates and Adjustments Certificate.

During the reporting period, the County Council incurred costs of £3.081 million (2020/21: £2.983 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Operations of Hampshire County Council, acting as Chief Finance Officer (CFO) to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above. Details of the salary of the Director of Corporate Operations can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund's cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2022, the Fund had an average cash balance of £79,187 million (year to 31 March 2021: £158.602 million), earning interest of £0.042 million (2020/21 £0.194

million) on these funds.

**22. Contingent liabilities and contractual commitments**

Outstanding capital commitments (investments) at 31 March 2022 totalled £745.049 million (31 March 2021: £539.490 million). These commitments relate to outstanding call payments due on unquoted alternative investment and property limited partnership funds held in the alternative investments and property parts of the Fund. The amounts ‘called’ by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

In December 2018 the Court of Appeal ruled against the Government in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement is age discrimination. The underpin was a protection that was put in place when the scheme changed on 1 April 2014 and applied to members who were an active member on 31 March 2012 and were within 10 years of their normal retirement age (usually 65). The Public Service Pensions and Judicial Offices Act 2022, the main purpose of which is to support implementation of the McCloud remedy, gained Royal Assent in March 2022. Draft regulations to implement the underpin element of the remedy are expected in 2022/23. The financial impact of the remedy remains difficult to determine, but it is a potential future liability for the Fund.

## Draft 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 2021-2022.

### 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, engage 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 2022 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 was reviewed by senior officers in Legal Services who have worked closely with Departments on the implementation of the relevant provisions.

3.1.5 The County Council continues to further strengthen 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 Director of HR, Organisational Development, Communications and Engagement 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.

3.1.6 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. In the autumn of 2021, the County Council was awarded Level 2 accreditation in the Disability Confidence Scheme. This Scheme encourages employers to improve how they recruit, retain and develop disabled people and will support the Council as being an employer of choice. The work programme has been further developed this year to include Health and Wellbeing and is reported on a quarterly basis to the Steering Group, and the Corporate Management Team and on a bi-annual basis to 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 was agreed by the County Council in September 2021 and a further amendment in November 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 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 in order to ensure specific groups identified as at risk of worse outcomes from COVID-19, a cohort of community researchers from these groups were identified and trained in order to undertake in-depth engagement and target messaging within their communities. 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. The regular residents' survey- 'Hampshire Perspectives' continues to support the County Council's insight into residents' opinions and formed a tool in informing its COVID-19 Recovery Strategy.

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. During 2021/22, staff surveys have focussed on employees' health and wellbeing during the pandemic, as well as the County Council's new ways of working once restrictions were lifted and office-based staff could attend the office again

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. Equality Impact Assessments are also required of relevant decisions, and in this year a new requirement was introduced to apply two decision-making tools to assess the carbon emissions and resilience impacts of relevant projects and decisions.

3.3.2 The new Strategic Plan 2021 – 2025 was agreed by Cabinet in July 2021 and passed by Full Council in September 2021. Alongside the new Strategic Plan, a revised corporate Performance Management Framework was agreed, which incorporates monitoring of the agreed Climate Change Strategy and the recommendations from the Hampshire 2050 Commission of Inquiry.

3.3.3 The Pension Fund Panel and Board has a fiduciary duty to ensure that investment returns are maximised for the benefit of members of the Pension Fund, but in doing so must also have due consideration to Environmental, Social and Governance (ESG) issues. The Pension Fund Panel and Board is required to produce a Responsible Investment Policy and this was updated and approved by the Board in March 2022 (subject to public consultation) and outlined the progress that had been made in particular against the Fund's carbon reduction programme and provided a commitment to the aim for its investments to be carbon neutral by 2050 in line with Government policy.

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

3.4.1 Clear guidance and protocols for decision making and the involvement of legal and finance officers in all significant decisions of the County Council ensures that decisions are only made after relevant options have been weighed and associated risks assessed. Details of the guidance and protocols are set out in the Code of Corporate Governance.

3.4.2 The Director of Corporate Operations 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 including the Head of Legal, Head of Finance, Departmental Equalities Leads and Departmental Transformation Leads was put in place to oversee the production and review of EIAs relating to SP23 proposals and to produce the cumulative EIA to understand the overall impact of savings proposals on groups with characteristics protected under the Equalities Act (2010). A new requirement for departments to assess the equality and inclusiveness of their services and develop action plans accordingly was also introduced in 2021.

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 medium-term using assumptions set out in the Medium-Term Financial Strategy (MTFS).

3.4.8 Risks associated with the achievement of intended outcomes are detailed in the corporate electronic Risk Register which itemises risks held at Corporate and Department 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. A revised annual report is being developed that will include financial reporting, progress against the RHPP business plan and partnership objectives and benefits of the arrangement and will be reported to the Executive Member for Commercial Services, Estates and Property.

3.4.10 The County Council holds a joint 999-year lease with Basingstoke and Deane Borough Council of around 820 hectares of land located to the west of Basingstoke known as Manydown. In respect of the first phase, the land north of the main Southampton to London railway referred to as Manydown North, the two Councils have entered in to two separate but related Joint Venture arrangements. The first, established between the two Councils is the Manydown Garden Communities (MCG) LLP, whilst the second known as the Manydown Development Vehicle (MDV) LLP is between the two Councils (as MGC) and the selected development partner Urban and Civic Ltd. Each JV has a regular Board meeting and various legal agreements set out the basis of the County Council's representation at each Board and the associated roles and responsibilities for each Board Director. For the MGC LLP, there is one Elected Member and 2 Senior Officer representative (including approved substitutes). For the MDV LLP, the County Council's interests (on behalf of MGC) are represented by the same 2 Senior officers, together with a third nominated Officer, again with approved substitutes. The Member and Development Agreements set out: the responsibilities of each Board; delegation policies and matters to be escalated; approval of either an Annual and/or Overarching Business Plan (including Budget); the measurement of performance against each Plan, together with the management and oversight of potential emerging risks and issues. The MGC LLP and MDV LLP accounts are separately audited and reported to Companies House. The Annual/Overarching Business Plan(s) are reported to the County Council's Executive Member for Policy and Resources for approval.

3.4.11 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 Director of HR, OD, Communications and Engagement 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 Board's 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.

3.4.12 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 Following the County Council's all-out election in 2021, an innovative Member Induction Programme, supported by the cross-party Member Development Group, was delivered against the backdrop of Covid-19. This involved several virtual sessions covering key organisational topics such as local government finance, adult and children's safeguarding, education, inclusion and diversity, climate change, data protection and handling social media, together with in-person events held in line with Government's Covid-19 guidelines and e-learning to ensure both new and returning Members were inducted as soon as possible during challenging times. The established monthly Briefing Programme continues to be well received. The Council moved to virtual delivery of the Programme during 2020 which resulted in high levels of attendance due to the flexibility virtual delivery offered, and the Programme continues to be delivered in this way. The Programme has included annual corporate topics such as finance, treasury management and the County Council's workforce reporting together with regular Covid-19 updates and focusing on economic recovery and resilience from the Chief Executive and Corporate Management Team. Members also have the opportunity to participate in external training events and seminars to support upskilling and knowledge refresh.

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 continues to regularly review 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 The Annual Workforce Report continues to provide a good 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), and references areas of attention and further work to be undertaken to address the workforce challenges arising as a result of the pandemic.

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 Our leadership programmes are in the process of being reviewed to take account of the changing needs of our workforce in order to ensure that they are addressing the management and leadership needs of our staff, taking particular account of the changes in our ways of working, IDW agenda, and the increasing challenge to balance service delivery and demand.

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. We continue to use our agreed 'organisational' principles to shape and develop areas of organisation design and development to ensure our operating models are fit for purpose over the short to medium term.

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. The suite of resources has been further developed during the year and provides a significant range of information and support for managers and staff. Health and Wellbeing continue to be a key focus for CMT, the IDW Steering Group and Directors and their DMTs and forms part of regular discussions at team meetings across the organisation.

3.5.12 To further support our understanding of our workforce's experiences during the pandemic and to support recovery, an Inclusion and Wellbeing Survey of all staff was undertaken in May 2021, alongside the regular monthly wellbeing 'pulse' survey where 1/12$^{th}$ of the organisation is polled. Results of these surveys have helped inform and shape the County Council's new ways of working for office-based staff

3.5.13 The Wellbeing Task Group, chaired by the Director of Public Health and Director of HR, OD, Communications and Engagement 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.

3.5.14 The County Council recognises the importance of its staff networks to supporting the inclusion and diversity of its workforce. 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 2021/22 is the work undertaken in support of our people who classify themselves as disabled has enabled conversations across the organisation entitled 'let's talk about being disabled' in order to support individual and organisational learning and development.

3.5.15 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 Director of HR, OD, Communications and Engagement.

**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 has been revised alongside the new Strategic Plan, and has been implemented from April 2022

3.6.2 The County Council has in place a Risk Management Strategy that is currently being developed into a longer term 2022-2025 version to be approved by Cabinet. Oversight of the Strategy is provided by the Corporate Risk Management Board, who drive forward initiatives and improvements to achieve the Strategy's aims and objectives. This includes provision of corporate guidance on risk management best practice, to support staff to manage risk effectively and consistently.

3.6.3 To further strengthen risk management arrangements a new cross departmental Health & Safety Management Group has been formed to feed directly into the Corporate Risk Management Board. The Risk Management Board continue to report on a quarterly basis to CMT, setting out the Corporate Strategic Risk Register, Department key risk updates and any broader developments, improvements or emerging risks. The Risk Management Board submit an annual report to the Audit Committee who are responsible for considering the effect of the County Council's risk management arrangements and having oversight of the Corporate Strategic Risk register. The corporate guidance for staff clearly sets out the organisation's governance structure for managing risk effectively, including roles and responsibilities.

