

Agenda



AGENDA for a meeting of the HERTFORDSHIRE FIRE PENSION BOARD to be held in COMMITTEE ROOM A, County Hall, Hertford on WEDNESDAY, 27 SEPTEMBER 2017 AT 10.00 AM

MEMBERS OF THE BOARD (4) - QUORUM (4)

Employer Representatives – T W Hone (Chairman), S Hedger

Member Representatives – D Scotchford (Vice Chairman), S Joiner

STANDING SUBSTITUTE MEMBERS

Employer Representative – J Smith

Member Representative -

Meetings of the Board are open to the public (this includes the press) and attendance is welcomed. However, there may be occasions when the public are excluded from the meeting for particular items of business. Any such items would be taken at the end of the public part of the meeting and listed under "Part Two ('closed') agenda".

Committee Room A is fitted with an audio system to assist those with hearing impairment. Anyone who wishes to use this should contact main (front) reception.

Members are reminded that all equalities implications and equalities impact assessments undertaken in relation to any matter on this agenda must be rigorously considered prior to any decision being reached on that matter.

Members are reminded that:

(1) if they consider that they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting they must declare that interest and must not participate in or vote on that matter unless a dispensation has been granted by the Standards Committee;

(2) if they consider that they have a Declarable Interest (as defined in paragraph 5.3 of the Code of Conduct for Members) in any matter to be considered at the meeting they must declare the existence and nature of that interest but they can speak and vote on the matter

AGENDA

1. MINUTES

To confirm the minutes of the meeting of the Board held on 5 July 2017 as a correct record.

2. FIREFIGHTER'S PENSION FUND STATEMENT OF ACCOUNTS 2016/17

Report of the Director of Resources

3. LOCAL PENSIONS PARTNERSHIP FIREFIGHTERS PENSIONS ADMINISTRATION REPORT

Report of LPP

4. DATES OF FUTURE MEETINGS

The Board is invited to note the dates of future meetings, as follows:

15 December 2017

23 March 2018

19 July 2018

EXCLUSION OF PRESS AND PUBLIC

There are no items of Part II business on this agenda. If Part II business is notified the Chairman will move:-

"That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph.....of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information."

If you require further information about this agenda please contact Theresa Baker, Democratic Services, on telephone no (01992) 556545 or e-mail theresa.baker@hertfordshire.gov.uk

Agenda documents are also available on the internet at:

www.hertfordshire.gov.uk

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

Minutes



To: All Members of the Hertfordshire Fire Pension Board, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services

Ask for: Theresa Baker

Ext: 26545

HERTFORDSHIRE FIRE PENSION BOARD

5 JULY 2017

ATTENDANCE

MEMBERS OF THE BOARD

Employer Representatives: T W Hone, S Hedger
Member Representatives: S Joiner,

STANDING SUBSTITUTE MEMBERS

Employer Representatives:
Member Representatives: D Cooper

Note: For this meeting only the usual order of business was varied such that the appointment of the new chairman for the remainder of one year until 23 March 2018 preceded Item 1 on the agenda.

Upon consideration of the agenda for the Hertfordshire Fire Pension Board meeting on 5 July 2017 as circulated, copy annexed, conclusions were reached and are recorded below:

PART I ('OPEN') BUSINESS

APPOINTMENT OF CHAIRMAN OF BOARD FROM JULY 2016/17 (for remainder of period of one year until 23 March 2018 when chairmanship rotates to Vice Chairman)

ACTION

- i. The Democratic Services Officer called the Board to order and directed that, as previously communicated to the membership and in accordance with Annex 23 of the Constitution, the term of office of the Chairman shall be 1 year unless the Chairman resigned or was replaced by the Board. The Board heard that following the local elections, Cllr. Terry Hone had replaced Cllr. Richard Thake as the Executive Member for the Community Safety and Waste Management portfolio, which included the Hertfordshire Fire

Pension Board.

- ii. The Board unanimously approved Cllr. Terry Hone as the Chairman of the Hertfordshire Fire Pension Board for the remainder of the period of one year.

Note: No conflicts of interest were declared by any member of the Board in relation to the matters on which conclusions were reached at this meeting.

Chairman’s Announcements :

- i. The chairman updated the Board on the progress of actions from the minutes of the meeting of 28 February 2017.

1. MINUTES

- 1.1 The Minutes of the Hertfordshire Fire Pension Board meeting held on 28 February 2017 were confirmed as a correct record and signed by the Chairman.

**2. LONDON PENSIONS PARTNERSHIP
FIREFIGHTERS PENSIONS ADMINISTRATION REPORT**

[Officer Contact: Taryn Mutter – Head of Client Delivery (LPP)]

- 2.1 The Board considered a report from the London Pensions Partnership (LPP) which provided the quarterly update on the delivery of the pensions fund administration services with respect to:
 - statistics and key performance indicators;
 - an update on regulatory changes, including the latest information on potential scheme changes.
- 2.2 During discussion of LPP performance over the quarter to Service Level Agreements (SLA), it was clarified that the 98.4% performance overall was a consequence of one member estimate that had not been completed within SLA but was completed within the 24 hour rectification period. To aid transparency the Board requested representation of the data in the key SLA categories as figures rather than graphically.
- 2.3 In further discussion of SLA and volume N Lewins highlighted that levels of correspondence were always higher in the April to June as a result of enquires prompted by the annual benefits statement, and similarly in July to September due to correspondence relating to the enquiries.
- 2.4 Responding to questions N Lewins commented that the Fire Authority complaint stemming from 55 payments to incorrect bank

T Mutter

**CHAIRMAN’S
INITIALS**

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accounts as part of refunds relating to the '18-20 holiday' should not occur again. Officers further clarified that the additional banking costs of £150 and £70 had been reimbursed by the LPP and the overall fee for the work charged by LPP had been waived (these figures being approximate).

- 2.5 The Board was updated to the fact that the one Internal Dispute Resolution Procedure (IDRP) during the quarter, relating to admittance to the Retained Modified Fire Fighters Pension Scheme, had now been resolved.
- 2.6 A hard copy of the Annual Benefits Statement and accompanying explanatory notes was tabled. Members heard that prior to 2015 the LPP had provided separate statements for different iterations of the pension scheme. A national approach had been devised to combine the annual statement for each variation of the Firefighters Pension scheme into one document, there being one section for deferred pensions and another for active pensions. The different sections of the combined statement were explained to the Board who also viewed the accompanying explanatory notes.
- 2.7 During discussion Member Representatives of the Board confirmed that firefighters had understood the new version of the statement better in 2017 than when first produced in 2016. The need for phone and email support for enquires was highlighted.
- 2.8 It was agreed that firefighter members of the board would set up a focus group with the Deputy Chief Fire Officer to test firefighters' reactions to the new version of the Annual Benefits Statement.

T Mutter

C Bigland
J Smith
D Scotchford
S Joiner
D Cooper

Conclusion:

- 2.9 The Fire Pension Board commented as above on additional information that was required and content that should be included in future reports.

3. ANNUAL UPDATE REPORT ON FIREFIGHTER PENSION SCHEMES EMPLOYER DISCRETIONS USAGE

[Officer Contact: Rachel Wilson, Senior HR Officer, Strategy, Policy & Reward (Tel: 01992 588142)]

- 3.1 The Board received the annual update report on the use of the Firefighters Pension Scheme (FPS) employer discretions policies.
- 3.2 Members heard that the FPS employer discretions policies could be viewed on both the Hertfordshire Fire and Rescue Service Firefighters' Pension Schemes website and Hertfordshire County

Council's intranet.

- 3.3 The Board were advised that between 1 April 2016 and 31 March 2017 two requests had been received to purchase increased benefits in the 1992 Scheme under Discretion 17. The policy requirement for a medical at the firefighters' own expense had been waived as they had recently undergone service medical assessments which had confirmed their good health. There were no questions from the Board.

