

# role of the chief finance officer (CFO)

in Local Government: Supplement  
– Role of the CFO in the Local  
Government Pension Scheme

# \ background

In 2010, CIPFA published the Statement on the Role of the CFO in Local Government which set out described the role and responsibilities of CFOs in Local Government. This in turn drew heavily on CIPFA's 2009 Statement on the Role of the CFO in Public Service organisations.

The Statement on the role of the Chief Financial Officer (CFO) in Local Government aims to advise on how to apply the overarching public services statement within local government. This supplement to that statement aims to place that advice in the context of the financial administration of the Local Government Pension Scheme and should be used in conjunction with the Statement on the role of the Chief Financial Officer (CFO) in Local Government.

## **The CFO in Local Government**

The CFO in local government is bound by specific legal responsibilities established both in legislation and in case law:

- The role and responsibilities of the 'Treasurer' were developed by case law in England and Wales. In *Attorney General v De Winton* 1906, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers.
- Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements
- Section 95 of the Local Government (Scotland) Act 1973 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a CFO to have responsibility for those arrangements.
- In Northern Ireland, section 54 of the Local Government Act (Northern Ireland) 1972 requires local authorities to make safe and

efficient arrangements for the receipt of money paid to it and the issue of money payable by it and for those arrangements to be carried out under the supervision the chief financial officer.

In addition CFO's in local government are also subject to professional standards, as Section 113 of the Local Government Finance Act 1988 requires the responsible officer under Section 151 of the 1972 Act to be a member of a specified accountancy body<sup>1</sup>.

In the case of CIPFA members, these professional standards are set down in CIPFA's Statement of Professional Practice with which all CIPFA members are required to comply. For members of other accountancy bodies this represents best practice within the public sector. All professional accountants should also have regard to their own body's Code of Ethics as well as that produced by International Ethics Standards Board for Accountants (IESBA) on behalf of the International Federation of Accountants (IFAC).

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<sup>1</sup> Although there is no similar legislative provision in Scotland and Northern Ireland, the requirement for the CFO to be a member of a specified accountancy body is widely acknowledged to be good practice.

## The Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is the primary pension scheme for local government employees in the UK, with current and former members numbering in excess of 5 million.

This makes the LGPS a significant financial undertaking. With total assets under management of over £200 billion (as of March 2013), it is the single largest funded, defined benefit, occupational pension scheme in Europe. To put this in a local authority context, the assets in the LGPS are over 8 times the size of the combined reserves of all local authorities in the UK.

Whilst the LGPS is one scheme, it is comprised of 104 discrete funds (plus a number of smaller, associated funds) managed across 99 locations throughout the UK. The size of the funds varies widely, from £150 million through to £13 billion, as do the arrangements for its management. In some instances, pensions operations are integrated within the HR and Finance functions of the relevant administering authority; in others, discrete pensions units have been created to take on the task. In addition two single purpose authorities have been created to carry out this function. In such circumstances, the CFO may not have direct line management responsibility for all or any of the pension fund administration function. This statement does not concern itself directly with the organisational structure of how the administration of the pension fund is undertaken. Rather, the focus is on how the CFO exercises the Section 151 officer responsibility in relation to the overall financial administration of the LGPS.

This is because one common factor running throughout these arrangements is that an LGPS administering authority is a local authority body<sup>2</sup>. No matter how the pensions operations of the administering authority are delivered, they are, for the purposes of the responsibilities of the CFO of that authority, indivisible from other financial operations. This in turn means that the Chief Finance Officer of that local authority body is responsible for the financial administration of the pension fund, in addition to that of the local authority.

## The Statement of the role of the CFO in Local Government

The CIPFA Statement on the Role of the CFO in Local Government sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in public service organisations.

However successful implementation of each of the principles requires that certain organisational arrangements be in place. For this reason the principles are framed in terms of the organisation, as well as the role and the individual.

For each principle, the Statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Statement also sets out the core responsibilities of the CFO role within the organisation. Many of the day-to-day responsibilities may in practice be delegated or even outsourced, but the CFO should maintain oversight and control.

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<sup>2</sup> The two exceptions to this are the Northern Ireland Local Government Superannuation Committee (NILGOSC) and the Environment Agency, both of which are non-department public bodies, set up respectively under the auspices of the Department of the Environment (Northern Ireland) and DEFRA.