3.6.4 Key operational and strategic risks (including those related to Covid-19) at both department and corporate level are actively managed and monitored by a named Risk Owner and Risk Control Manager. These risks are recorded in the Corporate Risk Management System and must have review dates and state the governance structure that is providing adequate monitoring and oversight of risk controls. All risks on the Corporate Strategic Risk Register are also reviewed on an annual basis by the Risk Management Board with the relevant Risk Owner/Control Manager.

3.6.5 A comprehensive Information Governance Framework is in place, overseen by the Data Protection Officer, with further oversight by the Risk Management Board, which includes Senior Information Risk Officers representing each Department.

3.6.6 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, a programme of work has been undertaken to strengthen and improve our cyber security arrangements going forward.

3.6.7 The Audit Plan 2021-22 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.

3.6.8 The audit plan remains fluid to ensure internal audit's ability to react to the changing needs of the County Council.

3.6.9 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.

3.6.10 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.

3.6.11 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.

3.6.12 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.

3.6.13 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. A wide range of policy topics have been scrutinised in line with the organisation's strategic objectives including in-depth scrutiny by way of task and finish activity. With the continuing Covid-19 situation, the Policy and Resources Overview and Select Committee has considered the financial impact of Covid-19 on the Council, economic recovery and resilience. The scrutiny function is supported by experienced officers in Democratic and Member Services together with input from specialist officers in the service departments.

3.6.14 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 his representative.

3.6.15 Key financial regulations and financial strategies form an important part of the Corporate Governance Framework together with effective risk based financial and performance reporting.

3.6.16 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 has been extended and will continue over the next year within the social care departments.

3.6.17 The new CIPFA Financial Management (FM) Code was formally adopted across local government from the 2021/22 financial year. The FM Code sets out the six principles of good financial management, which it then translates into a list of financial management standards which local authorities should test their conformity against. The County Council has undertaken an evidence backed assessment of its compliance with all of the financial management standards in the Code. Based on this, the County Council has ascertained that it is compliant with the Code. Although compliant the County Council will still always actively seek to make further developments and improvements as opportunities are identified for example through risk reviews and performance management.

3.6.18 Following the outbreak of Covid-19, the County Council has been closely monitoring all aspects of the financial impact of the crisis. During 2021-2022 Directors have continued to review the impact on a monthly basis. Appropriate reporting has developed as the pandemic progressed and settled into quarterly reporting to the Corporate Management Team and on to Cabinet at regular intervals. The County Council has continued to report pandemic costs and losses to MHCLG/DLUHC and has ensured appropriate claiming and application of relevant Government grant

3.6.19 Financial resilience within the County Council has remained strong throughout the pandemic, and funding has been identified to supplement Government grant to meet the one-off costs and losses of Covid-19, expected to continue until 2023-2024, without significantly impacting on the wider financial strategy.

**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. Corporate performance reports are published online and are 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 Department.
- 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 2021 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 which 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 2022.

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

6.1 The longer-term Risk Management Strategy 2022-25 and Risk Register will be taken for approval by Cabinet in mid-2022 following endorsement by CMT. The Risk Management Board will drive forward the Strategy aims and objectives, with particular focus on improvements to the corporate risk management system to incorporate renewed control effectiveness descriptions and evidence that measures are sufficient

6.2 A training programme to further develop staff and managers to manage risk effectively, will be developed. This will include specific session with the Audit Committee to work through in more detail the corporate risk management processes and governance.

6.3 ETE will continue to test its Business Continuity processes and procedures through a series of regularly planned exercises, involving relevant operational services and the Department Management Team. Learning from these exercises, alongside actual events such responding to significant weather events, will be embedded into revised processes and procedures as necessary.

6.4 The CareDirector Implementation will support the improvement in the recording of client data through:

- Data migrated to the new system will be subject to data validation rules to ensure the records are in line with Data Retention rules
- As part of the system training staff will receive reminders about GDPR and best recording practice, like good searching techniques to avoid duplicates, data quality, and their responsibilities. All CDir users will be required to sign a new Form of Undertaking via the LMS which will record their knowledge and adherence to Data Protection law and HCC policy
- The CareDirector System includes functionality for supporting greater data quality such as:

System setting **RequiredPersonSearches** – this dictates the number of person searches that must be completed before a new person record can be created.

**Duplicate Detection rules** – These are applied on record creation and will warn users if they might be about to create a duplicate.

**Merge records** – there is functionality to merge records if duplicates are detected by the scheduled job.

The CareDirector Go-live date is currently being replanned for implementation in 2023.

**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 2020/21 Annual Governance Statement: -**

7.1 The robust Risk Management Framework has been strengthened further through the embedding of key processes and systems, and the introduction of risk management guidance for all staff. All key department and corporate strategic risks have been transferred into new Risk Management System and are now actively managed and monitored. Regular and proactive monitoring continues to provide reassurance through the corporate strategic risk review cycle, departmental DMT reviews of key risks and the quarterly reporting cycle to CMT.

7.2 Whilst no specific weaknesses have been identified, a programme of work has been undertaken to strengthen the County Council's cyber security arrangements to ensure they keep pace with the ever-changing threat of cyber-attack.

7.3 The County Council has published its new Strategic Plan, setting out its strategic priorities for the period 2021-2025, and alongside this. the current Performance Management Framework has been updated and has been implemented from April 2022.

7.4 To ensure health and safety risks are sufficiently represented at a corporate level, a new corporate Health and Safety Management Group has been set up. Along with the Resilience Management Group and the Information Governance Steering Group, all three subgroups feed directly into the corporate Risk Management Board.

7.5 The EIA guidance has been updated and a new tool was developed and implemented in May 2021.

7.6 The pandemic has caused an increase in demand which is likely to have had a negative impact on recording. All staff have access to personal computers for portable use to ensure access to recording despite working from home, with options for staff to work from the office should it be needed. There is a renewed focus upon improving recording in 22/ 23 with the development of a new recording system. The new design is incorporating improvements in access and ease of recording. This is likely to be introduced later in 2022/ early 2023. Training on proportionate recording is being prioritised. There is a particular focus on recording of safeguarding through management meetings and an increase in detailed safeguarding training being provided which includes recording. Safeguarding meetings are now recorded to ensure timely and accurate recording. A quality assurance framework has been introduced with managers auditing the quality of recording regularly. Excellent practice validation standards have been introduced which incentivise practitioners to ensure good practice in this area. The social care practice manual is being reviewed to ensure that the best guidance is available to staff on recording.

7.7 The Action Plan for 2021 identified a two-phase corporate approach to Contract Management training. This is designed for non-professional Contract Managers as a prerequisite to acquiring contract management responsibilities, to ensure consistency of approach. The first phase has now been launched in the form of an online training module, providing Managers with an overview of the fundamentals of managing contracts and outlining their responsibilities. The second phase which will include an assurance framework and checklist, will be developed to help departments to understand if their contracts are being managed effectively and thereby delivering their intended outcomes, is due to be finalised and launched in the second half of 2022. The combination of these two phases will ensure that there is effective, compliant and proactive management of contracts within Departments.

**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: 2022 | Date: 2022 |

## Schedule-Covid 19 Update Reports

Report to Cabinet 13 July 2021

Report to Cabinet 12 October 2021

Report to Cabinet 7 December 2021

Report to Cabinet 8 February 2022

Report to Cabinet 15 March 2022

# Glossary

**Academies**
Publicly funded independent schools, free from local authority control. Freedoms held by academies include the ability to set their own pay and conditions for staff, freedoms around the delivery of the curriculum, and the ability to change the lengths of terms and school days. The income, expenditure and assets of academies within Hampshire do not form part of the Council's accounts.

**Accruals basis**
Accounting for income and expenditure during the financial year in which they are earned or incurred, not when money is received or paid.

**Actuary**
A person or firm who analyses the assets and future liabilities of a pension fund and calculates the level of contributions needed to keep it solvent.

**Admitted bodies**
These are employers who have been allowed into the Hampshire Pension Fund at the County Council's discretion.

**Alternative investments**
These are less traditional investments where risks can be greater but potential returns higher over the long-term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

**Amortisation**
The process of writing down the cost of an asset or liability through depreciation or repayment of principle over a suitable period of time.

**Assets held for sale**
Assets that the Council intends to sell within the next year and are actively marketed as such.

**Additional voluntary contributions (AVCs)**
Additional voluntary contributions are paid by a contributor who decides to supplement his or her pension by paying extra contributions to the Scheme's AVC providers (Zurich and Equitable Life).

**Budget requirement**
Planned spending to be met from council tax, general Government grants and business rates.

**Capital adjustment account**
An account that reflects the difference between the cost of fixed assets consumed and the capital financing set aside to pay for them.

**Capital expenditure**
Expenditure on the acquisition or creation of a fixed asset or expenditure that adds to and does not merely maintain the value of an existing fixed asset.

**Capital receipt**
Proceeds from the sale of capital assets (e.g. land, buildings and equipment).

**Chartered Institute of Public Finance and Accountancy (CIPFA)**
The professional accountancy body for public services which recommends accounting practice for the preparation of local authority accounts.

**Community asset**
An asset that the Council intends to hold forever, that has no determinable useful life, and that may have restrictions on its disposal. An example of a community asset is parkland.

**Comprehensive Income and Expenditure Statement (CIES)**
Statement that shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices.

**Contingent asset**
A potential asset that is uncertain because it depends on the outcome of a future event.

**Contingent liability**
A potential liability that is uncertain because it depends on the outcome of a future event.

**Council tax**
A domestic property tax based on capital values with a personal element (a 25% discount for single-adult households). Each property is allocated to one of eight tax bands according to its capital value.

**Creditor**
An individual or body to which the Council owes money at the Balance Sheet date.

**Current asset**
An asset that is realisable or disposable within less than one year without disruption to services.

**Current liability**
A liability that is due to be settled within one year.

**Current service costs**
The increase in the present value of pension liabilities expected to arise from employee service in the current period.

**Custodian**
A bank that looks after Pension Fund investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

**Debtor**
An individual or body that owes money to the Council at the Balance Sheet date.

**Dedicated Schools Grant (DSG)**
A Government grant that can only be used to fund expenditure within the schools' budget.

