

South Yorkshire Pension Fund Governance Review

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For and on behalf of Hymans Robertson LLP



Contents

Governance Review	Page
Executive Summary	3
Introduction	5
Research	6
Good Governance	7
Compliance with The Pensions Regulator	8
Objectives and Strategy	9
Business Planning	11
Excellent Delivery	14
Risk Management	17
Decision Making	19
Next Steps	25
Summary of recommendations	26
Review of key policies & documents	27
Recommendations of the Scheme Advisory Board's Good Governance Review	31

Appendices

Appendix 1 - Summary of recommendations

Appendix 2 - Review of key policies and documents

Appendix 3 - Recommendations of the Scheme Advisory Board's Good Governance Review

Executive Summary

The purpose of this governance review is to provide The South Yorkshire Pensions Authority with an assessment of where it stands in relation to its legal requirements in respect of the LGPS, as well as the expectations of The Pensions Regulator and the themes emerging from the LGPS Scheme Advisory Board's Good Governance project.

Our governance review considers the following areas:

Objectives and Strategy - key to the success of the Authority, covering all the elements of management and administration of the Fund, providing clarity in terms of the Authority's direction, ensuring a greater focus to the business of the Fund and managing risks appropriately.

Business Planning - setting out all the planned activities for the short and medium term, forming the focus for Authority and Board meetings and supporting the delivery of the Fund's objectives, which is all part of a cycle of good governance.

Excellent Delivery - ensuring the Authority has appropriate staffing resource to achieve its objectives, be that in relation to investment, funding, administration or governance, meeting the steady increase in the number of overriding legislative requirements on pension administration teams and other officers charged with managing the Fund.

Risk Management - having a proper risk management framework in place allowing those responsible for the management of the Fund to understand the types of issues that might adversely impact it and assist in preventing issues arising or helping to reduce their impact where they do arise.

Decision Making - having clear objectives in place ensuring each decision being taken is linked to a stated objective and helping keep the Authority on track in achieving its strategic aims.

Findings

Our conclusions are that the South Yorkshire Pension Fund is extremely well run and that its governance framework is excellent. The unique position of the Authority with the LGPS world can present challenges but also provides the Authority with a strong sense of independence which is a great strength and means that the Authority can focus on solely on the delivery of the LGPS.

There is clearly good engagement from the members of the Authority who set the overall strategy for the Fund.

Leadership is strong, and the Director of the Fund has a clear vision of how the organisation should be run in order to be ready for the challenges of the future. The Director is supported by a strong team of officers.

There is pride within the Authority about the culture and history of the organisation but there is also a recognition that as the LGPS changes the organisation will also need to adapt, while staying true to its ultimate objective of delivering a first class LGPS service to its members.

Recommendations

We found no major gaps in the Authority's governance arrangements, however we believe the Authority should consider implementing the following recommendations which we would further strengthen its governance;

- The Authority should consider adopting a funding objective.
- Review the arrangements whereby the roles of Clerk, Monitoring Officer and s73 Officer are filled to ensure that the Authority has access to the expert advice and support that it requires.
- Amend the Local Pension Board Constitution to require that a member of the Local Pension Board may not also be an observer at meetings or sub-committees of the Authority. This would have the effect of requiring a new observer to attend Authority meetings.
- The Learning and Development Policy be extended to cover all those who attend Pension Committee and Board.

Introduction

This report is addressed to the South Yorkshire Pensions Authority (the “The Authority”), who commissioned Hymans Robertson LLP to undertake a governance review of the operations of the South Yorkshire Pension Fund (the “Fund”). The Fund is one of 88 pension funds currently within the Local Government Pension Scheme (“LGPS”) in England & Wales. As an administering authority the South Yorkshire Pension Fund is unique in being a combined authority, established under statute with the single aim of managing an LGPS fund. The Authority comprises twelve elected members who are co-opted to it from the constituent district councils, Barnsley, Doncaster, Rotherham and Sheffield.

The purpose of this governance review is to provide the Authority with an assessment of where it stands in relation to its legal requirements, as well as the expectations of the Pension’s Regulator. In this report we also assess the Authority in light of the themes emerging from the LGPS Scheme Advisory Board’s Good Governance project.