Summaries of personal skills and professional standards then detail the leadership skills and technical expertise organisations can expect from their CFO. These include the key requirements of CIPFA and the other professional accountancy bodies’ codes of ethics and professional standards to which the CFO as a qualified professional is bound. The personal skills described have been aligned with the most appropriate principle, but in many cases can support other principles as well.

### Application

This statement is addressed primarily to those CFO’s holding the chief finance officer position in local authorities that are LGPS administering authorities.

However all local authority CFOs will have some interaction with the LGPS and should therefore possess the necessary technical knowledge and skills to engage with the administering authority as an “intelligent client” of the fund.

### The principles

The principles can be summarised as follows:

#### *The CFO in a public service organisation:*

- *is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest;*
- *must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation’s financial strategy; and*
- *must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.*

#### *To deliver these responsibilities the CFO:*

- *must lead and direct a finance function that is resourced to be fit for purpose; and*
- *must be professionally qualified and suitably experienced.*

In the sections that follow, each of these five principles are set in the context of the financial management of the Local Government Pension Scheme.

# \ principle 1



The CFO in a public service organisation is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.

Local authorities operate a number of different democratic models. In local authorities, therefore, the concept of the "leadership team" will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority.

In the context of the Local Government Pension Scheme, the "leadership team" commonly takes the form of a committee of elected members, supported by officers (and in many cases independent advisors), constituted under Section 101/102 of the Local Government Act 1972. This body will be responsible for setting the strategic direction of the pension fund, its implementation and its delivery.

However constituted, the CFO should play a key role within the leadership body. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly. In the context of the pension fund this should be detailed in the pension fund's annual report, together with how these alternative arrangements deliver the same impact.

## **Developing and implementing pension fund strategy**

The CFO must share in the strategy development and implementation responsibilities of the pensions committee. These include supporting elected representatives under the proper governance arrangements and the CFO must be in a position to provide unfettered advice to elected representatives to inform their decision making.

The CFO must also ensure the members of the pension fund decision-making body have the financial capabilities necessary to perform their own roles effectively. This requirement is detailed in the CIPFA Code of Practice on Pension Scheme Finance Knowledge and Skills, which is supported by the associated Knowledge and Skills Frameworks.

The CFO must encourage continuous improvement and development to enable the pensions committee to deliver at the highest levels. As well as having the fundamental concern for probity and control, the CFO must be proactive in managing change and risk, be focussed on outcomes, and help to resource the pension funds plans for the services it provides. As a key member of the leadership team, the CFO must also behave in ways that are consistent with the funds agreed values and objectives.

## **Helping resource and deliver organisational objectives**

There is a growing trend for CFOs to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, authorities must not let the CFO's core financial responsibilities be compromised through creating too wide a portfolio. Dilution and/or overload in the role of the CFO can result in poor financial outcomes for the pension fund. Setting out the core CFO responsibilities to the pension fund in this Statement is intended to allow local authorities and their CFOs to assess their job descriptions to ensure that these core finance responsibilities can be properly performed.

Increasingly pension funds also need to engage with partners through a range of collaborative or commissioned relationships in order to realise their goals (shared services, collaborative procurement, collective investment etc). Partnership working and the focus on mutually-beneficial outcomes require the CFO to understand the financial risks and potential liabilities that may impact on the pension fund and have appropriate involvement in partnerships' business decisions. The CFO must therefore work to develop strong and constructive working relationships with key decision makers in partner organisations.

## Delivering the pension fund's strategic objectives sustainably and in the public interest

In common with the wider local authority, pension funds have a corporate responsibility to operate within available resources. Maximising public value involves an appreciation of user needs, expectations and preferences, and the planning process must allow for their involvement and influence. The internal process to determine priorities often then needs to grapple with resource rationing and difficult trade-offs between the different demands on authority finances.

In the pension fund context, the view expressed in Circular 24/83 by the Secretary of State for the Environment requires that administering authorities should pay due regard to the principle contained in *Roberts v Hopwood* in exercising their duties and powers under the regulations governing the investment and management of pension funds. In that case, Lord Atkinson said:

‘A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others.’