**Deferred liability**
An amount owed by the Council that will be repaid over a significant period of time. For example, the Council holds a deferred liability to pay for assets constructed as part of the waste and street lighting PFI contracts, which will reduce over the life of the assets.

**Defined benefit pension scheme**
A pension scheme in which a pensioner's benefits are specified, usually relating to their length of service and either final salary or average earnings.

**Deposit**
Receipt held that is repayable in prescribed circumstances.

**Depreciated historical cost**
The valuation of fixed assets at their original cost less depreciation charged to date.

**Depreciated replacement cost**
Relating to fixed assets, the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open market value for the existing use of a specialised property.

**Depreciation**
The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

**Developers' contribution**
Developers may be required to provide contributions for building infrastructure. These may result from the Community Infrastructure Levy, section 106 and section 278 planning obligations, or planning conditions.

**Discretionary increase in pension payments**
This increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

**Dividends**
Income to the Pension Fund on its holdings of UK and overseas shares.

**Earmarked reserve**
See Reserve.

**Equities**
Shares in UK and overseas companies.

**Exceptional item**
An item identified separately in the accounts because of its exceptional nature to make sure the presentation of the accounts is fair.

**Expected credit loss**
An estimate of the losses an authority expects it will incur from financial instruments.

**Expected loss allowance**
The Council is unlikely to recover some debts because something has happened since the debt was raised. An assessment of the reduction in recoverable debt is made both individually (for individually significant debts) and collectively.

**Fair value**
The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

**Finance lease**
Under this type of lease, the risks and rewards of ownership of the leased goods transfer to the lessee.

**Financial instruments**
Any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another.

**Fixed asset**
An asset that yields benefits to the local authority and the services it provides for a period of more than one year.

**Foundation schools**
A category of school that receives its funding from the County Council, but are run by their own governing body, which employs the staff and sets the admissions criteria. Land and buildings are usually owned by the governing body or a charitable foundation

**General Fund**
The accumulated credit balance on the General Fund. It is the excess of income over expenditure in the Income and Expenditure Account after adjusting for movements to and from reserves and other non-cash items. This balance is needed as a cushion against unforeseen expenditure.

**Gross book value (GBV)**
The original or revalued cost of an asset before the deduction of depreciation.

**Gross expenditure**
The total cost of providing the Council's services before deducting income from Government grants, or fees and charges for services.

**Hedge fund**
A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

**Heritage assets**
Assets with historical, artistic, scientific, technological, geophysical or environmental qualities that are maintained principally for their contribution to knowledge and culture. The principal heritage assets owned by the Authority are its museum collections, archives collection and a small number of historic buildings and archaeological sites.

**Historical cost**
The amount originally paid for a fixed asset.

**Impairment loss**
A loss arising from an event that significantly reduces an asset's value, such as physical damage or a fall in market value.

**Infrastructure assets**
Fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

**Intangible assets**
Assets that do not have physical substance but are identifiable and controlled by the Council and bring benefits to the Council for more than one year, such as computer software.

**Internal trading account**
A service within the Council that operates on a trading basis with other parts of the Council.

**International Financial Reporting Standards (IFRS)**
International accounting standards that govern the treatment and reporting of income and expenditure in an organisation’s accounts.

**Inventories**
Goods that are acquired in advance of their use in the provision of services or their resale. At the year-end inventories are a current asset in the balance sheet and they will be charged to the CIES in the year they are consumed or sold.

**Investment property**
Property (land or buildings) that are held (by the owner or by the lessee under a finance lease) to earn rental income or for capital appreciation or both.

**Lessee**
The party that leases an asset that is owned by another party.

**Lessor**
The owner of an asset which is leased to another party.

**Local Government Pension Scheme (LGPS)**
The LGPS is a nationwide scheme for employees working in local government or working for other employers participating in the Scheme.

**Long-term asset**
An asset that may be held indefinitely for the provision of services or is realisable over a longer period than one year.

**Long-term borrowing**
A loan repayable in more than one year from the Balance Sheet date.

**Long-term debtor**
An individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

**Minimum revenue provision (MRP)**
The minimum amount (as specified in statute) which must be charged to the CIES each year and set aside as a provision for repaying external loans and meeting other credit liabilities.

**Net assets**
The amount by which assets exceed liabilities (same as net worth).

**Net assets statement**
A statement showing the net assets of the Pension Fund.

**Net book value (NBV)**
The value of an asset as recorded in the accounts. This usually equates to the net current replacement or original cost less any depreciation charged against the asset over its life to date.

**Net current liabilities**
The amount by which current liabilities exceed current assets.

**Net worth**
The amount by which assets exceed liabilities (same as net assets).

**Non-ringfenced government grants**
Amounts received from central Government towards funding the Council's activities that are not required to be spent on a particular service.

**Operating lease**
Under this type of lease, the risks and rewards of ownership of the leased goods remain with the lessor.

**Operational asset**
A fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

**Past service cost**
For a defined benefit pension scheme, the increase in the present value of the scheme's liabilities related to employee service from prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

**Payment in advance**
A payment for a service due to be received in a future financial year.

**Pooled budget**
Partners contribute a set amount of money to form a separate budget. The purpose and scope of the budget is agreed at the outset and then used to pay for relevant services and activities.

**Precept**
The demand made by the County Council on the collection funds maintained by the district councils for council taxpayers' contribution to its services.

**Private equity**
Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e. not easily turned into cash) and higher-risk investments that should provide high returns over the long-term.

**Private finance initiative (PFI)**
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

**Projected unit method**
One of the common methods used by actuaries to calculate a contribution rate to the LGPS, which is usually expressed as a percentage of the members' pensionable pay.

**Provisions**
An estimated figure within the accounts for liabilities that are known to exist but cannot be measured accurately.

**Public Works Loan Board (PWLB)**
A central government agency that provides loans to local authorities at a slightly higher rate than the Government is able to borrow. In most cases, the interest rates offered are lower than local authorities can achieve in the open market.

**Receipt in advance**
A receipt that is attributable to a future financial year.

**Related party**
An organisation, body or individual that has the potential to control or significantly influence the Council, or to be controlled or influenced by the Council.

**Reserve**
The Council's reserves fall into two categories. The 'unearmarked' reserve is the balance on the General Fund. An 'earmarked' reserve is an amount set aside in the Council's accounts for specific purposes.

**Revaluation reserve**
Records unrealised net gains from asset revaluations made after 1 April 2007.

**Revenue contributions to capital**
The use of revenue funds to finance capital expenditure.

**Revenue expenditure**
The operating costs incurred by the Council during the financial year in providing its day-to-day services. It is distinct from capital expenditure on projects that benefit the Council over a period of more than one financial year.

**Revenue expenditure funded from capital under statute (REFCUS)**
Expenditure that is classified as capital expenditure under statutory provisions, but does not result in the creation or enhancement of fixed assets owned by the County Council. Such expenditure incurred during the year is treated as revenue expenditure and charged to the relevant service in the CIES.

**Scheduled bodies**
These are organisations that have a right to be in the LGPS.

**Service concession**
Contracts typically involving a private sector entity (the operator) constructing or enhancing property used in the provision of a public service, and operating and maintaining that property for a specified period of time. The operator is paid for its services over the period of the arrangement.

**SAPS**
Self administered pension scheme

**SETS**
Stock Exchange Trading Service – a service provided by the Stock Exchange, enabling shares to be bought and sold electronically.

**Short-term investments**
An investment that is readily realisable within one year.

**Specific grants**
Central Government grants to finance a particular service.

**Straight-line basis**
Dividing a sum equally between several years.

**Surplus assets**
Fixed assets held by the Council but not directly occupied, used or consumed in the delivery of services. These are assets that do not meet the criteria to be classified as either investment property or assets held for sale.

**Transfer value**
The value of an employee’s pension rights, which can be transferred from one pension scheme to another.

**Transferred debt**
Debt serviced by bodies that are independent of the Council following the transfer of services formerly provided by the Council.

**Trust fund**
A fund set up under a trust deed in which the Council is a trustee.

**Useful life**
The period over which the Council will benefit from the use of a fixed asset.

**Voluntary aided schools (VA schools)**
Mainly religious or 'faith' schools, although anyone can apply for a place. As with foundation schools, the governing body employs the staff and sets the admissions criteria.

**Voluntary controlled schools (VC schools)**
Similar to voluntary aided schools, but are run by the local authority. As with community schools, the local authority employs the school's staff and sets the admissions criteria.

**Write-off**
Elimination of an asset or liability over a defined period, usually by means of charging or crediting the CIES.

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

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

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

*[Date]*

Ernst & Young
Grosvenor House
Grosvenor Square
Southampton
S015 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 2022. 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 position of Hampshire County Council as of 31 March 2022 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 2021/22

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 2021/22

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 2021/22*,* 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 2021/22, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls

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 as such we have not corrected these.

6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange.

**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 improprieties;
    - 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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

3. We have made available to you all minutes of the meetings of the Council 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 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 the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 20*21/22.*

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 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each

case or in the aggregate, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount

**D. Liabilities and Contingencies**

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

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.

**E. Going Concern**

1. Note 28.1 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. There have been no events , including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

**G. Other information**

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises Narrative Report and Annual Governance Statement.

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

**H. Climate-related matters**

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered and reflected in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

**I. Reserves**

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

**J. Use of the Work of a Specialist**

When the Council has used the work of a specialist, we may include the following representation:

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

**K. 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 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 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 2021/22.

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.

**L. 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*,

______________________________

(Director of Corporate Operations)

(Chairman of the Audit Committee)

[To be prepared on the entity's letterhead]

*[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 Pension Fund ("the Fund") for the year ended 31 March 2022. 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 2021 to 31 March 2022 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2022, 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 2021/22.

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 2021/22.