In our view, the hallmarks of a well governed LGPS pension fund are:

Requirement	Purpose
Objectives and Strategy	Providing clarity in terms of the Fund’s direction and bringing greater focus to the business of the Fund.
Business Planning	Bringing focus to the Authority and Local Pension Board meetings and supporting the delivery of the Fund’s objectives, which is all part of a cycle of good governance
Excellent Delivery	Ensuring the service is appropriately resourced to achieve its objectives and comply with the steady increase in overriding legislative requirements.
Risk Management	Having a robust risk management framework in place allowing those responsible for the management of the Fund to understand the types of issues that might adversely impact it and assist in preventing issues arising or helping to reduce their impact where they do arise.
Decision Making	Ensuring there is clarity around decision making responsibilities and that decisions support objectives, keeping the Authority on track in achieving its strategic aims.

In this report, we have considered each of these areas in turn for the Fund. In each area, we have set out why it is important (or “what good looks like”), the findings from our research and any recommended actions. The recommendations are then summarised in Appendix 1.

In addition, we set out a plan of how the Authority can address any gaps identified. Furthermore, the review sets out practical benefits, ensuring that objectives, policies and decision making within the Administering Authority are clearly aligned with the key aim of delivering an excellent service to scheme members and other interested parties.

Our review has been carried out at a high level. As a result, while we have considered the various policies and strategies that are required to be maintained, we have not drilled down into the detail of specific functions such as day-to-day administration, funding and investments or member/employer communications.

Research

In undertaking this review, we have gathered information from the following sources:

- Conversations with the following key individuals;
 - Cllr Mick Stowe – Chair of the South Yorkshire Pensions Authority
 - Clare Scott - Advisor to the Local Pension Board
 - George Graham – Fund Director
 - Jason Bailey – Head of Pensions Administration
 - Steve Clegg – Assistant IT Manager
 - Louise Booth – Internal Audit Manager Barnsley MBC (in post at the time)
 - Martin McCarthy - Service Director - Governance and Business Support Barnsley MBC
- Attendance at the meeting of the South Yorkshire Pensions Authority on 23 January 2020
- Attendance at the meeting of the South Yorkshire Local Pension Board on 11 December 2019
- A desk top review of key documents, reports, policies and statements, including:
 - Funding Strategy Statement
 - Governance compliance statement
 - Governance Policy Statement
 - Administration Policy
 - Communication Policy
 - Breaches of the Law Procedure
 - Business Plan/Corporate strategy
 - Annual report
 - Guide to Scheme Employer LGPS discretionary policies
 - Employer Discretions
 - Administering Authority discretions
 - Investment Strategy Statement
 - Members' learning development strategy
 - Local Pension Board Constitution

Our comments on these documents is set out in Appendix 2

We would like to thank all members of the Authority, Pension Board members and officers for their assistance during our review.

Good Governance

In January 2019 the LGPS Scheme Advisory Board (“SAB”) commissioned Hymans Robertson to assist in delivering a review of governance across the LGPS.

The purpose of the review was to consider existing governance arrangements and consider ways in which gaps could be identified and addressed, good practice shared more widely, and greater transparency provided. In particular the project was required to consider how conflicts of interest within current LGPS models are addressed and managed and that the LGPS remains appropriately resourced and able to deliver its statutory functions. The SAB was clear that only recommendations that retain a link with local democratic accountability were to be considered.

One of the key considerations of the review concerned the LGPS delivery model that exists in all but three of the LGPS administering authorities. In this model the administering authority is a local council, but also an employer within the fund which it administers. The SAB was keen to explore how, in this model, there can be an appropriate balance between delivering the LGPS function and the requirements of the host council.

It is important to note that The South Yorkshire Pensions Authority does not follow this model and that it is a separate legal entity created with the specific intention of administering the LGPS within the region. As such some of the areas that the Good Governance review considered are not as directly relevant to the Authority as is the case for most LGPS funds.