In addition, the CFO and all decision-makers should be aware of the ‘Wednesbury’<sup>3</sup> rules which emphasise the importance of ensuring that when developing policy all relevant matters are properly considered. The judgement in the case stated that an authority’s action in exercise of a statutory discretion would only be regarded unreasonable, in excess of the powers given by Parliament and therefore invalid if:

- in making its decision it took into account matters which it ought not to take into account, or;

- it did not take into account matters which it should have taken into account, or;
- even if the two previous conditions were satisfied the conclusion was so unreasonable that no reasonable authority could ever come to it.

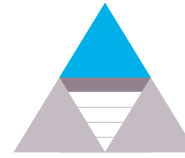
These principles apply equally to the pension fund decision-making process and regardless of whether decisions on policy are taken by individual members or collectively. In order to demonstrate that these principles have been observed it is important that policy decisions and the associated advice are – as a matter of routine – well and clearly documented. The ‘Wednesbury’ rules do not apply specifically in Scotland or Northern Ireland, but adherence to these will demonstrate good governance and proper decision making.

The overarching long term need to ensure that the pension fund has the necessary resources to meet its liabilities, taken with the responsibility to citizens and taxpayers for financial stewardship, mean that the CFO must contribute actively to pension fund issues and to strategic decision-making to match resources to the pension fund’s objectives.

Pensions finance is complex and highly regulated, and the CFO must contribute expert technical advice and interpretation. CFOs must act in the public interest, even if necessary against a perceived organisational interest. In the pension fund context, the means balancing the financial interests of the fund and those of the administering authority. In local authorities, this professional obligation is given statutory backing, and a fiduciary duty is established in case law. In *Attorney General v De Winton* 1906, it was established that the Treasurer is not merely a servant of the authority, but holds a fiduciary responsibility to the local taxpayers. This is equally applicable to the CFO of a local authority that is an LGPS administering authority.

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<sup>3</sup> Associated Provincial Picture Houses v Wednesbury Corporation (1948).



## Governance requirements

### Principle 1

- Set out a clear statement of the respective roles and responsibilities of the pension fund leadership team and its members, with particular emphasis on the role of the chair.
- Determine a scheme of delegation and reserve powers, including a formal schedule of those matters specifically reserved for collective decisions by the pension fund leadership team, and ensure that it is monitored and updated.
- Ensure that authority's governance arrangements allow the CFO:
  - to bring influence to bear on all material business decisions; and
  - direct access to the other pensions committee members, the Audit Committee and external audit.
- Review the scope of the CFO's other management responsibilities to ensure pension fund financial matters are not compromised.
- Assess the financial skills required by members of the pension fund leadership team and commit to develop those skills to enable their roles to be carried out effectively.



## Core CFO responsibilities

### Principle 1

- Contributing to the effective leadership of the pension fund, maintaining focus on its strategy through rigorous analysis and challenge.
- Contributing to the effective management of the pension fund, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the pension fund through development of
  - corporate governance arrangements, risk management and reporting framework; and
  - corporate decision making arrangements.
- Leading or promoting change programmes within the administering authority that impact upon the pension fund
- Leading development of a medium term pension fund financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.



## Personal skills and professional standards

## Principle 1

- Role model, energetic, determined, positive, robust and resilient leadership, able to inspire confidence and respect, and exemplify high standards of conduct.
- Adopt a flexible leadership style, able to move through visioning to implementation and collaboration/consultation to challenge as appropriate.
- Build robust relationships both internally and externally.
- Work effectively with other pension fund “leadership team” members with political awareness and sensitivity.
- Support collective ownership of strategy, risks and delivery.
- Address and deal effectively with difficult situations.
- Demonstrate best practice in change management and leadership.
- Balance conflicting pressures and needs, including short and longer term trade-offs.
- Demonstrate strong commitment to innovation and performance improvement.
- Manage the responsibilities to the pension fund within a broad portfolio of services to meet the needs of diverse communities.
- Maintain an appropriate balance between the technical financial aspects of the CFO role and broader focus on the environment and stakeholder expectations and needs.
- Comply with the IFAC Code of Ethics for Professional Accountants, as implemented by local regulations and accountancy bodies, as well as other ethical standards that are applicable to them by virtue of their professional status as a member of CIPFA or another accountancy institute. The fundamental principles set out in the Code are integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour. Impartiality is a further fundamental requirement of those operating in the public services.