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 2021/22, 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 2021/2022 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls

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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus

4. We have made available to you all minutes of the meetings of 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: 28 September 2022

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 2021/2022

9. From the date of our last management representation letter (16 December 2021) through the date of this letter we have disclosed to you any (1) unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate

and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

**D. Liabilities and Contingencies**

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

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 2 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 6 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 2021/22

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.

**N. Climate-Related Matters**

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 aligned with the statements

we have made in the other information or other public communications made by us.

*Yours faithfully*,

__________________________

Chief Financial Officer

__________________________

Chair

**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker:** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Treasury Management Mid-Year Monitoring Report 2022/23 |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Alan Kitcher

**Tel:** 0370 779 6597 **Email:** Alan.Kitcher@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 2021. 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 recommendation that are being reported to Cabinet:

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

## 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 2022/23.

4. The County Council's treasury management strategy was most recently updated and approved at a meeting of Full County Council in February 2022. 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 2022, 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 2022/23, 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 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The latest iteration of the County Council's Capital and Investment Strategy, complying with CIPFA's requirement, was approved by Full Council in February 2022.

**External Context**

9. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2022/23.

**Economic commentary**

10. Following Russia's invasion of Ukraine in February, global inflationary pressures have intensified sharply, leading to a sizeable deterioration in the outlook for world and UK growth.

11. The economic backdrop was characterised by higher oil, gas and commodity prices, fears of rising and persistent inflation and its damaging impact on consumers' cost of living, little indication of an imminent end to Russia-Ukraine hostilities and supply chain bottlenecks exacerbated by war in Ukraine and lockdowns in China.

12. In the UK inflation remained elevated. Ofgem, the energy regulator, increased the energy price cap by 54% in April, and in August announced that a further increase of 80% will come into effect from October. August data showed CPI reached 9.9%, whilst RPI rose to 12.3%.

13. Having increased interest rates by 0.25% in May and a further increase of 0.25% in June, the Bank of England's Monetary Policy Committee on the 4th August 2022 voted 8-1 to increase the official Bank Rate by 0.50% to 1.75%. Those members in the minority preferred to increase Bank Rate by 0.25%.

**Financial markets**

14. Heightened uncertainty characterised financial market sentiment and bond yields were similarly volatile but with a general upward trend as concern over higher inflation and higher interest rates dominated.

**Credit review**

15. Credit default swaps are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

16. Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days.

**Local Context**

17. On 31 March 2022, the County Council's underlying need to borrow for capital purposes was £780.32m as measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment and amounted to £1,032.34m. These factors are summarised in Table 1.

| Table 1: Balance sheet summary | 31/03/22 Balance £m |
|---|---|
| CFR | 780.32 |
| Less: Other debt liabilities* | (129.06) |
| **Borrowing CFR** | **651.26** |
| External Borrowing | (295.00) |
| **Internal Borrowing** | **356.26** |
| Less: Usable Reserves | (882.15) |
| Less: Working Capital | (150.19) |
| **Net Investments** | **(676.08)** |

* 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 2022 and the movement since 31 March 2022 are shown in Table 2.

| Table 2: Treasury management summary | 31/03/22 Balance £m | Movement £m | 31/08/22 Balance £m | 31/08/22 Rate % |
|---|---|---|---|---|
| Long-term borrowing | (241.2) | 0.1 | (241.1) | 4.62 |
| Short-term borrowing | (8.0) | 2.0 | (6.0) | 5.42 |
| **Total borrowing** | **(249.2)** | **2.1** | **(247.1)** | **4.64** |
| Long-term investments | 220.6 | (8.0) | 212.6 | 4.44 |
| Short-term investments | 439.0 | (51.4) | 387.6 | 1.20 |
| Cash and cash equivalents | 22.4 | 148.3 | 170.7 | 1.63 |
| **Total investments** | **682.0** | **88.9** | **770.9** | **2.19** |
| **Net investments** | **432.8** | **91.0** | **523.8** | |

Note: the figures in Table 2 at 31 August 2022 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 £91.0m 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 £2.1m reflects the repayment of debt in line with scheduled timescales. The increase of £88.9m 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 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 March 2023 when the pre-paid period restarts.

**Borrowing Update**

20. The County Council has no plans to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

21. The County Council is not planning to purchase any investment assets primarily for yield, so is able to retain full access to the PWLB, however there are no plans to take on any new external borrowing.

22. Further, the County Council has and may continue to invest in pooled funds as part of its Treasury Management strategy. This is not a policy to primarily generate yield but a part of the implementation of the wider Treasury Management strategy to invest the County Council's surplus cash and reserves ensuring it is investing its funds prudently, having regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. By investing a diversified portfolio in respect of yield this meets the County Council's aim of protecting reserves from high inflation.

23. The County Council is a net investor and as stated in the Treasury Management Strategy 2022/23, the County Council expects a negative liability benchmark across the forecast period, meaning that there is not a requirement to borrow and that the County Council could potentially repay its current external borrowing and still fund the planned capital programme. Although the County Council would like to reduce its external borrowing, the premium charged by the PWLB means that it would cost more to repay the borrowing early than it would to repay at maturity, therefore at this time the County Council will not repay its external borrowing early and will continue to repay as maturities come due. Therefore, by continuing to invest core investment balances in the higher yielding strategy (and not divesting of these funds) the County Council continues to act prudently to ensure protection from high inflation, whilst acting within the guidance that is now in place.

**Borrowing Activity**

24. At 31 August 2022 the County Council held £247.1m of loans (a decrease of £2.1m since 31 March 2022) as part of its strategy for funding previous years' capital programmes. The mid-year treasury management borrowing position and movement since 31 March 2022 are shown in Table 3.

| Table 3: Borrowing position | 31/03/22 Balance £m | Net movement £m | 31/08/22 Balance £m | 31/08/22 Weighted average rate % | 31/08/22 Weighted average maturity (years) |
|---|---|---|---|---|---|
| Public Works Loan Board | (208.0) | 2.0 | (206.0) | 4.69 | 9.71 |
| Banks (LOBO) | (20.0) | 0 | (20.0) | 4.76 | 10.87 |
| Other (fixed term) | (21.2) | 0.1 | (21.1) | 3.99 | 17.40 |
| **Total borrowing** | **(249.2)** | **2.1** | **(247.1)** | **4.64** | **10.46** |

Note: the figures in Table 3 at 31 August 2022 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.

25. 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.

26. 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.

27. 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.

28. 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**

29. 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 2022, the County Council's investment balances ranged between £670m and £857m due to timing differences between income and expenditure. The investment position as at 31 August 2022 and the change since 31 March 2022 are shown in Table 4.

| Table 4: Treasury investment position | 31/03/22 Balance<br><br>£m | Net movement<br><br>£m | 31/08/22 Balance<br><br>£m | 31/08/22 Income return % | 31/08/22 Weighted average maturity (years) |
|---|---|---|---|---|---|
| **Short term investments** | | | | | |
| Banks and building societies: | | | | | |
| - Unsecured | 83.0 | 69.0 | 152.0 | 1.67 | 0.19 |
| - Secured | 93.5 | (47.4) | 46.1 | 0.58 | 0.37 |
| Government: | | | | | |
| - Local authorities | 203.5 | (125.5) | 78.0 | 0.34 | 0.27 |
| - UK treasury bills | 28.0 | 45.0 | 73.0 | 2.09 | 0.38 |
| - UK Gilts | 12.0 | 13.0 | 25.0 | 0.13 | 0.44 |
| - Supranational | 10.0 | 11.0 | 21.0 | 1.00 | 0.32 |
| Money market funds | 21.4 | 131.8 | 153.2 | 1.65 | 0.02 |
| Cash plus funds | 10.0 | 0.0 | 10.0 | 0.79 | 0.03 |
| | **461.4** | **96.9** | **558.3** | **1.33** | **0.21** |
| **Long term investments** | | | | | |
| Banks and building societies | | | | | |
| | | | | | |
| - Secured | 10.0 | (10.0) | 0.0 | 0.00 | 0.00 |
| Government: | | | | | |
| - Local authorities | 5.0 | 0.0 | 5.0 | 0.61 | 1.45 |
| | **15.0** | **(10.0)** | **5.0** | **0.61** | **1.45** |
| | | | | | |
| Government: | | | | | |
| - Local authorities | 22.4 | 0.5 | 22.9 | 4.65 | 10.75 |
| Pooled funds: | | | | | |
| - Pooled property* | 75.0 | 0.0 | 75.0 | 3.67 | N/A |
| - Pooled equity* | 50.0 | 1.0 | 51.0 | 5.79 | N/A |
| - Pooled multi-asset* | 48.0 | 0.0 | 48.0 | 4.40 | N/A |
| **Total** | **195.4** | **1.5** | **196.9** | **4.51** | **10.75** |
| **Total investments** | **671.8** | **88.4** | **760.2** | **2.15** | **0.49** |
| Thames Basin Heaths pooled fund investments | 10.2 | 0.5 | 10.7 | 4.91 | |
| **Total** | **682.0** | **88.9** | **770.9** | | |

The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 August 2022 based on the market value of investments 12 months earlier. Note: the figures in Table 4 at 31 August 2022 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.

30. The County Council made a payment of £226.7m on 1 April 2020 to prepay its employer's LGPS pension contributions. 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, which will be added to the Budget Bridging Reserve.

31. Investment balances have subsequently increased and were £88.4m higher at 31 August 2022 in comparison to the position at 31 March 2022. This is in part explained by the County Council not having to make monthly employer's pension contributions in 2022/23 (having already paid in advance) and the balance of grants received but not yet applied.

32. 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.

33. 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.

34. In delivering investment returns, the County Council has operated against a backdrop in which the UK Bank Rate was increase to 1.75% in August 2022 in response to continued inflation. This has resulted in improved returns 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 has been slightly higher for other short-term options like fixed duration loans to other local authorities and bank notice accounts. However, investment income continues to largely come from the County Council's investments in pooled funds.