As part of the considerations, the SAB specifically asked that four different models of LGPS delivery be consulted upon, with each model providing progressively greater autonomy for the LGPS function from the host council. One of the models considered was in fact the combined authority model used by The Authority. After widespread consultation throughout the industry the Good Governance Review concluded that no single form of structure should be imposed on LGPS funds and the Review focused on an outcomes-based approach to governance standards. However, it is instructive that the joint authority model was considered as one from which lessons on governance could be construed.

While some aspects of the Good Governance Review are not directly applicable to the Authority, many of the general themes and ideas discussed are entirely relevant. Throughout this paper we consider how the principles outlined within the Good Governance Review are being met by the Authority and suggest any areas where improvements can be made.

A full breakdown of the Good Governance Review’s recommendations can be found in Appendix 3.

Compliance with The Pensions Regulator

The Pension Regulator (“TPR”) first became part of the public service pension scheme landscape in 2015 with the specific role of ensuring that public service schemes comply with the requirements of the Public Service Pensions Act 2013 (“PSPA13”). TPR is required¹ to publish one or more codes of practice for public service schemes relating to the following matters;

- duties to report breaches of the law and late payment of employer contributions
- requirements for knowledge and understanding: pension boards of public service pension schemes
- internal controls
- disclosure of information to members
- duty to report material failures by employers to pay employee contributions on time
- internal dispute resolution
- pensions board: conflicts of interest and representation
- publication of information about governance and administration
- information about benefits
- duties relating to record-keeping
- such other matters as are prescribed in law

Currently these matters are set out in TPR’s Code of Practice 14, however at time of writing the expectation is that TPR will consolidate all of its existing codes of practice, which number 15 and cover public and private pension schemes, into a single code. Regardless of this change of approach the new single code will still cover the areas outlined above.

As a regulatory body TPR has historically tended to be reactive but in recent years but the adoption of the mantra “clearer, quicker, tougher” has coincided with a more assertive approach. TPR’s 2019 Corporate Plan stated its intention to introduce new initiatives designed to bring greater clarity to the schemes it regulates about what is expected and to improve the outcomes for scheme members.

Between October 2018 and July 2019 TPR carried out an in-depth engagement exercise with 10 local government funds, selected from across the UK, with a view to understanding scheme managers’ approaches to a number of key risks. The key findings of that exercise were published by TPR in September 2019 but are summarised below;

¹ Under Section 90A(2) of the Pensions Act 2004.

Risks identified by TPR

- Over reliance on controls put in place by the host local authority particularly with reference to cyber-security
- Some funds had little internal documentation of internal controls
- Some risk registers insufficiently detailed and not reviewed frequently enough
- Not all scheme managers have clear oversight of the work being done by administrators
- Not all scheme managers have or monitor appropriate SLAs
- Not all scheme managers have a clear definition of a complaint
- Procedures for recording and learning from complaints and disputes, including trend analysis, don't exist in every fund

Throughout this report we will consider how well the Authority complies with the expectations of TPR as set out in Code of Practice 14 elsewhere.

Objectives and Strategy

Why this matters?

Key to the success of any LGPS fund is having an agreed and clear set of objectives in place, covering all of the elements of management and administration of the fund. This provides the necessary clarity in terms of direction, which in turn brings a greater focus to the business of the fund. It is the building block that also ensures risks are managed appropriately, that there is good decision making and that time and resource is managed effectively.

Strategies and policies

Having all of the requisite policies and strategies in place to support objectives is vital. The LGPS Regulations specify a number of these that administering authorities must have in place. Additionally, the Regulators code of practice 14 adds to the number of policies and strategies that administering authorities need to consider having as part of best practice.

To ensure that these documents are appropriate it is essential that the Pension Committee and Pension Board are fully engaged in their development and review and that any advice or expertise received is appropriate and proportionate.

Findings

The Authority has a clear set of objectives that are supported by a comprehensive corporate planning framework.

At the heart of this lies the Authority's mission statement which sets out in simple language what the Authority exists to do, and which reads;

To deliver a sustainable and cost effective pension scheme for members and employers in South Yorkshire delivering high levels of customer service and strong investment returns which facilitate stable contributions.

As a statement this is a clear articulation of the very purpose for which the Authority was created and recognises a commitment to the Scheme members and employers within the fund.