Conclusion:

- 3.4 The Board noted the content of the report.

4. DATES OF FUTURE MEETINGS

27 September 2017
15 December 2017
23 March 2018
19 July 2018

OTHER PART I BUSINESS

There was no other PART I business.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

**CHAIRMAN'S
INITIALS**

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FIREFIGHTER'S PENSION FUND STATEMENT OF ACCOUNTS 2016/17

Report of the Director of Resources

Author: Liz Farquhar, Senior Accountant (Tel: 01992 556797)

1. Purpose of the Report

- 1.1. To provide the Fire Board with the audited Firefighter's Pension Fund Statement of Accounts for 2016/17 ("the Accounts"), attached at Appendix A.

2. Summary

- 2.1. The Firefighter's Pension Fund accounts are audited by Ernst & Young LLP as part of their audit of Hertfordshire County Council Statement of Accounts. The findings of the audit are published within the Audit Results Report (ARR) of the main Hertfordshire County Council audit. This is attached at Appendix B.

3. Background

- 3.1. The Firefighter's Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and employer contributions are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

4. 16/17 Accounts & Audit Results

- 4.1. During 2016/17 contributions receivable and transfers in totalled £4,814k, whilst benefits paid and transfers out totalled £12,255k. The balance of £7,441k was topped up by Central Government grant.
- 4.2. The primary variance from 2015/16 was a decrease in benefits payable of £774k. Following a complaint from a member which was upheld by the

Pensions Ombudsman in May 2015, additional payments were made to those whose pension commenced between 1 December 2001 and 21 August 2008, and who elected to commute pension for lump sum at retirement. All liabilities (£1,107k) arising from this ruling were fully paid by March 2016, and additional grant was received to cover this.

During 2016/17 the Government agreed to introduce an employee contributions holiday for members of the 1992 Firefighters' Pension Scheme who had accrued the maximum 30 years' pensionable service prior to age 50 but continued to pay contributions, and this change was applied retrospectively to 1 December 2006. All liabilities (£333k) arising from this ruling were fully accounted for in the 2016/17 accounts, and additional grant was received to cover this.

- 4.3. During the audit process there were three audit queries relating to the Firefighter's Pension Accounts which were in relation to additional data requests for:
 - i. the average number of members and the total pensionable pay by scheme category (1992, 2006 & 2015 Firefighter's Pension Schemes)
 - ii. the commuted lump sums
 - iii. the calculations behind the employee contribution holiday payments.

Following the responses to the requests the queries were closed and there were no further queries.

- 4.4. The Accounts were included within the County Council's Statement of Accounts which were signed off by the Audit Committee on 11 September 2017.
- 4.5. The Audit Results Report (ARR) issued an unqualified opinion on the Hertfordshire County Council and Firefighter's Pension Fund financial statements, with no recommendations made (Appendix B, p16).

5. Recommendations

- 5.1. That the Fire Pension Board note the accounts of the Firefighter's Pension Scheme 2016/17.

APPENDIX A

Firefighters' Pension Fund Accounts

Firefighter's Pension Fund

Fund account for year ended 31 March 2017

2015/16 £000		Note	2016/17 £000
	<u>Contributions receivable</u>		
	From employer:		
(2,808)	- contributions in relation to pensionable pay		(2,673)
(87)	- ill health early retirements		(61)
	From members:		
(2,395)	- Firefighters' contributions		(2,077)
(5,290)	Total - Contributions receivable	3	(4,811)
	<u>Transfers in</u>		
(40)	- from other authorities	4	(3)
(40)	Total - Transfers in		(3)
	<u>Benefits payable</u>		
9,660	- pensions		9,971
2,751	- commutations and lump sum retirement benefits		1,950
-	- lump sum death benefits		-
1,107	- other (GAD vs Milne)		333
13,518	Total - Benefits payable		12,254
	<u>Payments to and on account of leavers</u>		
-	- refunds of contributions		-
172	- transfers out to other authorities	4	1
172	Total - Payments to and on account of leavers		1
8,360	Deficit for the year before top-up grant receivable from central Government		7,441
(8,360)	Top-up grant payable by central Government	5	(7,441)
-			-

Net assets statement as at 31 March 2017

2015/16 £000		2016/17 £000
	Current assets	
3,074	Top-up grant receivable from central Government	1,803
3,074		1,803
	Current liabilities	
(3,074)	Amount owing to the General Fund	(1,803)
(3,074)		(1,803)
-	Net Assets	-

Owen Mapley
Director of Resources

Firefighter's Pension Fund

Note to the Firefighters' Pension Fund:

1. Summary of the Firefighters' Pension Fund Operations

The Firefighters' Pension Fund was established under the Firefighters' Pension Scheme (Amendment) Order 2006.

Until the end of March 2006 the Council was responsible for paying the pensions of its former firefighting employees on a 'pay-as-you-go' basis. This meant that employees' contributions were paid into the Council's accounts from which pensions awards were made and the Council received funding from central government as part of general Formula Grant to support payments of pensions.

From 1 April 2011, the Council has continued, through its scheme administrator, London Pensions Partnership (LPP) (previously London Pensions Fund Authority (LPFA)), to administer and discharge its responsibility for paying the pensions of retired officers, their survivors and others who are eligible for benefits under the new and existing pension schemes.

Regular firefighters employed before 6 April 2006 were eligible for membership of the 1992 Firefighters' Pension Scheme. When this scheme closed a new 2006 Firefighters' Pension Scheme was introduced for regular and retained firefighters employed since 6 April 2006. On 1st April 2015, a new 2015 Firefighters' Pension Scheme came into effect. The two previous Schemes (Firefighters' Pension Scheme 1992 and Firefighters' Pension Scheme 2006) continue in force for firefighters who were serving before that date and who are eligible to remain members of their earlier Scheme.

In 2015, the Modified Retained Pension Scheme was also introduced which gave retained firefighters employed between 1 July 2000 and 5 April 2006 inclusive the opportunity to pay historic contributions and buy back their service for this period. The Modified Retained scheme does not constitute a scheme on its own but rather a modified section of the 2006 scheme with different benefits.

The new financial arrangements are for the 1992, 2006 and 2015 Firefighters' Pension Schemes and have no impact on the terms and conditions of either scheme.

The Firefighters' Pension Fund is an unfunded defined benefits scheme meaning that there are no investment assets available to meet pension liabilities. Employee contributions and a new employer's contribution are paid into the pension fund from which pension payments are made. The fund is topped up by central Government grant if the contributions are insufficient to meet the cost of pension payments and any surplus in the fund is recouped by central Government. The underlying principle is that employer and employee contributions together will meet the full cost of pension liabilities being accrued in respect of currently serving employees, while central Government will meet the costs of retirement pensions in payment, net of employee and the new employer contributions.

The financing of pension payments was taken out of the Formula Grant from April 2006 which instead now takes into account the funding needed to support the cost of the employer contributions and lump sum payments in respect of ill-health early retirements.

2. Accounting Policies

The accounts have been prepared in accordance with the 2016 Code of Practice on Local Authority Accounting in the United Kingdom based on IFRS and summarise the transactions and net assets of the Firefighters' Pension Fund and do not take account of liabilities to pay pensions and other benefits after 31 March 2017.

Firefighter's Pension Fund

3. Contributions Receivable

Employer and Employee Contributions

Employees' and employer's contribution levels are set nationally by central government and are subject to triennial revaluation by the central Government Actuary's Department.

The purpose of the employee and employer contribution rates under the new arrangements is to meet the accruing pension liabilities of currently serving firefighters. This means the Council must meet the full cost of employing firefighters, including the cost of future pension liabilities, at the time of employing them.