35. 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 30 June 2022 and at 31 March 2022 for comparison.

| **Table 5: Investment benchmarking (excluding pooled funds)** | **Credit rating** | **Bail-in exposure %** | **Weighted average maturity (days)** | **Rate of return %** |
|---|---|---|---|---|
| 31.03.2022 | AA- | 21 | 302 | 0.63 |
| 30.06.2022 | AA- | 43 | 232 | 0.97 |
| Similar LAs | AA- | 52 | 1,728 | 1.09 |
| All LAs | AA- | 64 | 16 | 0.92 |

36. Table 5 shows the average credit rating of the portfolio has remained consistent over the three-month period, whilst bail-in exposure has increased, as the County Council held a greater investment balance in unsecured bank bonds, which are subject to bail-in risk. 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. The average rate of return (0.97%) was higher than at 31 March 2022.

37. The County Council compared favourably with the other local authorities included in the benchmarking exercise across all metrics other than the internal rate of return where on average similar local authorities achieved a return that was 0.12% greater at 30 June 2022, however the weighted average maturity for the group was around 4.7 years. This set of results is misleading as the group has been skewed by one authority investing in ultra-long bonds; excluding that authority the average return for similar authorities is 1.03% with a weighted average maturity of 121 days.

**Externally managed pooled funds**

38. 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 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 2022/23.

39. Approximately £185m of this allocation has now been invested, with the remaining balance earmarked. The total includes £10.7m 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.

40. 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.

41. April to August was a difficult environment for risk assets, in particular bonds and equities engendered by central banks' determination to bring high and persistent inflation under control through increases in policy rates and strong rhetoric. With the market expecting further increases in interest rates and government bond yields in the US, UK and Europe (this, despite a weakening consumer and the prospect of a recession), there was a sell-off in bonds and equities which was reflected in the Authority's bond, equity and multi-asset income funds. Significant financial market volatility and uncertainty remain as due to stagflation fears, little sight of the war in Ukraine ending soon and ongoing supply chain issues, a lingering problem over the past 24 months, are yet to be fully resolved.

42. The County Council's investments in pooled funds fell considerably in value when the coronavirus pandemic hit world markets, but the Pooled Property Fund and Pooled Equity Funds have since recovered well reflecting improved market sentiment. 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 31/08/21 | Gain / (fall) in capital value | |
|---|---|---|---|---|
| | | | Since purchase | One year |
| | £m | £m | £m | £m |
| Pooled property funds | 75.0 | 83.8 | 8.8 | 8.2 |
| Pooled equity funds | 51.0 | 52.5 | 1.5 | 0.9 |
| Pooled multi-asset funds | 48.0 | 45.2 | (2.8) | (4.8) |
| **Total pooled funds** | **174.0** | **181.5** | **7.5** | **4.3** |
| Fixed deposits | 22.9 | 22.9 | 0.0 | 0.0 |
| **Total higher yielding** | **196.9** | **204.4** | **7.5** | **4.3** |

* excludes £10.7m invested on behalf of Thames Basin Heaths JSPB

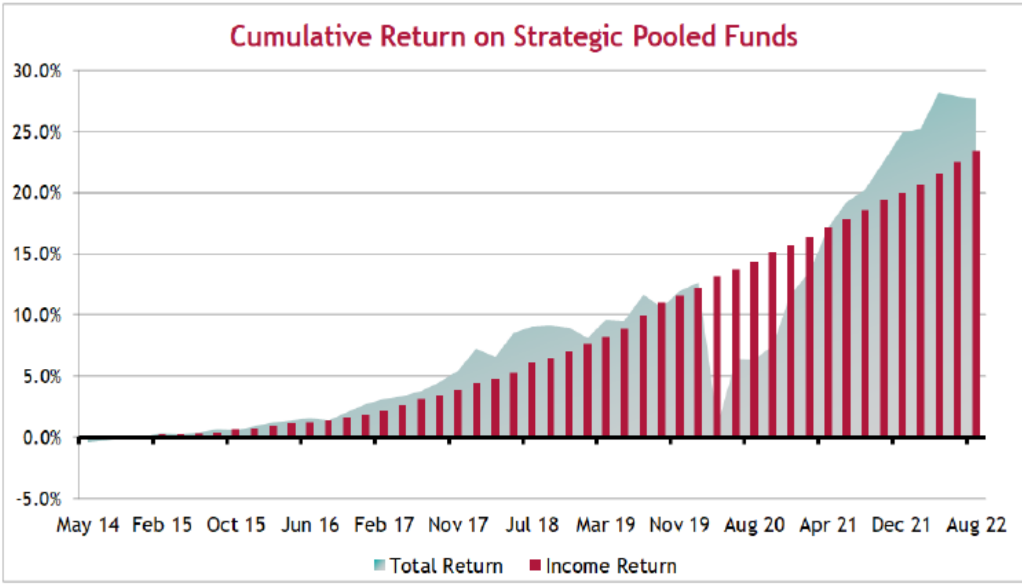
43. The County Council's investments in pooled funds target long-term price stability and regular revenue income and bring significant benefits to the revenue budget. As shown in Table 7 the annualised income returns have averaged 4.21% pa (per annum) since purchase against the higher yielding strategy target of 4% pa, contributing to a total return of 27.72%.

| Table 7: High yielding investments – income and total returns since purchase | Annualised income return | Total return |
|---|---|---|
| | % | % |
| Pooled property funds | 3.87 | 40.12 |
| Pooled equity funds | 4.74 | 35.74 |
| Pooled multi-asset funds | 4.14 | 4.03 |
| **Total pooled funds** | **4.21** | **27.72** |

Note: excludes the performance related to £10.7m invested on behalf of Thames Basin Heaths JSPB.

44. 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.

45. he 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 Count 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 £10.7m invested on behalf of Thames Basin Heaths JSPB.

46. 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.

47. 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.

48. 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**

49. 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.

50. 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.

51. The County Council's existing non-treasury investments are listed in Table 8.

| **Table 8: Non-Treasury Investments** | **31/08/22 Asset value £m** | **31/08/22 Rate %** |
|---|---|---|
| Loans to Hampshire based business | 9.5 | 4.0 |
| **Total** | **9.5** | **4.0** |

**Compliance Report**

52. 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.

53. Compliance with the authorised limit and operational boundary for external debt, is demonstrated in Table 9.

| **Table 9: Debt Limits** | **2022/23 Maximum £m** | **31/08/22 Actual £m** | **2022/23 Operational Boundary £m** | **2022/23 Authorised Limit £m** | **Complied?** |
|---|---|---|---|---|---|
| Borrowing | 282 | 247 | 720 | 790 | ✓ |
| PFI and Leases | 133 | 141 | 130 | 160 | ✓ |
| **Total debt** | **415** | **388** | **850** | **950** | ✓ |

54. 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. There are no plans for any increase in PFI liabilities.

**Treasury Management Indicators**

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

**Interest rate exposures**

56. 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 | 31/08/22 Actual | Impact of +/-1% interest rate change |
|---|---|---|
| Sums subject to variable interest rates | | |
| Investment | £558m | +/- £5.58m |
| Borrowing | £6m | +/- £0.06m |

57. 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**

58. 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 | 31/08/22 Actual | Upper Limit | Lower Limit | Complied |
|---|---|---|---|---|
| Under 12 months | 2% | 50% | 0% | ✓ |
| 12 months and within 24 months | 4% | 50% | 0% | ✓ |
| 24 months and within 5 years | 14% | 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 | 6% | 75% | 0% | ✓ |
| 30 years and above | 0% | 100% | 0% | ✓ |

59. 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

60. 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 | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Actual principal invested beyond year end | £212m | £205m | £205m |
| Limit on principal invested beyond year end | £330m | £300m | £300m |
| Complied? | ✓ | ✓ | ✓ |

61. The table includes investments in strategic pooled funds of £185m 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

62. The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022, however following a consultation CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard - a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The County Council intends to adopt the new standard on 1st April 2023 or later.

### Prudential Code

63. 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.

64. The Prudential Code is expected to include the acceptable reasons to borrow money:

    i. financing capital expenditure primarily related to delivering a local authority's functions,

    ii. 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.

65. 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**

66. The new Treasury Management Code will be adopted by the County Council for 2023/24 as recommended. The change will include increasing the frequency of Treasury Management reporting to a quarterly basis. The liability benchmark will be included as a mandatory treasury indicator in order to strengthen decision making. Changes to the knowledge and skills framework will adopted as part of the training plans to improve knowledge in a specialist area. In addition, CIPFA has incorporate Environmental, Social and Governance (ESG) issues as a consideration within TMP (Treasury Management Practice).

**Consultation, Equalities and Climate Change Impact Assessment**

67. This report deals with the treasury management mid-year position for 2022/23, which is within year reporting matter and therefore no consultation or Equality Impact Assessments are required.

68. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2℃ temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

69. 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.

70. 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:** | |
|---|---|
| Title | Date |
| **Direct links to specific legislation or Government Directives** | |
| Title | Date |

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

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

| Document | Location |
|---|---|
| None | |

## EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

2. Equalities Impact Assessment:

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

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**HAMPSHIRE COUNTY COUNCIL**

**Decision Report**

| | |
|---|---|
| **Decision Maker** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Internal Audit Plan 2022-23 |
| **Report From:** | Director of Corporate Operations |

**Contact name:** Neil Pitman

**Tel:** 07719 417233 **Email:** Neil.pitman@hants.gov.uk

## Purpose of this Report

1. The purpose of this report is to provide the Audit Committee with an overview of the Internal Audit Plan 2022 – 2023 (Appendix 1).

## Recommendation(s)

2. That the Audit Committee are invited to comment on and approve the Internal Audit Plan 2022-23 as attached.

## Contextual information

3. In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control and to assist in producing the Annual Governance Statement.

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

   - The framework of internal control, risk management and governance is appropriate and operating effectively; and

   - Risks to the achievement of the County Council's objectives are identified, assessed and managed to a defined acceptable level.

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

6. Internal audit focus should be proportionate and appropriately aligned, as such, only high and medium priority reviews are incorporated within the Internal Audit Plan.

