

Response to the Scheme Advisory Board Good Governance Review

May 2019

CIPFA looks forward to assisting the Scheme Advisory Board and Hymans Robertson with this project and continuing to support the LGPS more widely as required to enhance local governance arrangements. Overall the governance of the Scheme has been strong for many years as demonstrated by excellent investment returns (PIRC Local Authority Universe figures show average returns of 7.7% over 10 years to March 2018) and improved solvency levels (as shown by improvements in Section 13 Reports between 2013 and 2016). Hence, we would have concerns that any potential benefits of significant fundamental changes to the management of the Scheme such as Joint Committees and Combined Authorities could be insufficient to justify any risk of increased costs, both on transition and in operation.

In providing the comments below, CIPFA is of the view that the appropriate governance of LGPS pension funds should recognise that members' interests, including the management of their funds, are the key focus and priority for those with governance responsibility. This of course takes place within the public sector and LGPS legislative framework, which places additional emphasis on ensuring that governance arrangements also provide transparency and assurance for taxpayers regarding calls on taxpayer resources.

CIPFA believes that through existing guidance and the wider governance and regulatory framework including the Scheme Advisory Board, MHCLG and The Pension Regulator there is a huge amount of support, and a sound framework, to promote good governance arrangements across the LGPS. Where there is existing good practice this should be shared and used to assist those whose arrangements require improvement.

CIPFA recognises however that, where concerns exist, appropriate and proportionate action is necessary. We welcome the opportunity to contribute to this project and will offer insights into good practice and what further support and guidance can be provided to remove any deficiencies identified within the current arrangements.

In addition to our specific response to the survey we have some strategic thoughts which provide the context to our views:

- We believe CFOs are operating effectively in managing their LGPS responsibilities but would support and promote further clarification on managing conflicts of interest in this area. We would be very happy to support the development of training and guidance for all CFOs to improve their ability to offer challenge and deliver more transparency.
- Greater compulsion around the training requirements for Pension Committees to bring them in line with Local Pension Boards would be welcome. This would strengthen the requirements and support the use of the **CIPFA Knowledge & Skills Frameworks** for Elected Members, Board Members and Officers.
- CIPFA welcomes the suggestion to separate the Pension Fund Accounts from those of the Administering Authority and this is something we have previously supported over many years. This would not affect the reporting requirements to follow the CIPFA Code of Practice on Local Authority Accounting or the responsibility of the Administering Authority to prepare and publish the financial statements in accordance with Local Government Regulations.

- The Pension Fund Annual Report would become the primary reporting method for each Fund and would require its own Annual Governance Statement (AGS) separate from that of the Administering Authority which in itself would lead to greater clarification of the role of the Pension Fund within the Administering Authority.
- Responsibility for setting a Pension Fund budget, administration and management of the fund and its activities should also be specifically considered. This will require stakeholder engagement to support due recognition of the various accountability and responsibility implications involved, including democratic processes and risk management arrangements.
- CIPFA has recently published its updated **Preparing the Annual Report: Guidance for Local Government Pension Scheme Funds (2019 Edition)**. The guidance includes a new requirement for Funds to provide a statement on the value for money achieved by the administration function. This is intended to increase the focus upon the Administration function and allow those involved in the governance arrangements to monitor performance and manage risks. The new guidance also offers a suggested approach to producing key performance indicators which was developed in conjunction with a working group of leading practitioners. The aim is to achieve a standard set of indicators which will improve the consistency and comparability of reporting and help Funds identify areas of strong and weak practice.
- DCLG surveys at the time of introducing the Governance Compliance Statement in 2009 indicated overall high governance standards, however, there may be local issues which lead to some Funds having sub-optimal arrangements. If the objective is to address and support specific funds which may give rise to concerns regarding their governance and performance, then there should be a means of identifying such Funds through a process of **governance assessment** against best practice which could be used highlight any areas of weakness. This could be applied to all Funds as a means of providing assurance to Local Pension Boards and Committees and could even be shared publically with all stakeholders to demonstrate transparency and accountability.
- The role of the Local Pension Board could be clarified/strengthened to require a governance assessment of their Fund and the ability to challenge management on the outcomes of this assessment. The ability of Local Pension Boards to scrutinise local governance arrangements should be a key part of the governance process.
- External opinions on the governance arrangements from bodies such as TPR and External Audit should be part of the assurance framework which could be part of the LPB responsibilities. The focus of such reports would be much clearer in the event that, as suggested, LGPS annual accounts are separated from those of the administering authority.
- CIPFA/SOLACE Delivering Good Governance in Local Government, Framework 2016 sets out the principles of good governance for all local government entities. It also sets out guidance for the Annual Governance Statement. All four of the models would continue to use the Framework to underpin their governance arrangements.
- Alongside any changes to the governance model, consideration should be given to the development of appropriate assurance arrangements, for example internal audit, and ensure there are appropriate reporting arrangements to consider the results of the audit.
- Under the Cities and Local Government Devolution Act Combined Authorities must set up both a scrutiny committee and an audit committee. See <http://www.legislation.gov.uk/ukpga/2016/1/schedule/3>