# \ principle 2



The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy.

## **Responsibility for financial strategy**

The pension fund cannot achieve its goals effectively without proper structures for allocating and optimising the use of resources. As the pension fund is essentially a financial instrument, the centrality of finance means the CFO must play the lead role in advising and supporting the leadership team in turning fund objectives into reality by aligning financial planning with the fund objectives.

Within the overall pension fund governance and management structure, the CFO has direct responsibility for leading development and implementation of the financial strategy necessary to deliver the fund's strategic objectives sustainably. The CFO must therefore work closely with actuarial advisors, decision-makers and stakeholders to establish a funding strategy that ensures the financial sustainability of the fund. In implementing this strategy, the CFO must ensure that the financial and risk implications are analysed and appropriately addressed.

As the Statement of the Role of the CFO in Local Government points out, the statutory guidance issued by the Secretary of State under the 2000 Local Government Act (England and Wales) advises that local authorities will need to ensure that the CFO and the monitoring officer have access as necessary to meetings and papers and that members must consult with him/her regularly. The advice continues that the finance director will have an important role in the management of the local authority in particular by:

- contributing to corporate management in particular to the provision of professional financial advice
- maintaining financial administration and stewardship
- supporting and advising all members and officers in their respective roles
- providing financial information to the media, members of the public and the community.

There is no equivalent legislative requirement in Scotland or Northern Ireland, but the guidance is equally relevant.

## **Influencing decision making**

Pension funds must be rigorous in their decision making, be explicit about the reasons for their decisions and record the supporting information and expected impact. This requires the CFO to be actively involved in, and able to bring influence to bear on all material business decisions whenever and wherever they are taken. The CFO must be able to advise the pension fund leadership team directly, including elected representatives, in order to discharge responsibilities in relation to the funds financial health and long term viability. The CFO must therefore be a persuasive and confident communicator with the status and credibility to challenge others, and influence material business decisions. The CFO's advice and reports to the pension fund leadership team, and those of his officers, must be clear, concise, relevant and timely, highlighting issues that the team needs to be aware of, and options for action.

The CFO must also work to develop strong and constructive working relationships with both the executive and non-executive members of the wider authority's leadership, creating mutual respect and effective communication. Providing information and advice to elected officials as a public servant will call on an understanding of ethics, the wider public interest, and diplomacy.

### **Financial information for decision makers**

At all levels in the pension fund, those taking decisions must be presented with relevant, objective and reliable financial analysis and advice, clearly setting out the financial implications and risks.

The CFO has an important role in ensuring necessary financial information and advice is provided to the pension fund leadership team and decision makers at all levels across the fund. This will include securing, where appropriate, relevant "proper advice" as required in LGPS legislation (such as via an actuary, investment advisor etc). Meaningful financial analysis and robust and impartial interpretation is a key component in performance management, asset management, investment appraisal, risk management and control.



## Governance requirements

## Principle 2

- Establish a short, medium term and long-term financial planning process to deliver the fund's strategic objectives, including:
  - a long-term financial strategy (funding strategy statement) to ensure sustainable finances;
  - a robust annual budget process that ensures that the pension fund has sufficient resources to deliver its objectives and control annual expenditure; and
  - a monitoring process that enables this to be delivered.
- Ensure that these are subject to regular review to confirm the continuing relevance of assumptions used.
- Ensure that professional advice (such as that of the fund actuary) on matters that have financial implications is available and recorded well in advance of decision making and used appropriately.
- Ensuring that budget calculations are robust.
- Ensure that those making decisions are provided with information that is fit for purpose –relevant, timely and giving clear explanations of financial issues and their implications.
- Ensure that timely, accurate and impartial financial advice and information is provided to assist in decision making and to ensure that the fund meets its objectives and provides effective stewardship of public money and value for money in its administration.
- Ensure compliance with relevant CIPFA Codes of practice such as the Treasury Management Code and Code of Practice on Public Sector Pension Scheme Finance Knowledge and Skills
- Ensure that appropriate management accounting systems, functions and controls are in place so that finances are kept under review on a regular basis. These systems, functions and controls should apply consistently to all activities including those undertaken through partnerships arrangements, outsourcing or shared services.
- Ensure the provision of clear, well presented, timely, complete and accurate information and reports to budget managers and senior officers on the budgetary and financial performance of the fund.