7. All low priority review areas remain within the audit universe and are reassessed on an annual basis, however, will not be routinely incorporated in the planning process if continued to be assessed as a low priority.

8. The audit plan will remain fluid to ensure internal audits ability to react to the changing needs of the County Council.

9. Other reviews, based on criteria other than risk, may also be built into the work plan. These may include ‘mandatory’ audits or reviews requested or commissioned by management. Any commissioned review must be able to clearly demonstrate a contribution to the audit opinion on risk management, control and governance

**Performance**

10. Our ‘internal audit charter’ ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion.

11. Significant matters that jeopardise the delivery of the plan, or require changes to the plan are identified, addressed and reported to the Audit Committee.

12. The internal audit team have adopted a matrix style approach to enable the delivery of the plan, by using a resource pool of multi-disciplinary auditors capable of forming into teams as audit projects determine.

13. This approach will ensure seasonal peaks in demand can be effectively managed, an appropriate level of independence in the rotation of audit reviews and the avoidance of over reliance on individual areas of expertise.

14. The Audit Plan 2022 – 23 has been developed to operate at a strategic level providing a value adding, and proportionate, level of assurance aligned to the County Council’s objectives.

15. The endorsement and sponsorship of the plan(s) at member / chief officer level will assist in providing the engagement and buy-in of staff at an operational level to ensure the outcome of audit reviews are optimised

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

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

| |
|---|
| **OR** |
| **This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:**<br>*'Board' consideration and approval of the Internal Audit Plan, in accordance with the Accounts and Audit (England) Regulations 2015 and the Public Sector Internal Audit Standards* |

**Other Significant Links**

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

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

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

| Document | Location |
|---|---|
| None | |

## EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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Southern Internal Audit Partnership

Assurance through excellence and innovation

# HAMPSHIRE COUNTY COUNCIL
# INTERNAL AUDIT PLAN 2022-23

**Prepared by:** **Neil Pitman, Head of Partnership**

**June 2022**

## Contents

## Introduction

The role of internal audit is that of an:

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

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

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

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

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



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

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

## Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Neil Pitman, Head of Southern Internal Audit Partnership, supported by Karen Shaw, Deputy Head of Partnership, Natalie Jerams, Deputy Head of Partnership and Iona Bond, Rebecca Turnbull, Liz Foster, Mark Norton and James Short, Audit Managers.

## Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

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

> *'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.*
>
> *We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'*

## Conflicts of Interest

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

## Developing the internal audit plan 2022/23

We have used various sources of information and discussed priorities for internal audit with the following groups:

- Corporate Management Team
- Directorate Management Teams
- Other Key Stakeholders
- Audit Committee

In accordance with the Public Sector Internal Audit Standards there is a requirement that Internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation's goals.

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

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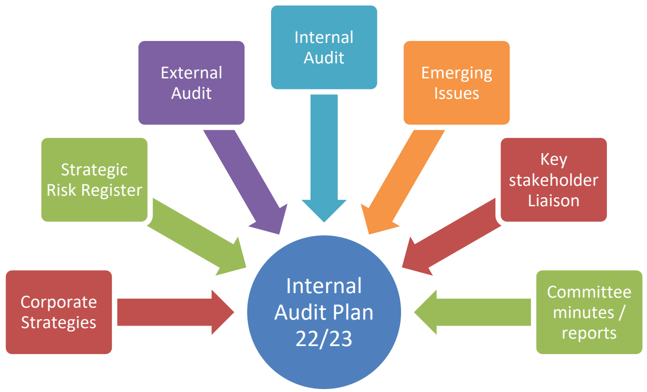
The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

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



## Internal Audit Plan 2022-23

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| **Corporate Cross Cutting** | | | | |
| Health and Safety | DCCBS | Review of new governance and processes to assess whether they are embedded and working well across departments to ensure compliance with Health and Safety Regulations. | | Q4 |
| Emergency Planning | DCCBS | To review the effectiveness of the emergency planning governance, strategy/policy and procedures and their application within departments following a project to review emergency planning. | | Q3 |
| Budget Monitoring - AHC | DCO<br>DAHC | Assurance that new procedures have been rolled out and are working in practice to support effective budget monitoring. | | Q4 |
| Debt Management (include Adults) – Follow up(s) | DCO | Follow up of previous audit reviews to ensure that debt is correctly identified and that efficient and effective procedures are in place to pursue outstanding debt. | | Q4 |
| Use of agency workers | DHR,OD,C&E | A review of processes, governance and decision making. To consider off contract spend. | | Q3 |
| Compliance with DBS/NPPV checks | DHR,OD,C&E | To review the process and controls in place for managers to ensure DBS and NPPV checks are carried out and personnel records are updated. | | Q3 |
| Sickness Management | DHR,OD,C&E | To review the sickness management process and test compliance across all departments. To include return to work meetings, progressing through trigger points, referral to Occ Health etc. | | Q4 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| Workforce Planning | DHR,OD, C&E | Assurance that there is effective workforce planning to ensure the Council have the right people with the right skills in the right place at the right time | 450, 211, 440 | Q3 |
| Departmental Cloud Applications Management | Corporate | Effective due diligence and management of cloud application services over the lifecycle of the contract to manage data and IT security risks. | | Q2 |
| **Governance** | | | | |
| Strategic Financial Planning and Monitoring | DCO | To review the processes and controls in place to identify and monitor priorities and pressures and their implications for future financial sustainability to ensure the Council is able to deliver its objectives. This will include review of how the financial impacts of savings plans are being monitored and reported and the implementation of the CIPFA Financial Management Code. | 417, 283 | Q1/Q2 |
| FDM – Supplier Create / Amend Process | DCO | That the updated end to end processes and enhanced controls are sufficient and operating effectively - (Advisory) | | Q4 |
| Teachers' Pension Income from External Payroll Providers | DCO | To provide advice / consultancy on the process of collating Teacher's pensions from maintained London Borough schools and payment to Teachers' pensions to ensure risks are effectively managed. | | Q1/Q2 |
| BACs process | DCO | Review of the BACs process to ensure controls are in place and operating effectively - (Advisory) | | Q1/Q2 |
| State Pension Age and National Insurance Category | DCO | To provide advice / consultancy on changes to automate the stopping of national insurance payments for employees of state pension age to ensure risks are assessed and managed. | | Q1/Q2 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| Fraud (Proactive / Reactive) | DCE & DCR | Range of proactive and reactive initiatives to help identify and mitigate the risk of fraud. To include participation in the National Fraud Initiative. | | Q1-Q4 |
| Annual Governance Statement | L&G | To review the annual governance statement process to ensure it is effective and working well. | | Q1 |
| **IT** | | | | |
| Ransomware Defence and Response | DCO | Assurance over compliance with government guidance. | | Q3 |
| Major Incident Management | DCO | Assurance over the effective management of priority one incidents across the IT department. | | Q1 |
| Contract Management | DCO | Reasonable assurance given in 2019/20. Lighter touch piece of audit work to look at changes to controls since that audit rather than a full scope audit. | | Q1 |
| SAP Platform Management | DCO | Assurance over the management of the SAP platform. | | Q3 |
| HPSN3 | DCO | Assurance over the project and risk management controls in place. | | Q1/2 |
| O365 Platform Management | DCO | Assurance over the management of the O365platform. | | Q1 |
| Vulnerability Management (Compliance) | DCO | Assurance over compliance with vulnerability management procedures across IT. | | Q3 |
| PCI DSS Assessment | DCR | 2022 assessment of compliance against the PCI DSS. | | Q1/2 |
| **Corporate Objective - Hampshire safer and more secure for all** | | | | |
| Safeguarding - Children | DCS | To review the ongoing internal and external assurances that the department receive for the safeguarding of children. | | Q4 |
| School Thematic(s) | DCS | Review a sample of schools and disseminate key risks / actions to all establishments. Themes to cover Payroll, Income Generation, | | Q1-Q4 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| | | Procurement & Contract Standing Orders (incl. Related Party Transactions). | | |
| Reactive - Schools/establishments | DCS | Full reviews of individual schools based on discussions with relevant stakeholders | | Q1-4 |
| SFVS | DCS | To review the SFVS responses received and sample check of answers / supporting prior to DfE deadline | | Q1 |
| Swanwick Lodge | DCS | To review the effectiveness of financial processes in place at Swanwick Lodge, including the usage of agency staff. | | Q2 |
| Direct Payments | DAHC | To review the effectiveness of processes in place for the provision of Direct Payments across older and younger adults. | | Q4 |
| Social Supervision | DAHC | To review the effectiveness of the processes in place for Social Supervision. | | Q3 |
| Training Attendance | DAHC | To review the processes in place to ensure staff are attending mandatory training, focusing on social work practice across younger and older adults. | | Q1 |
| CART/MASH Information Sharing | DAHC | To review the effectiveness of the processes in place for sharing information by CART and MASH. | | Q2 |
| Afghan Bridging Hotel Work | DAHC | To provide assurance that the Afghan bridging hotel work is being carried out in line with Home Office guidance. | | Q1 |
| Provider Failure | DAHC | To review the processes in place to protect against provider failure and its effects. | 351, 443 | Q2 |
| **Corporate Objective - Maximising wellbeing** | | | | |
| Foster Care Payments | DCS | End to end review of the new Foster Care Payments process | | Q4 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| Holiday activity fund | DCS | To review the effectiveness of processes in place to manage the DfE Holiday Activities and Food programme funding. | | Q1 |
| Special Educational Needs and Disabilities (SEND) | DCS | To review the effectiveness of processes in place for the commissioning and management of high cost SEND packages. | | Q2 |
| Education Other Than at School (EOTAS) | DCS | To review the effectiveness of processes in place for the commissioning and management of high cost EOTAS packages. | | Q3 |
| Education Psychology | DCS | To review processes in place for Education Psychology following on from the transformation work required in order to improve the budget position. | | Q4 |
| Ukraine Payments | DCS | To review processes in place for the placement and payment of respective tariffs. | | Q3 |
| Out of Area Placement Reviews | DAHC | To provide assurance over the review and monitoring of placements for clients placed outside of Hampshire including both Younger and Older Adults. | | Q2 |
| Service User Financial Processes | DAHC | To review processes from financial assessment through to the creation and charging of provision. | | Q3 |
| COVID-19 Grants | DAHC | To review the processes in place for the handling of central government COVID-19 related grants. | | Q1 |
| Continuing Health Care + Recharging | DAHC | To review the effectiveness of processes in place for the recharging of CHC costs. | | Q4 |
| HCC Care Charging | DAHC | To review the effectiveness of processes in place for the charging of HCC Care costs. | | Q2 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| Carers Assessments | DAHC | To review the processes in place for the provision of Carers Assessments including assessment of planned respite. | | Q1 |
| AHC thematic review | DAHC | To review a sample of establishments and disseminate key risk and actions to all relevant parties. Theme to include the usage of minibuses. | | Q2 |
| Review of Care Director | DAHC | Critical friend review of new adult care system – Care Director | | Q3 |
| **Corporate Objective - Enhancing our quality of place** | | | | |
| Asset Investment Strategy | DETE | Review of the governance / risk management / decision making arrangements in place regarding asset investment and maintenance. (This follows a BSI audit of the Asset Management Framework). | **280, 449** | Q3 |
| County Highways Laboratory | DETE | Review of commissioning and commercial processes in relation to the testing of construction materials and workmanship for local authorities and private sector clients across the south. | | Q2 |
| Street Works (Permitting System) | DETE | Review of arrangements in place for booking road space to carry out street works for both internal and external clients and charging external bodies. | | Q1 |
| Road Adoption Process | DETE | Review of the arrangements in place for developers to hand over roads for adoption as part of the public highway. | | Q1 |
| Climate Change | DETE | To review the approach taken within ETE to meet the requirements of the climate change agenda and targets. | **287** | Q2 |
| Developers Contributions | DETE | To review the arrangements in place for managing developer contributions. | **478** | Q1 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| Flood Risk Coastal Defence Programme | DETE | Review of scheme governance arrangements and effectiveness of progress monitoring arrangements. | | Q3 |
| Equalities Impact Assessments | DETE | Review of the arrangements for producing assessments, particularly in relation to proposed transport schemes. | | Q3 |
| County Supplies Transport and Distribution | DCCBS | Review the effectiveness of the transport and distribution processes. | | Q1 |
| HTM H&S compliance | DCCBS | Review compliance with Health and Safety Policies and procedures. | | Q2 |
| County Supplies H&S compliance | DCCBS | Review compliance with Health and Safety Policies and procedures. | | Q4 |
| Business Planning and income generation | DCCBS | Service level and business unit review of business plans to ensure they align with the CCBS strategy and income generation is maximised. | 307 | Q3 |
| Buildings Health and Safety | DCCBS | Review of service objectives in relation to the PPM activities, alignment with safety policies, monitoring, and performance expectations. Including clear definition of statutory obligations, documented procedures and effective data records. | 389 | Q1 |
| Southern Construction Framework – Fair Payment Charter | DCCBS | Review of arrangements in place to ensure that sub-contractors are paid in line with the Fair Payments Charter. | | Q4 |
| Print and Post Services | DCCBS | Review data protection arrangements within print and post services processes to ensure they are robust and working well. | | Q1 |
| Tree management | DCCBS | Review the strategy and processes for the management of trees to ensure they effectively manage health and safety risks. | 110 | Q2 |