Separate contribution rates, as a percentage of pensionable pay, apply to the 1992 Firefighters' Pension Scheme, the 2006 Firefighters' Pension Scheme and the 2015 Firefighters' Pension Scheme, as shown below.

	Employer %	Employee %
1992 Firefighters' Pension Scheme		
Pensionable Pay Band		
Up to and including £15,301	21.7	11.0
More than £15,302 and up to and including £21,422	21.7	12.2
More than £21,423 and up to and including £30,603	21.7	14.2
More than £30,604 and up to and including £40,804	21.7	14.7
More than £40,805 and up to and including £51,005	21.7	15.2
More than £51,006 and up to and including £61,206	21.7	15.5
More than £61,207 and up to and including £102,010	21.7	16.0
More than £102,011 and up to and including £122,412	21.7	16.5
More than £122,412	21.7	17.0
2006 Firefighters' Pension Scheme		
Pensionable Pay Band		
Up to and including £15,301	11.9	8.5
More than £15,302 and up to and including £21,422	11.9	9.4
More than £21,423 and up to and including £30,603	11.9	10.4
More than £30,604 and up to and including £40,804	11.9	10.9
More than £40,805 and up to and including £51,005	11.9	11.2
More than £51,006 and up to and including £61,206	11.9	11.3
More than £61,207 and up to and including £102,010	11.9	11.7
More than £102,011 and up to and including £122,412	11.9	12.1
More than £122,412	11.9	12.5
2015 Firefighters' Pension Scheme		
Pensionable Pay Band		
Up to and including £27,270	14.3	10.0
More than £27,271 and up to and including £50,500	14.3	12.5
More than £50,501 and up to and including £142,500	14.3	13.5
More than £142,500	14.3	14.5

Firefighter's Pension Fund

Contributions received by the Fund are analysed below.

	Employer		Employee	
	2015/16 £000	2016/17 £000	2015/16 £000	2016/17 £000
1992 Firefighters' Pension Scheme	1,432	1,200	983	816
2006 Firefighters' Pension Scheme	45	27	38	23
2015 Firefighters' Pension Scheme	1,331	1,446	1,122	1,236
Modified Retained – Service Buy Back	-	-	252	1
	2,808	2,673	2,395	2,076

Ill-Health Early Retirements

Early retirements due to ill-health could, with effect from 1 April 2006, have required the Council to make a lump sum payment into the pension fund of 4× average pensionable pay in respect of all higher tier ill-health retirements and 2× average pensionable pay in respect of all lower tier ill-health retirements, reintroducing some in-year financial volatility, as the number of firefighters who retire on grounds of ill-health will vary from year to year.

However, to deal with this volatility, authorities are required to spread the charges credited to the pension fund equally over a period of three years. The initial payment tranche being made at the time of retirement and subsequent tranches made, without the addition of interest, on 1 April each financial year.

Other approved early retirements have a real cost, which must be covered by employers. These costs will be actuarially calculated for each individual, using a table of factors, and the Council will be required to make a payment into the pension fund.

Contributions received by the Fund are analysed below.

	Employer	
	2015/16 £000	2016/17 £000
2006 Firefighters' Pension Scheme	87	61
	87	61

Ill health charges in 2016/17 consist of £41k in higher tier and £20k in lower tier retirements. Charges in 2015/16 consisted of £67k in higher tier and £20k in lower tier retirements.

4. Transfers to or from other schemes

Where a firefighter transfers to or from another Fire and Rescue Authority within England there is no need for a cash transfer. A firefighter who transfers out of the Firefighters' Pension Scheme to another pension scheme, or to the Firefighters' Pension Scheme in Scotland, Wales or Northern Ireland, is entitled to ask for a Cash Equivalent Transfer Value to be paid across, equivalent to the value of their pension rights on leaving the Firefighters' Pension Scheme.

This would be paid from the Firefighters' Pension Fund and similarly an inward Transfer Value should be paid into the fund.

5. Top-up Grant

Since 1 April 2006, where employer and employee contributions paid into the Firefighters' Pension Fund are not sufficient to meet pension payments for the year, the deficit has been met by a Central Government top-up grant paid by the Home Office from 1st April 2016 (previously Department for Communities and Local Government). Any surplus in the fund must be paid back to central Government as the party that brings the account back to a nil balance at the end of each year.

Firefighter's Pension Fund

6. Liabilities after year end

The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after 31 March 2017, which are disclosed separately in Note 37 of the main HCC accounts.

APPENDIX B

Hertfordshire County
Council
Audit results report

Year ended 31 March 2017

Private and Confidential

11 September 2017



Dear Audit Committee Members

We have substantially completed our audit of Hertfordshire County Council for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 03, before the statutory deadline of 30 September 2017. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

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

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

Yours faithfully

Neil Harris

Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated February 2017) issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature..

This report is made solely to the Audit Committee, other members of the Authority and management of Hertfordshire County Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, other members of the Authority and management of Hertfordshire 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, other members of the Authority and management of Hertfordshire County Council for this report or for the opinions we have formed. It should not be provided to any third-party without obtaining our written consent.



01 Executive Summary



Executive Summary

Overview of the audit

Scope and materiality

In our Audit Plan presented to the 1 March 2017 Audit Committee meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan.

We planned our procedures using a materiality of £17.1 million. We reassessed this using the actual year-end figures, which has increased this amount to £19.9 million. The threshold for reporting uncorrected audit differences has increased from £0.855 million to £0.998 million. The basis of our assessment of materiality has remained consistent with prior years at 1% of gross expenditure. The increase is primarily as a result of the large increase in losses on the disposal of non-current assets within Other Operating Expenditure.

Status of the audit

We have substantially completed our audit of Hertfordshire County Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise:

- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission



Executive Summary

Executive summary (continued)

Status of the audit (continued)

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

Objections

We have received no objections to the 2016/17 accounts from members of the public.

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. The error relates to expenditure treated as REFCUS but should be capital property, plant and equipment. This is an extrapolated error and as such we would not expect the client to amend.

We ask that the rationale as to why this is not corrected be approved by the Audit Committee and included in the Letter of Representation. The aggregated projected unadjusted audit difference is £1.404 million. We agree with management's assessment that the impact is not material.

We have also identified audit differences which have been adjusted by management.

Details can be found in Section 4 Audit Differences.



Executive Summary

Executive summary (continued)

Areas of audit focus

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

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

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

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified one significant risk in relation to the Council's Financial Resilience and Sustainability and Transformation Plan.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Further details are set out in Section 5.



Executive Summary

Executive summary (continued)

Other reporting issues

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

We are concluding on the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We have no issues to report to date.

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 Appendix B for our update on Independence.





02

Areas of Audit Focus



Areas of Audit Focus

Audit issues and approach:

Revenue Recognition


What are our conclusions?


Our testing has not identified any material misstatements from revenue and expenditure recognition.

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

What is the risk?

Risk of fraud in revenue recognition
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this 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 manipulating expenditure recognition.

 In Audit Report

 Significant Risk

What did we do?

Our testing of journal entries to date has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

Our testing material revenue and expenditure streams, including accounting estimates did not identify any issues or evidence of management bias.

Our cut-off testing on income and expenditure received around period end to assess whether the recognition or deferral of this income and expenditure was appropriate.

We have not identified any issues in relation to completeness of revenue through substantive testing and cut-off.

Our review and testing of capital expenditure on property, plant and equipment confirmed it met the relevant requirements to be capitalised



Areas of Audit Focus

Audit issues and approach:

Management override


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.

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

What is the risk?

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

 In Audit Report

 Significant Risk

What did we do?

Our testing of journal entries to date has not identified adjustments which were outside of the normal course of business. All journals tested have an appropriate business rationale.

The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the assumptions in these areas and found no indication of management bias in these estimates.

