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AT A MEETING of the Audit Committee of HAMPSHIRE COUNTY COUNCIL
held at the castle, Winchester on Thursday, 20th February, 2020

Chairman:

* Councillor Keith Evans

* Councillor Alexis McEvoy
* Councillor Dominic Hiscock
* Councillor Keith House
* Councillor Mark Kemp-Gee
* Councillor Derek Mellor
Councillor Floss Mitchell

Councillor Rob Mocatta
Councillor Tom Thacker

*Present

150. **APOLOGIES FOR ABSENCE**

Apologies were received from Councillors Floss Mitchell, Rob Mocatta and Tom Thacker.

151. **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.

152. **MINUTES OF PREVIOUS MEETING HELD ON 19 DECEMBER 2019**

The minutes of the meeting held on 19 December 2019 were agreed as a correct record and signed by the Chairman.

153. **DEPUTATIONS**

There were no deputations.

154. **CHAIRMAN'S ANNOUNCEMENTS**

There were no announcements.

155. INFORMATION COMPLIANCE - USE OF REGULATED INVESTIGATORY POWERS

The Committee considered the report of the Director of Transformation and Governance regarding the County Council's use of regulated investigatory powers.

Members heard that, whilst the Director of Transformation and Governance was required to report upon the use of powers quarterly, there had been no surveillance activity since the first quarter of the year.

In response to Members questions it was heard that the limited use of surveillance powers was resultant from the use of difference methodology for monitoring offences, which meant surveillance was often reserved as a last resort.

The Audit Committee determined to continue to receive quarterly reports regarding the County Council's use of regulated investigatory powers, recognising the importance of maintaining an oversight of their use. To save officer time it was agreed, however, that where powers had not been used in the previous quarter an officer did not need to attend the Audit Committee meeting to talk to the report

RESOLVED:

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

That the Audit Committee continue to receive quarterly reports regarding the County Council's use of regulated investigatory powers, however an officer will only be required to talk to a report where powers have been used in the previous quarter.

156. TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21 TO 2022/23

The Committee considered the report of the Deputy Chief Executive and Director of Corporate Resources presenting the Treasury Management Strategy Statement for 2020/21 to 2022/23.

Members heard that:

- The Capital and Investment Strategy had been presented to Full Council in February.
- Base rates were predicted to hold at current levels, with a continued period of low interest rate and inflation likely.
- Capital financing requirement was expected to rise and then fall in line with the Capital Programme.
- The cost of borrowing from the PWLB had increased, however this was not of significant concern as Hampshire County Council had maintained

its strategy to use internal borrowing, if required, to meet the capital programme.

- Whilst the bail-in risk had increased from 14% to 23% there were mitigations in place to spread any risk. Advice from Arlingclose was that current level of bail-in risk did not present any concern.
- Pre-payment of pension contributions would deliver £9m of saving over 3 years. Further the positive valuation of the pension fund had allowed the contribution of £15m per year for 3 years into the budget bridging reserve.
- The Capital and Investment programme allocated £235m to investments targeting higher yields in 2019/20, of which £201m had been invested and the remainder earmarked for investment. Without these investments, Members heard that the income from treasury investments would have been significantly lower.
- An additional £2m had been added to the Investment risk reserve to mitigate investment risks, including those associated with the changes to the accounting for pooled fund investments introduced under IFRS 9.

Members raised questions regarding the performance of investments and the Council's approach to risk when making investment decisions. In response it was heard that:

- The County had benchmarked its investment performance with other local authorities and had generally performed well against others.
- It was recognised that pooled funds hadn't delivered significant capital returns, however the investments supported cash-flow management and provided income generation to the revenue budget.
- The selling of pooled shares was delegated to the Deputy Chief Executive and Director of Corporate Resources to enable the effective management of cash-flow.
- The savings delivered through pre-payment of pension contributions had been considered against potential cash investment outcomes over the same 3-year period.
- Officers would bring back a report to the next Audit Committee meeting providing further information on investment management, potential for enhanced scrutiny by Arlingclose and other possible benchmarks for comparison of investment performance.