Southern Internal Audit Partnership
Assurance through excellence and innovation

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| Registration Service Ceremony booking process | DCCBS | Review ceremony booking process and income generation to assess that it is working well and meets legislative requirements. | | Q1 |
| **Procurement and Contract Management** | | | | |
| Highways Service contract | DETE | To review effectiveness of contract management arrangements to ensure that contractual obligations continue to be met. | 277, 278, 449 | Q4 |
| HWRC Contract Management | DETE | To review the Household Waste Recycling Centre (HWRC) Contract management processes to ensure that robust measures are in place and contractual obligations are met. | | Q4 |
| Procurement of Younger Adults Supported Accommodation (YASA) | DCO | To review procurement processes and compliance with Regulations and agreed policies for the Younger Adults Supported Accommodation (YASA) tender. | | Q1 |
| Contract Management Training - advice | DCO | Advisory work to input into the development of e-leaning during the year. | | Q2 |
| **Grants / Other –** | | | | |
| Reading & Hampshire Property Partnership | DCCBS | Certify a sample of transactions and reconciliations for HCC / RBC. | | Q1 |
| Local Transport Plan–integrated transport plan | DETE | As per grant certification | | Q2 |
| Local Transport Plan–block maintenance | DETE | As per grant certification | | Q2 |
| Local Transport plan–incentive element | DETE | As per grant certification | | Q2 |
| Local Transport Plan–Pothole & Challenge Fund | DETE | As per grant certification | | Q2 |
| Local Bus Subsidy support grant (BSOG) | DETE | As per grant certification | | Q2 |
| COVID-19 Bus Services Recovery Grant | DETE | As per grant certification | | Q2 |

| Audit | Directorate Sponsor | Scope/ Risk | Corporate/ Directorate Risk | Quarter |
|---|---|---|---|---|
| COVID-19 Bus Recovery Local Transport Funding | DETE | As per grant certification | | Q3 |
| Disabled Facilities Grant | DETE | As per grant certification | | Q2 |
| Community Renewal Fund | DETE | As per grant certification | | Q2 |
| Additional Dedicated Home to School Transport | DCS | As per grant certification | | Q2 |
| Project integra | DCCBS | As per grant certification | | Q1 |
| Growth hub funding to LEPS | DETE | As per grant certification | | Q1 |
| EM3 LEP Peer Network Funding | DETE | As per grant certification | | Q2 |
| Additional growth hub funding to local LEPS | DETE | As per grant certification | | Q1 |
| COVID 19 Test and Trace Service Support | DAHC | As per grant certification | | Q2 |
| Local Authority Test and Trace Contain Outbreak Management Fund (COMF) | DAHC | As per grant certification | | Q1 |
| Superfast Broadband Grant and project Closure | DCCBS | As per grant certification | | Q1 |
| Public Sector Decarbonisation Scheme Grant – Oil to Gas Conversion | DETE | As per grant certification | | Q1 |
| Public Sector Decarbonisation Scheme Grant – Solar PV | DETE | As per grant certification | | Q1 |
| Public Sector Decarbonisation Scheme Grant – Boiler Control Upgrades | DETE | As per grant certification | | Q1 |
| Supporting Families | DCS | | | Q1-4 |
| Grant Contingency | - | | | Q1-4 |
| Management | | | | Q1-4 |

## Shared Services Internal Audit Plan 2022-23

Services provided under the shared service arrangements with Hampshire Constabulary, the Office of the Hampshire Police and Crime Commissioner and Hampshire & Isle of Wight Fire and Rescue Service are reviewed via a joint internal audit plan that provides assurance to all parties to avoid duplication. All three organisations contribute audit days to this plan which is reported below for information.

The Integrated Business Centre attains assurance under International Standards on Assurance Engagements (ISAE) 3402 through Service Organisation Control (SOC) Type 1 and Type 2 reports.  SIAP will not duplicate assurances attained through provision of ISAE 3402.

| Audit | Scope | Proposed Timing |
| --- | --- | --- |
| Governance & IT | | |
| Reporting from Concerto to Partners | Review the information reported to Partners from Concerto to assess if information is accurate and managed securely. | Q3 |
| HR | | |
| Recruitment - contracts | There is a statutory requirement to get contracts out on time and accurately.  Review to focus on the overarching process, content and production, dispatch, and query steps to ensure these are robust and efficient. | Q2 |
| TUPE | A review of the end-to-end TUPE process and templates to ensure deadlines are met and processes are working efficiently and effectively. | Q3 |
| Pay Review and Award Process | To review the process for pay awards through to implementation in payroll. | Q3 |
| Finance | | |
| Banking | To review the end-to-end process from receipt of bank statements, reconciliation and clearing of GL accounts. | Q2 |
| Treasury Management | To review the treasury management process to ensure it is robust and changes to the Prudential Code have been reflected in the strategy. | Q4 |





Southern Internal Audit Partnership

Assurance through excellence and innovation

| Audit | Scope | Proposed Timing |
|---|---|---|
| Budget Planning | To review the budget planning process to ensure it is working effectively with appropriate liaison between budget holders and finance. | Q3 |
| Other | | |
| PCI DSS | Assessment of the IBC aspects of the PCI DSS for 22/23. | Q2 |
| Contingency | To review any areas identified that fall outside the scope of ISAE3402. | Q1-Q4 |
| Management | | Q1-Q4 |

**HAMPSHIRE COUNTY COUNCIL**

**Report**

| | |
|---|---|
| **Committee/Panel:** | Audit Committee |
| **Date:** | 28 September 2022 |
| **Title:** | Minutes of the Hampshire Pension Fund Panel and Board (Public) – 25 March 2022 |
| **Report From:** | Chief Executive |

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## Purpose of this Report

1. The purpose of this report is to present the public minutes from the meeting of the Hampshire Pension Fund Panel and Board which took place on 25 March 2022.

## Recommendation

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

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

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

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

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

| Document | Location |
|---|---|
| None | |

# EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Ashburton Hall, EII Court, Winchester on Friday, 25th March, 2022

**PRESENT**

Chairman:
* Councillor Mark Kemp-Gee

Vice-Chairman:
* Councillor Tom Thacker

Elected members of the Administering Authority (Councillors):

* Councillor Alex Crawford
* Councillor Alan Dowden
* Councillor Jonathan Glen
* Councillor Dominic Hiscock
* Councillor Andrew Joy
* Councillor Derek Mellor
* Councillor Rob Mocatta

*Present

**Co-opted members**

Employer Representatives (Co-opted members):
Cllr Cal Corkery, Employer Representative - Portsmouth City Council
Cllr Rob Harwood, Employer Representative - Southampton City Council
Cllr Paul Taylor, Employer Representative - HIOWLGA
* Liz Bartle, Employer Representative - Other Employer

Scheme Member Representatives:
* Dr Clifford Allen, Scheme Member Representative - Pensioner Member
Sarah Manchester, Scheme Member Representative Substitute
* Neil Wood, Scheme Member Representative - Active Member
Lindsay Gowland, Scheme Member Representative - Deferred Member

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

**Broadcast Announcement**

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

50. **APOLOGIES FOR ABSENCE**

Councillor Harwood, Ms Gowland and Mrs Manchester sent their apologies.