**Responsibility for financial strategy**

- Maintaining a long term financial strategy to underpin the fund's financial viability.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Appraising and advising on investment opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver fund priorities.
- Leading on asset and liability management.
- Co-ordinating the planning and budgeting processes.

**Influencing decision making**

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall fund financial strategy.
- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support pension fund strategy development.
- Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/budget.
- Ensuring that advice is provided to the scrutiny functions (including the Pensions Board) in considering the funding plan/budget.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.

**Financial information for decision makers**

- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.



## Personal skills and professional standards

## Principle 2

- Take all reasonable steps to ensure that:
  - budgets are planned as an integral part of the strategic and operational management of the fund and are aligned with its structure of managerial responsibilities.
  - budgets are constructed on the basis of reliable data of past performance and rigorous assessments of future resources and commitments, and that policies and priorities are evaluated in an open, consistent and thorough manner.
  - responsibilities for budget management and control are unambiguously allocated, that commitments are properly authorised, and that budgets are related to clear objectives and outputs.
  - the accounting and financial information systems make available, at the relevant time to all users, the appropriate information for their responsibilities and for the objectives of the authority.
- Implement other appropriate management, business and strategic planning techniques.
- Link financial strategy and overall strategy.
- Demonstrate a willingness to take and stick to difficult decisions – even under pressure.
- Take ownership of relevant financial and business risks.
- Network effectively within the authority to ensure awareness of all material business decisions to which CFO input may be necessary.
- Role model persuasive and concise communication with a wide range of audiences internally and externally.
- Provide clear, authoritative and impartial professional advice and objective financial analysis and interpretation of complex situations.
- Apply relevant statutory, regulatory and professional standards both personal and organisational.
- Demonstrate a strong desire to innovate and add value.
- Challenge effectively, and give and receive constructive feedback.
- Operate with sensitivity in a political environment.

# \ principle 3



The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

## **Promotion and delivery of good financial management**

Good financial management is fundamental to establishing confidence in the administration of the LGPS and maintaining good relationships with members, employers and the taxpayer. The pension fund leadership team collectively needs to demonstrate that sound financial management is core to achieving pension fund strategic objectives, and to demonstrate that public money is being used and managed well. However it is the CFO who must take the lead in establishing a strong framework for implementing and maintaining good financial management. The CFO will be instrumental in assessing the existing organisational style of financial management and the improvements needed to ensure it aligns with the fund's requirements. Financial management is the business of the whole fund. When the pension fund leadership team, managers and the finance function all fulfil their financial management responsibilities successfully, they collectively create the financially literate and adept fund. The CFO must actively promote financial literacy throughout the fund, so that the leadership team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

## **Best Value and Value for money**

The CFO has a key role to play in balancing control and compliance with obtaining value-for-money and performance. Good financial management will focus on stretching limited resources to maximise value for the public. Value for money (economy, efficiency and effectiveness) should be the concern of all managers, but the CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. This will involve approaches and techniques such as:

Enabling the fund to measure value for money, and making sure that it has the information to review value for money and performance effectively;

- Advising on appropriate strategies for the productive use of resources;
- Providing leadership in using and developing efficiency tools and techniques, including benchmarking, IT, shared services, process analysis and cost management, collaborating with others where this is more efficient, effective or economical; and
- Ensuring the rigorous financial appraisal and oversight of change programmes, income generation proposals and investment projects.