During the course of our audit we did not identify any significant unusual transactions. This includes our detailed review of the adjustments through the Movement in Reserves Statement.



Areas of Audit Focus

Audit issues and approach:

Other Financial Statement Risks

What did we do?

Property Asset Valuation

Valuation of property assets is a significant accounting estimate that has a material impact on the financial statements.

Assessed and placed reliance on property valuation specialists commissioned by the Council and the auditor.

Assessed and used an independent valuer's market report to review and challenge the assumptions and judgements used by the Council's external valuer in valuing the Council's property.

Tested the accounting entries made for revaluations, including assessing assumptions, asset use and valuation methods. There were no significant amendments in these areas.

Pension Liability

The Local Authority Accounting Code of Practice and IAS 19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a highly material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

Assessed the conclusions drawn on the work of the actuary by the Consulting Actuary to the PSAA, PwC.

Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS 19.

Assessed the reasonableness of the estimations and judgements used including assessing assumptions made by the Actuary. We have no significant matters to report.



Areas of Audit Focus

Audit issues and approach:

Other Financial Statement Risks

What did we do?

Group Accounts

The Council set up two companies in September 2013:

- Hertfordshire Catering Ltd, which is wholly-owned subsidiary.
- Herts for Learning, of which 20% is owned by the Council and the remainder by schools.

The Council continues to assess these interests as quantitatively and qualitatively material to the group and therefore the Council will continue to consolidate the companies into the Council's group and therefore the Council will continue to consolidate the companies into the Council's group accounts as required by the Code of Practice on Local Authority Accounting in the United Kingdom (Code of Practice).

There is a risk that the group financial statements do not meet the requirements as defined by the Code.

Reviewed the Council's assessment of all potential group entities against accounting standards IFRS10 and 11.

Reviewed and tested that the Council adopted and correctly applied accounting policies that comply with the requirements of the Code.

Reviewed that the consolidations of the companies' accounts have been undertaken correctly into the group accounts. Reviewed and tested all appropriate disclosures.

We have no significant matters to report.

Children's Services PFI Scheme

The Council entered into a PFI scheme in June 2007 for the design, finance and maintenance of seven new children's homes, a family assessment centre, a disability resource centre, a children's centre and the refurbishment of five family support centres, through a private sector operator, with a facility for 25 years. The outstanding liabilities to be paid to the contractors for capital expenditure as at 31 March 2016 were £16,185million.

It is a number of years since this PFI scheme was reviewed in detail by audit and therefore we believe additional work needs to be carried out to ensure the values and accounting disclosures associated with this PFI scheme remain accurate and in line with the original contract arrangements.

Our audit procedures included the construction of a parallel accounting model to assess whether the County's accounting model for the Children's Services PFI scheme was materially accurate. The parallel model confirmed no material differences in accounting for this project.

Our procedures did identify a difference in the output of the two models of £1.885m. This difference is likely to have arisen from the more detailed County accounting model, which correctly recognised the liability for each individual asset at the point it was completed, compared with the parallel model which assumes a single completion date.

We have no further matters to report.



Areas of Audit Focus

Audit issues and approach:

Other Financial Statement Risks

What did we do?

CIPFA Code Changes

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the Code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Highways Network Assets deferral to 2017/18

CIPFA have issued an update to the 2016/17 Accounting Code. The removal of all references to the valuation and accounting requirements for the Highways Network Asset due to the deferral of its implementation announced in December 2016.

Reviewed the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code.

Reviewed the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported.

Agreed the restated comparative figures back to the Council's segmental analysis and supporting working papers.

Had a technical review carried out which identified areas for change in disclosure and positioning of the Expenditure and Funding Analysis note within the financial statements. All of these amendments have been agreed with management.

We continued to consider the preparedness of the Council during 2016/17, no disclosure requirements were needed in the 2016/17 financial statements.



03 Audit Report



Draft audit report

Our opinion on the financial statements

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

Opinion on the Authority and firefighters' pension fund financial statements

We have audited the financial statements and the firefighters' pension fund financial statements of Hertfordshire County Council for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014. The financial statements comprise the Authority and Group Movement in Reserves Statement, Authority and Group Comprehensive Income and Expenditure Statement, Authority and Group Balance Sheet, Authority and Group Cash Flow Statement, Authority and Group Statements of Accounting Policies, the related notes 1 to 49 of the Authority financial statements and the related notes 1 to 4 of the Group financial statements and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 6.

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 2016/17.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities set out on page 14, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Authority and Group financial statements and the firefighters 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 2016/17, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group and the firefighters pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2016/17 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Hertfordshire County Council and Group as at 31 March 2017 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Conclusion on Hertfordshire County Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2016, as to whether the Hertfordshire County Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Hertfordshire County Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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



Audit Report

Draft audit report (continued)

Our opinion on the financial statements

Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2016, we are satisfied that, in all significant respects, Hertfordshire County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

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

Or

Delay in certification of completion of the audit

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

Neil Harris (senior statutory auditor)

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

Date:

The maintenance and integrity of the Hertfordshire County Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04

Audit Differences

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Audit Differences

Audit differences

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

Summary of adjusted differences

We have included all known uncorrected amounts greater than £0.998m relating to Hertfordshire County Council in our summary of misstatements table on page 22.

We highlight the following corrected misstatements in the financial statements or disclosures identified during the audit.

These have been corrected by management:

- Vehicles, Plant, Furniture and Equipment not written off on Academy/Foundation School conversion - cost £1.952m, accumulation depreciation £1.217m and impact on reserves of £0.735m
- Correcting the year-end balance for Accumulating Compensated Absences £2.164m
- Reversal of LEP Long Term Debtor £1.276m to be accounted for as a grant
- A number of disclosure amendments agreed with management






Audit Differences

Audit differences (continued)

Summary of unadjusted differences

We highlight the following misstatements in the financial statements and/or disclosures which were not corrected by management. We ask you to give a rationale as to why they have not been corrected. This should be considered and approved by the Audit Committee and included in the Letter of Representation:

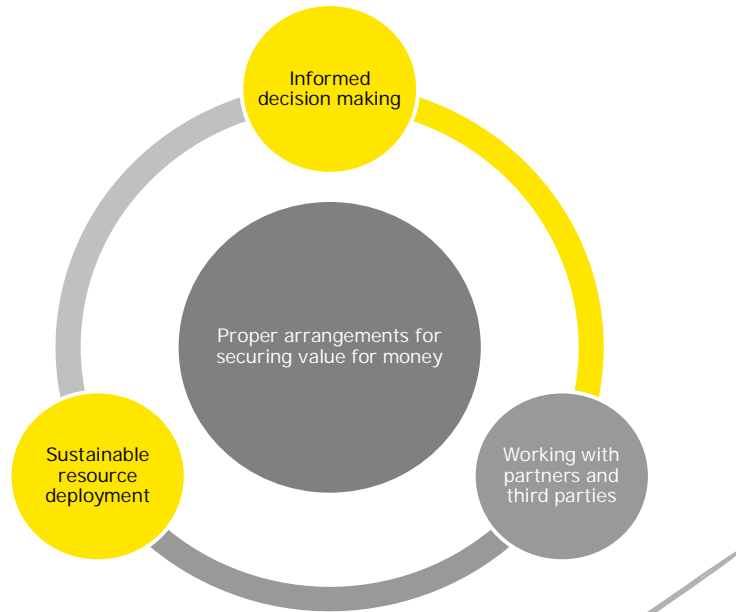
Account 31 March 2017 	 Comprehensive income and expenditure statement (Increase)/Decrease	 Balance sheet (Decrease)/Increase
<p>Expenditure treated as REFCUS but should be capital PPE - Projected Error Impact on the CIES and Property, Plant and Equipment Cost. The impact would also be on the Capital Adjustment Account (CAA) and General Fund (MiRS).</p> <p>The projected error has been calculated following the identification of expenditure treated as REFCUS but should be capital additions in property, plant and equipment. The errors in the testing related to 3 items totalling £4,801.61. Calculated on a statistical basis over the population, this creates a projected error of £1.4 million. In discussing this error with management it was determined that the cost of undertaking further testing outweighed the benefit. As a result, the Council has undertaken a review of the balance to determine the actual size of the error and will revise working practices in 2017/18 to ensure this does not re-occur.</p>	(1,404,000)	1,404,000



05 Value for Money



Value for Money



Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk in our Audit Plan.