51. **DECLARATIONS OF INTEREST**

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 4 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

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

The minutes of the Pension Fund Panel and Board held on 10 December 2021 were confirmed.

53. **DEPUTATIONS**

The Panel and Board received a deputation from Ms. Wendy Waghorn representing the Dirty Money Campaign. Ms. Waghorn began by thanking the Pension Fund for their revised decarbonisation plans and her group appreciated the commitment the Fund was showing. She thanked the Pension Fund for listening to her group’s previous deputations concerning this subject.

Ms. Waghorn said that the Hampshire Pension Fund’s attitude toward Responsible Investment (RI) has transformed in the past five years and its approach is now consistent with current good practice in this area, putting Hampshire in the top tier of schemes in the country.

However Ms. Waghorn asked the Pension Fund to go further; amending its proposed commitment to the goals to the Paris Agreement, from a ‘well below 2 degrees Celsius’ temperature rise, to be a 1.5-degree warming limit, explaining that this is supported by a number of leading voices.

Ms. Waghorn suggested that instead of the Pension Fund’s proposal to join the Institutional Investor Group on Climate Change, it should join the Asset Owner Alliance, which is more robustly committed to a 1.5 degree warming limit. Ms. Waghorn made the following specific amendments to the Pension Fund’s proposed new RI policy:

- add “developing and implementing a plan to meet the Pension Fund’s net-zero-by-2050 commitment” to its RI priorities,
- formalise the net-zero commitment through becoming a signatory to the Net Zero Asset Owner Alliance. Or, as a stepping stone, become a signatory to the Institutional Investors Group on Climate Change’s (IIGCC) Paris Aligned Investment Initiative,
- change the new investment belief to reference 1.5 degrees not ‘well below 2 degrees’.
- broaden the focus to include deforestation.

Ms. Waghorn concluded by again thanking the Pension Fund, stressing that combating climate change needed maximum ambition, which she and her group would not give up on.

Cllr Kemp-Gee thanked Ms. Waghorn for her deputation.

## 54. CHAIRMAN'S ANNOUNCEMENTS

The Chairman began by stating his dismay about Russia's invasion of Ukraine and that we stand shoulder to shoulder with the people of the Ukraine. He highlighted that the Pension Fund and the ACCESS pool have been proactive and had both published statements on this issue.

Cllr Kemp-Gee continued by inviting any members of the committee to share any recent highlights from their training:

- Dr Bartle thanked the Pension Fund's officers for the recent cyber risk training, which she and other Members thought was very effective.
- Cllr Dowden shared that he attended a recent Federated Hermes events which had good coverage of environmental, social and governance (ESG) issues.

## 55. RESPONSIBLE INVESTMENT SUB-COMMITTEE MINUTES - 4 MARCH 2022

The minutes of the RI sub-committee meeting held on 4 March 2022 were received.

## 56. ACCESS JOINT COMMITTEE MINUTES 6 DECEMBER 2021

The minutes of the ACCESS Joint Committee (JC) meeting held on 6 December 2021 were received.

## 57. GOVERNANCE: ACCESS BUSINESS PLAN

The Panel and Board considered the report from the Director of Corporate Operations (Item 8 in the Minute Book) including the ACCESS Business Plan for 2022/23, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2022/23 was £1.37m, of which Hampshire's equal share would be £124,000.

RESOLVED:

(a) That the ACCESS Business Plan for 2022/23 was approved.

58. **GOVERNANCE: PENSION FUND PANEL AND BOARD MEETINGS**

The Panel and Board considered the report from the Director of Corporate Operations (Item 9 in the Minute Book) reviewing the committee's meeting requirements following the first year of changing the calendar of meetings. During 2021/22 the Panel and Board had met four times as planned. The Panel and Board had received all the necessary governance and investment papers required for the management of the Pension Fund. In addition, six virtual investment manager briefings had been held this year. These briefings had been well attended with 50-75% attendance. Virtual meetings had reduced the travel requirements for both Members and the Fund's investment managers.

The Director highlighted that historically concerns were raised that the number of Panel and Board meetings reduced the opportunities for interactions with scheme members. There had been a single deputation made to each of the committee's meetings this municipal year. Within the County Council's deputation rules there remains significant further capacity for more deputations and the number of Panel and Board meetings is not a constraint.

It has been reported that 20,000 scheme members (of a total of 183,000 members) are 'disenfranchised' because they are not Hampshire residents and therefore cannot make a deputation to the Panel and Board. Further investigation will take place on the required governance to amend the deputation rules specifically for the Pension Fund Panel and Board.

The Director reported that at its latest meeting on 7 March 2022 the ACCESS JC agreed to invite observers to Joint Committee meetings on a rotational basis, allowing two observers from each Local Pension Board to be in attendance in person at least once each a year. Observers from Local Pension Boards are intended to further assist ACCESS with the assurance of transparent reporting and to demonstrate the effective implementation of local investment strategies by the JC on behalf of the Councils. The Panel and Board will be kept up to date on when the arrangements for Local Pension Board observers will begin and when representatives from Hampshire will be invited.

RESOLVED:

(a) That the current schedule of four quarterly meetings of the Pension Fund Panel and Board and separate investment manager briefings remains in place.

(b) That the investment manager briefings remain virtual but the option is available for face-to-face meetings by exception.

(c) That the ACCESS Joint Committee arrangements to invite two observers from each of the Councils' Local Pension Boards at least once a year are noted, and that the Scheme Member and Employer representatives on the Panel and Board are asked to agree amongst themselves who will take the first invitation at being Hampshire's observers.

59. **INVESTMENTS: UPDATE TO THE RESPONSIBLE INVESTMENT POLICY**

The Panel and Board considered the report from the Director of Corporate Operations (Item 10 in the Minute Book) introducing proposed amendments to the Pension Fund's Responsible Investment (RI) policy. The Director presented a draft of the RI policy including updates based on feedback received from the RI consultants Minerva and key areas that have been brought out in Members' discussions and representations from scheme members. The most significant additions to the policy are:

- that the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2ºC relative to pre-industrial levels is entirely consistent with securing strong financial returns;
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a Just Transition; and
- that the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050.

The Director reminded the committee it had been reported by Friends of the Earth that the Pension Fund had £136m of investments in fossil fuel companies. This figure was based on the Carbon Underground 200 index, which only includes companies owning reserves of fossil fuels, and not in wider supply chain for example in processing or selling fossil fuels. With the assistance of its investment managers the Pension Fund has reviewed its exposure to fossil fuels and renewable energy based on a fuller definition. As at 31 December 2021 the Pension Fund was valued at £9.9bn; £323m (3.3%) was invested in renewable energy and £214m (2.2%) was invested in fossil fuel companies.

The Director shared a draft of the Fund's third annual RI update for scheme members, prepared on the basis of the proposed changes to the RI policy. The RI update contains an explanation of why the Pension Fund continues to not believe in disinvesting from fossil fuel companies which is also listed as follows. It is hoped this will improve dialogue with scheme members.

- Transitioning to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition - that the benefits of a low carbon economy transition are shared widely.
- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy and these companies need support from investors.
- If the Pension Fund sells its shares in fossil fuel companies, it will lose its ability to engage with those companies. The investors that would buy these shares may not choose to engage with these companies.

The Director presented figures showing the Pension Fund's very small investments in thermal coal. Thermal coal is the greatest challenge for the Fund's RI policy and the proposed aim for net-zero by 2050 due to the very high carbon emissions and lack of possible transition to lower carbon alternatives, therefore in spite of the very low current investment in thermal coal, following the agreement of the RI sub-committee it was recommended that the Fund works to remove this exposure from the Fund's portfolios and this is included in the RI policy.

It is 3 years since the Pension Fund consulted on its RI policy and so given the changes proposed the Director recommended that the Pension Fund consults with its stakeholders on what they consider should be the Fund's priorities when considering RI. It is proposed that the consultation would run from 4 April to 31 May 2022 and the results will be reported to the Pension Fund Panel and Board on 28 July 2022 with a recommendation on finalising the policy at that point.

RESOLVED:

a) The proposed updates to the Responsible Investment policy were agreed for consultation with scheme members and employers.
b) That the annual Responsible Investment update is published.
c) That a further tranche of work from the Responsible Investment consultants, MJ Hudson (formerly MJ Hudson Spring), is commissioned to again review the Pension Fund's investment portfolios and produce a plan for meeting the 2050 net-zero aim.

## 60. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED:

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

## 61. CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING

The exempt minutes of the Pension Fund Panel and Board held on 10 December 2021 were confirmed.

## 62. RESPONSIBLE INVESTMENT SUB-COMMITTEE - 4 MARCH 2022 - EXEMPT MINUTES

The exempt minutes of the RI sub-committee held on 4 March 2022 were noted.

## 63. ACCESS JOINT COMMITTEE - 6 DECEMBER 2021 - EXEMPT MINUTES

The exempt minutes of the ACCESS Joint Committee held on 6 December 2021 were confirmed.

64. **INVESTMENTS: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 15 in the Minute Book) on the Pension Fund's custodian. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

65. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 16 in the Minute Book) on the progress on the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

66. **INVESTMENTS - ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received an exempt report of the Director of Corporate Operations (Item 17 in the Minute Book) on the progress on the Pension Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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# Agenda Item 15

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# Agenda Item 16

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