## **Safeguarding public money**

The CFO must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources. At the most fundamental level this means ensuring robust systems of risk management and internal control, that financial control is exercised consistently, and that the fund implements appropriate measures to protect its assets from degradation, fraud and loss. The CFO also has a specific role with regard to stewardship. This includes ensuring that the governance structures codify financial control, internal control, risk management and assurance, as well as defining a framework of financial accountabilities and reporting. In addition to the finance director's responsibilities to the fund and the wider administering authority, a role also exists in relation to the general public. A local authority is regarded as a trustee of local citizens' money, and the finance director has the prime obligation and

duty to them to manage the authority's resources prudently on their behalf as established in the 1906 de Winton case. In effect this means that the finance director has a personal responsibility for the stewardship and safeguarding of public money and for demonstrating that high standards of probity exist. Strong financial management, accurate financial reporting and effective financial controls are therefore central to the finance director's role in local government. This role was strengthened by the Local Government Finance Act 1988 (in England and Wales), which requires the finance director to report inappropriate financial management as well as wrongdoing.

### **Assurance and scrutiny**

Accountability for public expenditure is a core requirement for local authority pension funds. They are held accountable by intermediary stakeholders, such as employee representatives, scrutiny groups, and external auditors, and by primary stakeholders: local Pensions Boards, employers, employees and central government. Managing information flows is a key component of the CFO's role as an ambassador for the fund on financial matters and in building relationships with stakeholders. The CFO must also provide information and advice to those who officially scrutinise and review the authority; funders (members and employers), regulators, and external audit, and any group which exercises scrutiny internally. The community, taxpayers and the press also expect information. Internal audit is an important independent internal scrutiny activity. The CFO must support the authority's internal audit arrangements and ensure that the Audit Committee receives the necessary advice and information, so that both functions can operate effectively. Pension funds face a variety of regulatory requirements and standards for external financial reporting, while measures of value are expressed both as financial and as non-financial performance targets. The role of the CFO in external reporting is to meet the reporting requirements relevant to the fund and to apply professional good practice, conscious of the needs of users. External financial reporting must

be of good quality, supported by analysis and documentation and should receive an unqualified audit opinion. This will be facilitated if the CFO maintains a constructive professional relationship with external auditors and inspectors.

The Accounts and Audit (England) Regulations 2011, the Accounts and Audit (Wales) Regulations 2005 (as amended), in Scotland, the Local Authority Accounts (Scotland) Regulations 1985 (as amended) and in Northern Ireland the Local Government (Account and Audit) regulations (Northern Ireland) 2006 (as amended) impose responsibilities on the finance director relating to accounting records and supporting information, control systems and the statement of accounts. A key feature of the Regulations in England and Wales is the requirement for internal audit. Regulation 6 requires that a 'relevant body shall maintain an adequate and effective system of internal audit of its accounting records and its system of internal control'. Similar references exist for Northern Ireland in regulation 3a of the Local Government (Account and Audit) regulations (Northern Ireland) 2006. Although there is no specific reference to internal audit for Scotland the successful discharge of the finance director's responsibilities depends in part on effective internal audit.



## Governance requirements

## Principle 3

- Make the CFO responsible for ensuring that appropriate advice is given on all financial matters, for keeping financial records and accounts, and for maintaining an effective system of financial control.
- Ensure that systems and processes for financial administration, financial control and protection of the fund's resources and assets are designed in conformity with appropriate ethical standards and monitor their continuing effectiveness in practice.
- Ensure that the funds has in place effective internal financial controls covering codified guidance, budgetary systems, supervision, management review and monitoring, physical safeguards, segregation of duties, accounting procedures, information systems and authorisation and approval processes. Ensuring that these controls are an integral part of the fund's underlying framework of corporate governance and that they are reflected in its local code.
- Address the fund's arrangements for financial and internal control and for managing risk in the Annual Governance Statement (or in Scotland, statement of internal financial controls)
- Publish an annual report and annual accounts on a timely basis to communicate the fund's activities and achievements, its financial position and performance.
- Ensure an effective internal audit function is resourced and maintained.
- Develop and maintain an effective local Pensions Board and Audit Committee, capable of effectively scrutinising pension fund activity
- Ensure that the fund makes best use of resources and that taxpayers and/or service users receive value for money.
- Embed financial competencies in person specifications and appraisals.
- Assess the financial skills required by managers and commit to develop those skills to enable their roles to be carried out effectively.
- Ensure that councillors' roles and responsibilities for monitoring pension fund financial performance/budget management are clear, that they have adequate access to financial skills, and are provided with appropriate financial training on an on-going basis to help them discharge their responsibilities.