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



Value for Money

VFM risks

We are only required to determine whether there is any risk that we consider significant within the Code of Audit Practice, where risk is defined as:
“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”
 Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.
 The table below presents the findings of our work in response to the risk areas in our Audit Plan.

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
<p>The impact of continuing reductions in funding from central government is particularly challenging for the Council. With restrictions on annual Council Tax increases, the Council’s medium-term financial strategy (MTFS) identifies the need to identify and deliver significant savings from 2017/18 and future years.</p>	<p>Deploying resources in a sustainable manner Working with partners and other third parties</p>	<p>There is a robust budget setting process in place with challenge built into the process from officers and members. The 2016/17 budget was met with an underspend.</p> <p>Assumptions built into the budget are based on best information available and the Council has articulated within its budget the risks associated with upcoming changes to government policy and the economic climate. There is evidence throughout the MTFS that the Council has considered the impact of various scenarios and the impact these will have on budget planning.</p> <p>The Council has worked with partners to deliver efficiencies and savings and continues to do so with some significant arrangements in place.</p> <p>Overall we recognise there continues to be challenges faced by the Council as they seek to identify and implement savings.</p>



Value for Money

financial

What is the significant VFM risk?	What arrangements did this affect?	What are our findings?
<p>Sustainability and Transformation Plans (STPs) give local NHS organisations and councils the opportunity to work together to improve the way health and social care is designed and delivered.</p> <p>The Hertfordshire and west Essex publication 'A Healthier Future' brings together the challenges and opportunities that face NHS and care services in Hertfordshire and west Essex as they work together to improve health and wellbeing within the funds available.</p> <p>In Hertfordshire and west Essex £3.1bn a year is spent on health and social care. The position is increasingly stretched with a potential funding gap of £550 million a year by 2021 unless services can act together.</p> <p>While the Council has a history of being well managed and aware of issues impacting the County area as a whole, we consider there is a significant risk in relation to the Council's ability to deal with the challenging health and social care environment and deliver the savings required.</p>	<p>Deploying resources in a sustainable manner Working with partners and other third parties</p>	<p>The Council acknowledges that it will need to robustly challenge assumptions and savings built into the budget and medium term financial plans to ensure these continue to be fit for purpose in the light of uncertainties over future government grant funding and the local government finance system. The Council sets out the details of the key uncertainties it faces in its Medium Term Financial Strategy. Our knowledge of Council arrangements, and discussions with senior management, have shown that the Council keeps its assumptions under review and will make changes as required in response to the rapidly changing environment in which it is operating.</p> <p>The Council has engaged proactively in the STP process and is working closely with partners from high level planning to a more detailed delivery model</p> <p>Working groups are in place to ensure the delivery of the plan. The Council acknowledges that this is a complex challenging area that is requiring a lot of resource to contribute to the financial sustainability of the Council in the context of the health economy.</p> <p>Overall, the Council has been proactive in its engagement with the STP, working with partners, in considering and reflecting the service pressure and spending risks from health and social care in the MTFS. We recognise there remain a number of challenges, particularly how the Council's assumptions align in with those of the STP, now and in the future.</p>



06

Other reporting issues



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 2016/17 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 2016/17 and published with the financial statements was consistent with the audited financial statements. Any minor amendments required have been made.

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 are currently concluding our work in this area and will report any matters arising to the Audit Committee.



Other reporting issues

Other reporting issues

Other powers and duties

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

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

Other matters

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

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

We have no matters to report.



07

Assessment of Control Environment

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Assessment of control environment

Financial controls

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

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

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

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



Assessment of Control Environment

IT controls

As set out in our Audit Plan we sought to obtain greater assurance over the IT controls and processes particularly around the SAP system through our IT risk assurance specialists.

Information Technology General Controls ('ITGCs') will often contribute indirectly to the achievement of many or all of the financial statement assertions. This is because effective ITGCs help to ensure the continued and effective operation of application controls and automated accounting procedures that depend on computer processes. ITGCs are also important when manual controls depend on application-generated in business processes.

The following procedures were performed:

- IT Dependent controls and key reports/Information produced by the Entity (IPE) are identified which support the significant business processes;
- The application controls, IPEs and business processes identified are then mapped to information systems; and
- Where it is determined that ITGC testing could contribute to audit comfort, key IT controls are then identified and the design and operating effectiveness of those controls validated by independent walkthroughs and operating effectiveness testing.

Based on the above and our initial planning discussions, our scope of the IT audit for this year was restricted to performing control walkthroughs for the SAP system and related infrastructure.

There were a small number of recommendations to follow up as part of this work. The recommendations mainly related to privileged or developer's access to the system. Management responded to these recommendations with all actions to be taken by 31 July 2017. The recommendations and responses have been set out in a separate report agreed with Management.

We will re-engage our IT risk assurance specialists to follow up on this during the last quarter of 2017 with the objective to obtain ITGCs for the 2017/18 financial year.

None of these recommendations impact on the audit of financial statements audit for the current year.



08 Appendices




Appendix A

Required communications with the Audit Committee




There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	1 March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> • Our view of the 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 	11 September 2017 Audit Results Report
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	11 September 2017 Audit Results Report No conditions or events were identified, either individually or together to raise any doubt about Hertfordshire County Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Significant corrected misstatements, in writing 	11 September 2017 Audit Results Report



Appendix A

		 Our Reporting to you
Required communications	What is reported?	  When and where
Fraud	<ul style="list-style-type: none"> ▶ Asking the audit committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving: <ul style="list-style-type: none"> (a) management; (b) employees with significant roles in internal control; or (c) others where the fraud results in a material misstatement in the financial statements. ▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility. 	11 September 2017 Audit Results Report We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, where applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and/or regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	11 September 2017 Audit Results Report We have no matters to report
Subsequent events	<ul style="list-style-type: none"> ▶ Where appropriate, asking the audit committee whether any subsequent events have occurred that might affect the financial statements. 	11 September 2017 Audit Results Report We have no matters to report
Other information	<ul style="list-style-type: none"> ▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision. 	11 September 2017 Audit Results Report We have no matters to report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ We were unable to obtain relevant and reliable audit evidence from other procedures. 	11 September 2017 Audit Results Report We have received all requested confirmations



Appendix A





Our Reporting to you

When and where

Required communications	What is reported?	When and where
Consideration of laws and/or regulations	<ul style="list-style-type: none"> ▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on “tipping off” ▶ Asking the audit committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the audit committee. 	11 September 2017 Audit Results Report We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	11 September 2017 Audit Results Report
Group Audits (if applicable)	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the group audit team’s planned involvement in the component auditors’ work on the financial information of significant components ▶ Instances where the group audit team’s evaluation of a component auditor’s work of gave rise to a concern about its quality Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group or component management, employees with significant roles in group-wide controls, or others where the fraud resulted in a material misstatement of the group financial statements. 	1 March 2017 Audit Plan 11 September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY’s objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information on the firm’s general policies and processes for maintaining objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards,</p>	1 March 2017 Audit Plan 11 September 2017 Audit Results Report



Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Fee Reporting	Breakdown of fee information when the audit plan is agreed Breakdown of fee information at the completion of the audit Any non-audit work	1 March 2017 Audit Plan 11 September 2017 Audit Results Report



Independence

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 March 2017 complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 11 September 2017

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on Teacher's Pensions return. We have adopted the necessary safeguards in our completion of this work. We have yet to issue an engagement letter for the 2016/17 Teacher's Pensions Return due to clarification being sought on this year's Teacher's Pensions Return guidance by ICAEW.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017. We confirm that we have undertaken non-audit work outside the PSAA Code requirements. This relates to the audit of the 2015/16 Teacher's Pensions return which was undertaken during the 2016/17 financial year. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2016.