Below are a number of extracts from existing CIPFA Guidance which should inform the current debate and in particular clarify the current roles and responsibilities within Administering Authorities:

Code of Practice on Knowledge & Skills Framework 2013

The Code of Practice is underpinned by five key principles:

1. Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making, governance and other aspects of the financial administration of public sector pension schemes can only be achieved where those involved have the requisite knowledge and skills.
2. Organisations have the **necessary resources** in place to acquire and retain the necessary public sector pension scheme finance knowledge and skills.
3. Organisations have in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.
4. The associated policies and practices are guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.
5. The organisation has designated a named individual to be responsible for ensuring that policies are implemented.

CIPFA acknowledges that no two organisations in the public sector are likely to interpret these principles in precisely the same way. Therefore, in framing the principles, CIPFA does not seek to be prescriptive about how they might be implemented in practice.

Role of CFO in the LGPS (2014)

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.

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.

Preparing and maintaining a Funding Strategy Statement (2016)

...the purpose of the FSS is to document the processes by which the administering authority:

- establishes a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013;
- ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the fund are met;
- takes a prudent longer-term view of funding those liabilities.

This framework is designed to ensure the funding strategy is both cohesive and comprehensive for the fund as a whole, recognising that there will be conflicting objectives that need to be balanced and reconciled. Whilst the funding strategy applicable to individual employers or categories of employers must be reflected in the FSS, **its focus should at all times be on those actions that are in the best long-term interests of the fund.**

Consequently the FSS should remain a single all-employer-encompassing strategy for the administering authority to implement and maintain, for it is to the administering authority that the obligation to pay pension benefits ultimately falls. It is the strength of the relationship between the interested parties that will support the long-term sustainability of each pension fund and the appropriate funding of its liabilities. **Good communication between all parties and stakeholders is essential in building strong relationships.**

Managing Risk in the LGPS (2018)

Resource and skill risk therefore must be managed using risk reduction and/or risk transfer techniques that seek to reduce the probability that risk will occur (proactive controls) or lessen the impact of the risk should it arise (reactive measures).

Proactive controls could include:

- preparing annual and mid-term **business plans** which identify short- and long-term resource requirements
- ensuring **adequate budgetary provision for staff and resources** to meet demands
- conducting **annual skills audits** to ensure that skills remain relevant to the roles being undertaken
- preparing and executing **annual training plans for officers and members**
- appropriate **recruitment and retention policies** for roles where skills are in high demand/short supply
- establishing procedures and processes to promote **stability of membership of pension committees and local pension boards**
- utilising shared services or outsourcing to transfer or share resource and skill risk with third parties.

Reactive controls could include:

- succession planning for key roles to mitigate the effect of planned or unplanned departures.

Administration of the LGPS: A Guide for pensions authorities (2018)

..... the fund's business plan.... should be agreed at least annually and it will set out the key steps to delivering the administration and communications strategies (as well as the other strategies of the fund) together with the associated budget. This should confirm the key projects and tasks for the administration teams in the forthcoming year or longer, including any system or process changes that may be required to meet the fund's strategies and any changes or projects required as a result of national initiatives or regulatory changes. The business plan provides direction for the administration team, so they know the areas of focus for the forthcoming period.