A question was also raised regarding how investment opportunities were assessed for their impact on climate change. It was heard that whilst potential return was key in all investments, all pooled investments had been assessed to ensure they had a responsible investment policy.

RESOLVED:

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

- That the Treasury Management Strategy for 2020/21 (and the remainder of 2019/20) be approved.
- That authority is delegated to the Deputy Chief Executive and Director of Corporate Resources to manage the County Council's investments and

borrowing according to the Treasury Management Strategy Statement as appropriate.

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

157. HAMPSHIRE COUNTY COUNCIL AUDIT PLANNING REPORT 2019/20

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee received the annual audit planning report for 2018/19 from the external auditors and Members heard that:

- The risks identified relating to misstatements due to fraud or error and inappropriate capitalisation of revenue expenditure were mandatory audit requirements, and Members were reassured that no concerns had been identified in respect of Hampshire County Council.
- Valuation of land and buildings would be a focus of the audit as they represented a significant balance on the council balance sheet. Pension Liability Valuation would also feature and would assess assumptions and estimates made.
- IFRS 16 leases was a new accounting standard for local authorities from 2020/21 and the auditors would review the readiness statement which the Council were required to prepare.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council Audit Planning Report for 2019/20.

158. HAMPSHIRE PENSION FUND AUDIT PLANNING REPORT 2019/20

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee received the annual audit planning report for 2018/19 from the external auditors and Members heard that:

- Valuation of complex investments had been identified as a significant risk. Level 3 investments were based on assumptions, as there was no observable market data for the valuation of these investments and it was considered that market volatility could significantly shift such assumptions. The inherent risk of non-quoted pooled and property investments was also identified.
- The auditor would approach custodians and fund managers to seek written third party confirmation of valuations at year end and would also compare market movement to the fund movement to ensure its performance was inline.

RESOLVED:

That the Audit Committee receives and notes the Hampshire County Council Audit Planning Report for 2019/20.

159. YEAR-END AUDIT TIMETABLE AND COSTS

In relation to this item, Councillor House declared a non-pecuniary interest as a Board member of the Public Sector Audit Appointments (PSAA) who appoint Ernst and Young as a principal body audit firm.

The Committee were presented with a letter from Ernst and Young setting out their national position regarding the timetable for year-end audit and costs. Members heard that:

- The letter was being shared at a national level to all organisations who had appointed Ernst and Young under PSAA contracts.
- The letter expressed concerns from the auditors regarding pressures generated by increasing focus from the Financial Reporting Council and the demands placed upon auditors. The letter also highlighted a number of issues and challenges being faced nationally, including the complexity of local authority auditing, shortage of financial reporting skills and staff retention.
- The letter noted that audit fees hadn't been moved or updated to reflect such demands. Members heard that the current audit approach for Hampshire County Council and the Hampshire Pension Fund had been adapted to the efficiency of the shared services arrangements. It was also observed that the audit timetable in Hampshire was aligned with Fire and Police to enable efficiencies in the year-end sign off process.

Whilst recognising the pressure on auditors and changes within the audit environment, Members expressed concern regarding the suggestion of changes to pricing and timescales for delivery as both were agreed when Ernst and Young bid for and were awarded the contract.

RESOLVED:

That the Audit Committee note the letter.

160. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 8 NOVEMBER 2019 (LESS EXEMPT)

The Committee received and noted the non-exempt minutes of the Hampshire Pension Fund and Board meeting held on 8 November 2019.

161. 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.

162. MINUTES OF THE HAMPSHIRE PENSION FUND PANEL AND BOARD MEETING - 8 NOVEMBER 2019 (EXEMPT)

The Committee received and noted the exempt minutes of the Hampshire Pension Fund and Board meeting held on 8 November 2019.

Chairman, 21 May 2020