Description	Final Fee 2016/17	Planned Fee 2016/17	Scale Fee 2016/17	Final Fee 2015/16
Total Audit Fee - code work	142,067	142,067	142,067	142,067
Total Non-audit work*	TBC	13,000	N/A	13,000

*2016/17 fee relates to the work completed on the 2015/16 Teachers Pension return as the work is completed in the financial year following preparation of the return (2015/16 relates to 2014/15 completed return).





Appendix C

Accounting and regulatory update

Accounting update

The following table provides a high level summary of new accounting standards and interpretations that have the potential to have the most impact on you:

Name	Summary of key measures 	Impact on Hertfordshire County Council 
<i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> • How financial assets are classified and measured • How the impairment of financial assets are calculated • Financial hedge accounting • The disclosure requirements for financial assets. <p>• Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> • Reclassify existing financial instrument assets • Remeasure and recalculate potential impairments of those assets; and • Prepare additional disclosure notes for material items <p>Although any changes required won't be confirmed until 2018/19 Code is released, the Council has begun initial analysis of the potential impact, including dialogue with our treasury advisors, Arlingclose.</p>



Appendix C

<p><i>IFRS 15 Revenue from Contracts with Customers</i></p>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none">• Leases;• Financial instruments;• Insurance contracts; and• for local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <ul style="list-style-type: none">• There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none">• Disaggregate revenue into appropriate categories• Identify relevant performance obligations and allocate income to each• Summarise significant judgements <p>The Council is awaiting clarification of the exact requirements before investing time in the above work.</p>
<p><i>IFRS 16 Leases</i></p>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p> <p>The Council is in a good position to implement these changes when required from 2019/20, having already implemented a system for recording Finance Leases. A detailed exercise will be undertaken to identify further leases, once the 2019/20 Code has been finalised and further guidance issued in this area.</p>




Appendix C

Accounting and regulatory update (continued)

Regulatory update



The following table provides a high level summary of those that could have the most significant impact on you:

Name	Summary of key measures 	Impact on Hertfordshire County Council
<i>Policing and Crime Act 2017</i>	<p>The key measures summarised here are those that are likely to have implications for the audit of the financial statements and the VFM conclusion:</p> <ul style="list-style-type: none"> • Increase in emergency services collaboration between police bodies, ambulance and fire and rescue services • Provision for Police and Crime Commissioner (PCC) to act as the Fire and Rescue Authority through either a governance or single employer model subject to an approved business case and public, stakeholder consultation. 	<ul style="list-style-type: none"> • Powers introduced to allow increased collaboration between emergency services • Powers that allow the PCC to act as Fire and Rescue Authority with a variety of governance and accounting structures resulting. • The Police and Crime Commissioner for Hertfordshire has consulted on a business case to create a governance model and become the corporate sole for the Fire and Rescue Authority. Hertfordshire County Council are and remain a vital and significant stakeholder in any governance changes for the Fire and Rescue Service. • We have considered the arrangements the County Council has put in place to date to contribute to the PCCs business case development and in responding to the consultation exercise. We are satisfied that the Council has taken all the appropriate steps relevant to its role and responsibilities at this stage. • We understand that the business case is now subject to an independent evaluation and determination by the Home Office which will take place in the autumn of 2017. • In the event that there is approval for a governance change, we will use our 2017-2018 Value for Money conclusion to examine carefully the County Council's arrangements to secure a smooth and effective transition, as well as the completeness and adequacy for strategy, financial management, reporting and risk management purposes of judgements made on the disaggregation of assets, liabilities, income, expenditure, contractual obligations, oversight and scrutiny.



Accounting and regulatory update (continued)

Progress report on implementation of new standards and regulations

Name	Summary of key measures	Impact on Hertfordshire County Council  
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<ul style="list-style-type: none"> The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July. 	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has taken some steps in 2016/17. For example it has started to critically review and amend the closedown process to achieve earlier draft accounts production.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> Issued a thought piece on early closedown As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>Locally we have had discussions through the year on the Council's proposals to bring forward the closedown timetable and on potential areas for early work.</p> <p>We have agreed with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> Streamlining the Statement of Accounts removing all non-material disclosure notes Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations Providing training to departmental finance staff regarding the requirements and implications of earlier closedown Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure Establishing and agreeing working materiality amounts with the auditors



Appendix D

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]

[Date]

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Hertfordshire County Council ("the Group and Council") for the year ended 31 March 2017. 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 consolidated and council financial statements give a true and fair view of the Group and Council financial position of Hertfordshire County Council as of 31 March 2017 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, 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, for the Group and the Council, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.



Appendix D

Management representation letter

Management Representation Letter

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have 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 2016/17 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of an unadjusted audit difference of £1.4m, relating to capital expenditure incorrectly treated as REFCUS, identified and calculated by you during the current audit and pertaining to the latest period presented, are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected this difference identified and brought to our attention by the auditor because it results from a projected error and not an actual error that can reasonably be amended within the financial statements.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Group or Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the consolidated or council financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the consolidated or council financial statements or otherwise affect the financial reporting of the Group or Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the consolidated and council financial statements.



Management representation letter

Management Rep Letter

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and committees 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: 11 September 2017.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year 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 consolidated and council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.



Management representation letter

Management Rep Letter

E. 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 consolidated and council 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 litigation and claims, both actual and contingent, and have disclosed in **Note 42** to the consolidated and council financial statements all guarantees that we have given to third parties.

F. Subsequent Events

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

G. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the values of the Group and Council's land and buildings and surplus assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council 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

Management Rep Letter

I. Estimates -Property Valuations

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate.
2. We confirm that the significant assumptions used in making the property valuations appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate(s) are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

J. Retirement benefits

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

K. Going Concern

1. We have made you aware of any issues that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action and the feasibility of those plans.



Management representation letter

Management Rep Letter

L. Expenditure Funding Analysis

1. That you have reviewed the new requirements (as set out in the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. You confirm that the financial statements reflect the operating segments reported internally to the Council.

Yours faithfully,

Director of Resources

Chair of the Audit Committee

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ED None

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**LOCAL PENSIONS PARTNERSHIP
FIREFIGHTERS PENSIONS ADMINISTRATION REPORT**

Author: Taryn Mutter – Head of Client Delivery (LPP)

Agenda Item
No:

3

Purpose of the report

This report is provided by the Local Pensions Partnership (LPP) giving a quarterly update on the delivery of the pensions fund administration services in the following sections.

- Section 1: Statistics and key performance indicators
- Section 2: An update on regulatory changes, including the latest news on the potential scheme changes
- Section 3: Additional Projects

Recommendations

Comments are welcome as to additional information or content that should be included in future reports.