**Promotion of financial management**

- Assessing the fund's financial management style and the improvements needed to ensure it aligns with the fund's strategic direction.
- Actively promoting financial literacy throughout the authority.
- Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of officers for financial management, including delegated authority/powers.

**Value for money**

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function.
- Advising on the financial thresholds for 'key' decisions where there is a requirement to do so.
- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long term commercial contract value.

**Safeguarding public money**

- Applying strong internal controls in all areas of financial management, risk management and asset management.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Codes of Practice.
- Ensuring that delegated financial authorities are respected.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets and risk mitigation.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensuring the effective management of cash flows, borrowings and investments of the pension fund; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.
- Implementing appropriate measures to prevent and detect fraud and corruption.
- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.

**Assurance and scrutiny**

- Reporting performance of both the fund and any associated partnership arrangements to the board and other parties as required.
- Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy, targets and performance is accurate, clear, relevant, robust and objective.
- Supporting and advising the Audit Committee and relevant scrutiny groups.
- Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.
- Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in the Code of Practice on Local Authority Accounting in the United Kingdom developed by the CIPFA/LASAAC Joint Committee.
- Certifying the annual statement of accounts.
- Liaising with the external auditor.

# \ principle 4



The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose

## **Meeting the finance needs of the pension fund**

The organisation of pension fund finance functions is changing rapidly. Traditionally they have been centralised services with mainly investment management functions outsourced, but increasingly they may include a wider range of outsourced functions, or services shared between organisations. Whatever the structure, a strong customer focus both externally and internally must be a key feature of the way the pension fund finance function does business. It must support pension fund's strategic objectives by appraising investment options and contributing creative financial solutions within an effective risk management framework.

The finance function must also have a firm grasp of the fund's financial position and performance. The CFO must ensure that there is sufficient depth of financial expertise, supported by effective systems and, where appropriate, external advice, to discharge this responsibility and challenge those responsible for the pension fund's activities to account for their financial performance, including those to whom specific responsibilities in relation to the pension fund have been made. The resources available must be proportionate to the complexity of the financial environment.

Section 114(7) of the Local Government Finance Act 1988 requires authorities in England and Wales to provide their CFO (CFO) with 'such staff, accommodation and other resources as are in his opinion sufficient to allow his duties under this section (ie s114) to be performed'. There is no equivalent requirement in Scotland or Northern Ireland.

## **Appropriately developed finance knowledge and skills**

The CFO must promote financial literacy throughout the administration of the pension fund (both officers and members), including championing training and development of relevant skills at all levels, in line with established CIPFA standards and the specific requirements of the CIPFA Code of Practice on Public Sector Pension Scheme Finance Knowledge and Skills. However the CFO has a particular responsibility for learning and development amongst finance staff in order to ensure that both current and likely future finance skill needs are addressed. This will include identifying the competencies needed by the pension fund finance function, including specialist skills, and ensuring it can access the skills and experience to exercise stewardship of the pension fund, develop financial performance and contribute effectively to the execution of pension fund objectives.

The CFO must ensure that the Head of Profession role for accountants and finance specialists administering authority-wide is properly discharged in order to ensure compliance with regulatory and professional standards. Exercising leadership on financial matters in a devolved environment will require a documented line of professional accountability to the CFO, where this is not a direct line management relationship.



## Governance requirements

## Principle 4

- Provide the pension fund financial administration function with the resources, expertise and systems necessary to perform its role effectively.
- Ensure there is a line of professional accountability to the CFO for pension fund finance staff throughout the administering authority.



## Core CFO responsibilities

## Principle 4

- Leading and directing the pension fund financial administration function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the pension fund financial administration function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Implementing robust processes for recruitment of pension fund finance staff and/or outsourcing of functions.
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Identifying and equipping finance staff, managers and the pensions committee with the knowledge and skills set out in the CIPFA Public Sector Pension Scheme Finance Knowledge and Skills Frameworks as necessary to manage the pension fund both currently and in the future.
- Ensuring that the Head of Profession role for all finance staff in the administering authority is properly discharged.
- Acting as the final arbiter on application of professional standards.