SECTION 1 STATISTICS AND KEY PERFORMANCE INDICATORS

1.1 Pensions Fund Statistics

Scheme Membership:

Membership of the Firefighter Pension Arrangements over the past year are summarised below:

	Q2 2016/7	Q3 2016/7	Q4 2016/7	Q1 2017/18
Active Members	617	605	602	591
Deferred Members	220	229	243	253
Pensioners/Dependants	639	643	643	649

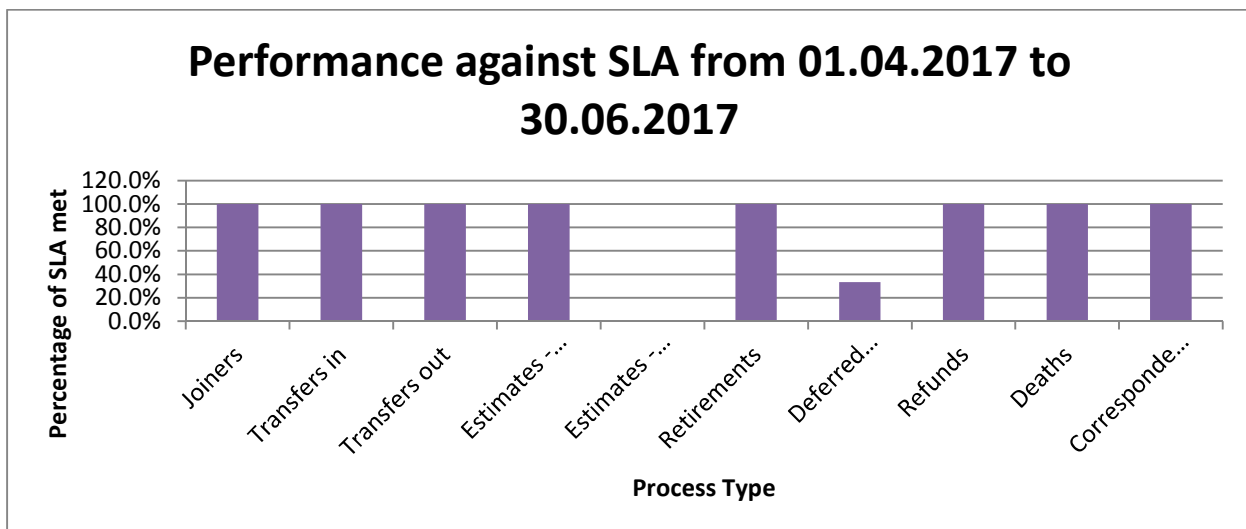
1.2 Performance Indicators

Performance of the Pension Fund is measured in the following key areas:

- The LPP Pensions Administration Services is measured against key performance indicators that measure compliance, efficiency and effectiveness of the service. See Section 1.3.

1.3 Performance for the LPP Pensions Administration Service

Service Level Agreement and Volumes: The following graphs provide a quarterly review of key areas and performance achieved with performance overall during the period over 98.4%.



2 deferred benefits were not completed within Service Level Agreement (SLA) but were completed within the agreed rectification period of 20 working days.

Key Processes Completed	01.07.2016 to 30.09.2016	01.10.2016 to 31.12.2016	01.01.2017 to 31.03.2017	01.04.2017 to 30.06.2017	Performance against SLA %
Admissions	4	0	2	1	100%
Transfers in	2	0	0	1	100%
Transfers out	1	1	0	1	100%
Estimates - member	9	21	37	26	100%
Estimates - employer	0	0	0	0	100%
Retirements	1	1	1	4	100%
Deferred benefits	3	2	5	3	33.3%
Refunds	3	0	0	3	100%
Deaths	1	0	0	2	100%
Correspondence	49	29	16	12	100%
Total Key Processes Completed	73	54	61	53	96.2%

Work has commenced to move the Herts Fire Pensions Administration to the specialist team in London who are also responsible for administering pensions for London Fire Brigade, Beds Fire & Rescue Authority and Kent Fire & Rescue Authority. The intention is to provide more expertise and resilience to the Authority and scheme members whilst maintaining a presence in the Hertfordshire office.

Annual Benefit Statement Exercise 2017

LPP dispatched all deferred and active annual benefit statements before the deadline of 31 August 2017.

LPP Service Complaints

- None

Fire Authority Complaints

- None

IDRP's

- One Internal Dispute Resolution Procedure (IDRP) has been received regarding admittance to the Retained Modified Fire Fighters Pension Scheme. The correspondence provided to the member allowed three months to respond and the member replied within timescales. Unfortunately the member was a retained FF and was picked up later than the original group and the letter sent did not reflect the statutory deadline for response. This matter has been resolved and the fire-fighter had been granted access to the Retained Modified Scheme.

SECTION 2 FIREFIGHTERS PENSION SCHEME REGULATIONS AND SCHEME CHANGES

Legal Challenge Regarding Pension Protection Arrangements

Following the legal challenge to the 'protection arrangements' for firefighters in the 1992 scheme which was judged to be justified by the Central London Employment Tribunal, the Fire Brigade Union has announced that they intend to appeal the ruling. The hearing will be held in the first 2 weeks of December.

Amendment Regulations

The Fire Amendment Regulations (the Firefighter's Pension Schemes and Compensation Scheme (Amendment) (England) order 2017 (2017/892) and The Firefighters' Pension Scheme (England) (Amendment) Regulations 2017 (2017/881) have been laid on the 11 September 2017. These will stop any widow of a firefighter (who died in active service) having their widows pension suspended if they remarry. Additionally a number of minor amendments/corrections have been made.

Annual and Lifetime Allowance

The LPP will be contacting all scheme members who are close to either the Annual Allowance or Lifetime Allowance triggers in the Autumn following the issuing of the 2017 Annual Benefit statements, the LPP appreciate that any information which mentions HMRC is likely to be of serious concern so in those letters we will advertise a drop in day where the LPP will explain the figures and their implications, this would also cover the introduction of the Tapered Annual Allowance which would only affect members if they have other significant taxable earnings. The timetable below shows the plans and how it ties in with the HMRC requirements.

Date	Event
31 August 2017	Annual Benefit statements issued
6 October 2017	Individual letters to members affected by Annual Allowance issued
17 October 2017	Drop in day
31 January 2018	Self-assessment (including notification of any Annual Allowance excess)
31 July 2018	Member must notify LPP if they intend to use scheme pays

Pensions Dashboard

Plans for the introduction of the Pension Dashboard were announced by Chancellor George Osborne in March 2016, however, this adhered to advice to follow the Dutch system for defined contributions pension schemes by the FCA in 2014. The recommendations do not yet confirm if defined benefit schemes, like LGPS, will be required to supply details which will enable individuals to trace all of their pension benefits, values and options on one single site.

The 2016 budget statements stated:

The government will ensure the industry designs, funds and launches a pensions dashboard by 2019. A pensions dashboard is a digital interface where an individual can view all their retirement savings in one place.

Many defined contribution pension scheme providers and systems providers (including Heywood who provides the LPP pensions administration system) have been very active in collaborating on producing a system which can accommodate the level of detail required and agreeing the common data that would need to be collected.

General Data Protection Regulations (GDPR)

On 25 May 2018 the EU's General Data Protection Regulation (GDPR) comes into force containing new standards for the protection of individuals' personal data in the European Economic Area.

LPP are aware that GDPR is an area that is attracting increased attention across pension schemes and there are a number of crucial questions where there are different views, in particular:

- a) the implications of GDPR for Fire Pension Schemes, and
- b) the work that needs to be undertaken to ensure that Fire Authorities are fully compliant
by the time GDPR comes into force.

At a national level LPP attend a GDPR working group to consult on documentation to ensure compliance and raise appropriate queries on any specific issues that may arise.

SECTION 3 – ADDITIONAL PROJECTS

GMP Reconciliation

Contracting out status for all UK defined benefit schemes ended in April 2016. From January 2019, HMRC will no longer provide relevant information to Schemes and statements will be issued to individuals based on the final position recorded at the end of 2018. Before this happens all schemes will need to reconcile their GMP data against that held by HMRC to ensure that correct liabilities are recorded and to avoid pensions being over/under paid or being faced with the burden of paying a GMP for members who are no longer in their Scheme. Work is underway between HCC and LPP to ensure all relevant data is up to date and reconciled within the appropriate timescales.

HMRC have responded to all 391 queries raised via the Shared Workspace portal and a review of the responses has been completed.

Of the 391 responses:

- HMRC agree with the information we sent for 32 of the cases. These are mainly “Not in Scheme” queries where we informed HMRC of the members that do not hold a liability with HCC Fire and HMRC have accepted the information we provided them and amended their records.
- Another 32 of the responses were HMRC providing details of the dependant pensions that they believe HCC Fire are responsible for. The work required to reconcile and carry out any further actions appropriate to these members will be carried out in the next phase of the GMP reconciliation process.
- LPP still have a dispute with HMRC in respect of 2 “Not in Scheme” queries and 29 “Orphan Record” queries. Resolving these issues will also fall into the next phase of the GMP reconciliation process. LPP have already identified 11 of the 29 “Orphan Record” queries as being members of the HCC LGPS and not members of the Fire Scheme.
- The remaining 296 records are all “Was in Scheme” queries that have had to be re-submitted to HMRC due to an error on LPP’s part which resulted in the NI Numbers for members not being included in the query list. The original list was uploaded to HMRC on 22 July 2016 and HMRC responded on 21 October 2016. The list was subsequently resubmitted and a final response received from HMRC on 4 July 2017.

LPP has also now received HMRC’s “Closure Scan” information which gives the details required to reconcile HCC Fire’s active scheme membership. This data was originally supposed to have been made available by HMRC in December 2016, but a series of issues at HMRC led to the information not being added to the Shared Workspace for LPP to download until 31 March 2017.

The reconciliation of the active membership and the resulting action that is required will form the greater part of the next stage of the reconciliation project. Work is now underway to prepare a cost model and plan for the next phase of the project.

Norman v's Cheshire

In December 2011 Mr Justice Andrew Smith ruled in favour of the position presented by Anthony White QC on behalf of Mr Norman in a case brought against Cheshire Fire & Rescue Service, regarding the issue of whether day crewing allowance should be deemed as pensionable pay. Hertfordshire Fire & Rescue Authority is undertaking a piece of work to correct the previous decision that the allowance was not pensionable.

LPP are supporting Hertfordshire Fire and Rescue Service in the delivery of this message to effected firefighters by delivering presentations, assisting with frequently asked questions and recalculating estimated pension benefits and pensions in payment as appropriate.



LPP's New Operating Model for the Administration Business

George Graham – Managing Director Administration Business

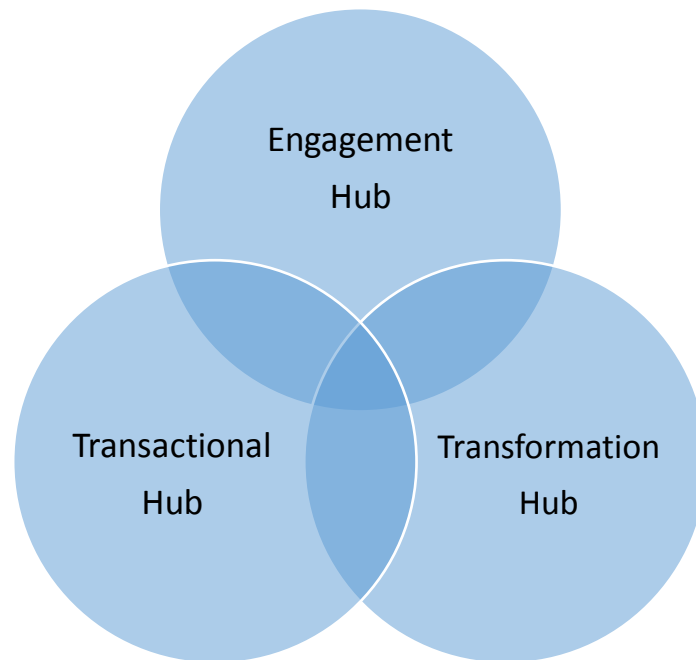
May 2017

Introduction

The creation of LPP brings together three administration operations based in Hertford, London and Preston into a single business. This provides the opportunity to create a single business operating to common standards in order to improve the overall quality of the service delivered for clients and scheme members.

The Concept

The key concept within the operating model that we are moving towards is a series of three hubs each of which will deliver key aspects of the business. These are illustrated in the diagram below:



Dealing with each of these in turn:

1. The Engagement Hub will manage the process of communication with scheme members and employers including managing front end communication through a telephone contact centre and websites etc.
2. The Transactional Hub will handle the processing and maintenance of data, benefit calculations and payments.
3. The Transformation Hub will deal with designing improvement to the way in which we deliver our services, the development of new products and the take on of new business.

This is fundamentally different from having three operational centres that each carry out the full range of pension administration functions.

By bringing functions together across the business in this way and as far as practical concentrating activity in lower cost places we can achieve economies of scale.

We can achieve further improvements in productivity through adopting a number of further changes to the way in which we do things as part of this new operating model. All of these will form part of LPP's standard offering in future.

- By structuring our processing teams around the complexity of the transactions they deal with we can improve productivity by each team becoming expert in a specific range of transactions.
- By routing all scheme member calls through the contact centre we can handle calls in a more consistent and systematic way as well as improving back office productivity through the fact that staff will not be diverted from processing activity by phone calls.
- We can free up time for processing by promoting and encouraging use of the member (and employer) self-service facilities we already have and by working with our software suppliers to improve them.
- We can improve the quality of scheme data and reduce the year end peak by gathering data from employers and inputting it into the pension administration system on a monthly basis.
- We can assist schemes in promoting membership, promoting take up of self service and in helping members understand their benefits and also whether they might need to take action in relation to annual or life time allowances. .
- Straight through processing of payroll and other payment transactions such as lump sums and transfers (where the payroll service is handled by LPP).
- Supporting annual "practitioner conferences" to engage employer HR and payroll staff with developments in pensions and particular schemes.
- Regular reviews of compliance with CoP 14 and data quality.

Some clients will already receive some of these as part of their current service. The difference is that they will become standard for all as part of three service packages which schemes can choose to participate in:

1. Core Administration
2. Pension Payroll and Other Scheme Payments
3. Member and Employer Engagement

Implementing the Changes

LPP's aim is to have this new operating model in place by April 2018, or shortly thereafter depending upon the delivery of a range of ICT changes, in particular relating to workflow technology. This will result in us relocating processing activity away from London to Preston, while maintaining the level of activity in Hertford at broadly the same level. A limited amount of processing activity will continue in London and this together with other London based activity will be relocated to a less expensive location in London. This will be a move over time, rather than at a fixed point, in order to manage the staffing consequences of change appropriately.

As further schemes are added to the LPP portfolio decisions will be taken as to where to locate the relevant activity in line with the requirements of the relevant scheme and in a way which allows economies of scale to be maximised.

Impact on Individual Schemes

The impact of these changes on individual scheme will differ depending on the commercial terms between each scheme and LPP's predecessor organisations. LPP's aim is, through a series of individual discussions from 1st April 2018 to:

1. Move all current schemes to a standard form of shared service agreement
2. Move all service arrangements to the new operating model and standard form of service.

3. Introduce a standard form of reporting back to individual schemes and for the managing of the relationship between LPP and individual schemes.

As we are looking to operate as a shared service we will be aiming to discuss with schemes a means of them influencing how the service develops over time.

Further Information

If you would like further information or to arrange a discussion on the potential implications of these changes for your scheme please contact:

Diane Lister, Head of Your Pension Service

Phone: 01772 534827 or 07887 831270

Email: diane.lister@localpensionspartnership.org.uk

Taryn Mutter, Head of Client Delivery

Direct phone: 01992 555466

Email: taryn.mutter@localpensionspartnership.org.uk

James Wilday, Acting Head of Client Delivery

Phone: 020 7369 6016

Email: james.wilday@localpensionspartnership.org.uk