## Personal skills and professional standards

## Principle 4

- Create, communicate and implement a vision for the pension fund finance function.
- Role model a customer focussed culture within the pension fund finance function.
- Establish an open culture, built on effective coaching and a “no blame” approach.
- Promote effective communication within the wider finance department, across the broader administering authority and with external stakeholders.
- Apply strong project planning and process management skills.
- Set and monitor meaningful performance objectives for the pension fund finance team.
- Role model effective staff performance management.
- Coach and support staff in both technical and personal development.
- Promote high standards of ethical behaviour, probity, integrity and honesty.
- Ensure, when necessary, that outside expertise is called upon for specialist advice not available within the pension fund finance function.
- Promote discussion on current pension fund financial and professional issues and their implications.

# \ principle 5



The CFO in a local authority must be professionally qualified and suitably experienced.

## **Demonstrating professional and interpersonal skills**

The CFO must be able to demonstrate their own professional standing to exercise financial leadership of the pension fund. As a member of a professional body, the CFO's skills, knowledge and expertise will have been tested by examination and their pension scheme finance knowledge and skills should be continuously developed in a structured and monitored context, in line with the CIPFA Public Sector Pension Scheme Finance Knowledge and Skills Framework. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and promote these throughout the finance function.

Pension fund investments can involve complex financial arrangements. The CFO must communicate complicated financial information in a clear and credible way. They should be able to operate effectively in different modes including directing, influencing, evaluating and informing. The CFO must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene with the pension fund leadership team if financial or ethical principles need to be asserted or defended.

The officer appointed as the CFO must, by virtue of section 113 of the Local Government Finance Act 1988 in England and Wales, be a member of a specified accountancy body. There is no equivalent statutory requirement in Northern Ireland and Scotland although in both cases, this is widely acknowledged to be good practice. The statutory role must be performed by an 'officer' of the authority. Although 'officer' is not defined, the legal view is that the terms 'staff' and 'officer' in the Local Government Act 1972 and elsewhere are intended to embrace all employees of local

authorities. It is permissible for an authority to procure non-statutory financial management services from an individual on the basis of a service contract.

The requirement for the CFO to possess the requisite pensions knowledge and skills is not limited to those with direct responsibility for the financial administration of the LGPS. All local authority CFO's will have financial interactions with pension funds and an appreciation of pension scheme funding and investment strategy will be required to plan effectively for pensions costs.

## **Applying business and professional experience**

Circumstances will arise where the CFO will face conflicts between the pension fund and the wider interests of the administering authority and other employers in the fund. The CFO must have an understanding and commitment to the wider business, looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders. In practice this means being creative and constructive in strategic roles and effective in resolving potential conflicts of interest.

The CFO must understand how and when to apply the tools and techniques of financial analysis in support of business decisions in order to evaluate proposals and to offer well founded and expert advice. Such techniques include strategic analysis, review of relevant industry sector best practice, benchmarking, option appraisal, performance measurement, and risk assessment. However data is not always clear cut and the CFO must also be able to apply judgement to imperfect information. The CFO must have a good understanding of public sector pensions finance and its regulatory environment and comply with standards formulated through rigorous due

process in support of the public interest to support the pension fund leadership team effectively. The CFO must also have a good understanding of the principles of financial management,

and personally set a tone for the pension fund team that finance matters and is a key part of everyone's job, including those in non-finance pensions roles.



## Governance requirements

## Principle 5

- Appoint a professionally qualified CFO whose core responsibilities include those set out under the other principles in this Statement and ensure that these are properly understood throughout the administering authority.
- Ensure that the CFO has the pensions and investment skills, knowledge, experience and resources to perform effectively in both the financial and non-financial areas of their role.



## Personal skills and professional standards

## Principle 5

- Be a member of an accountancy body recognised by the International Federation of Accountants (IFAC), qualified through examination, and subject to oversight by a professional body that upholds professional standards and exercises disciplinary powers.
- Adhere to international standards set by IFAC on:
  - ethics
  - Continuing Professional Development.
- Demonstrate IT literacy.
- Have relevant prior experience of pension scheme financial management in the public services.
- Understand public service pensions finance and investments and their regulatory environment.
- Apply the principles of public financial management.
- Understand personal and professional strengths.
- Undertake appropriate development or obtain relevant experience in order to meet the requirements of the non-financial areas of the role.



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