The mission statement is supported by a series of objectives as follows;

Customer Focus	to design our services around the needs of our customers (whether scheme members or employers).
Listening to our stakeholders	to ensure that stakeholders' views are heard within our decision making processes.
Investment Returns	to maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.
Responsible Investment	to develop our investment options within the context of a sustainable and responsible investment strategy.
Effective and Transparent Governance	to uphold effective governance showing prudence and propriety at all times.
Valuing and engaging our Employees	to ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

These objectives provide a good idea of what the Authority is aiming to achieve and where its priorities lie. We view these as a strong set of objectives for the following reasons;

- There is a clear commitment here to engaging with scheme members and employers and delivering a high quality of service.
- The investment objective recognises the need to balance risk and return.
- The need to deliver good financial returns while understanding and mitigating environmental, social and governance risks is perhaps the most talked about issue within the LGPS right now. It is good to see responsible investment at the heart of the Authority's objectives.
- There is explicit mention of effective and transparent governance.
- There is recognition of the value of recruiting and maintaining high quality staff.

However, we do note that there is no explicit objective that is linked to funding. The Authority has a clearly articulated approach to funding as evidenced in the Funding Strategy Statement. However, we would expect to see a specific objective that states the need to ensure employer funding plans reflect each employer's circumstances and work in conjunction with the investment strategy to deliver the Fund's overall funding goals.

Strategies and policies

A full commentary on the Authority's strategies and policies can be found at Appendix 2.

The Authority has all of the policies and strategies that would be expected, and they are generally of a high standard. We have made occasional comments in our review when it has not been clear when a document was last reviewed or has not been immediately available on the website.

The only substantive comment in this area is that the Authority's policies in respect of its discretions as an employer in the LGPS contains only those discretions for which it is mandatory to issue a written policy. This complies with the LGPS Regulations; however, the Local Government Association and experience of best practice would suggest that a written policy should be maintained for all employer discretions, or at least those most likely to be called upon.

Recommendation

The Authority should consider adopting a funding objective.

The Authority should consider reviewing its LGPS employer discretion policy to include all areas over which it has discretion.

Business Planning

Why this matters?

It is important to have a business plan in place that supports delivery of the Authority's objectives and provides the focus for clear decision making which is all part of a cycle of good governance. The business plan should set out all of the planned activities for the forthcoming short and medium term and form the focus for Authority and Pension Board meetings.

Indeed, the LGPS guidance on the Myners' Principles published by CIPFA states the importance of having a business plan in place and what it should contain.

The Chief Finance Officer² should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the committee. The business plan should contain financial estimates for the investment and administration of the fund and include appropriate provision for training. Key targets and method of measurement should be stated, and the plan should be submitted to the committee for consideration.

The business plan should review the level of internal and external resources the committee requires to carry out its functions effectively and contain recommended actions to put right any deficiencies or to anticipate changing requirements in the future.³

Having a formal business plan in place brings a number of benefits.

- It aligns with the objectives of the Authority, providing clearer visibility of these to members of the Authority, Board and officers.
- It helps provide the focus to Authority business, enabling resources to be allocated appropriately and/or to highlight resourcing issues in advance.
- It helps the Authority in development of its longer-term view.
- It enables the full picture of Authority activities to be captured in a single document (e.g. investments, funding, delivery, and governance).

² The reference to Chief Finance Officer is relevant to a conventional administering authority where the LGPS function is delivered by a local council. In the case of SYPA the responsibilities will fall on different individuals, but the principles of business planning remain the same.

Aligned to the business plan is the need to ensure that both the Authority and Board are provided with appropriate performance management information at each meeting. This information should relate specifically to the objectives of the Authority and be cross referenced against the relevant item(s) in the business plan. The reporting will provide visibility to the members of the Authority and Board on how successful the Fund is in achieving its objectives, identify the risks that may prevent the Fund from achieving those objectives and also highlighting any new risks or actions that need to be considered and incorporated into the plan.

[Link to SAB Good Governance Review](#)

The SAB's Good Governance Review specifically notes the need for business planning as the appropriate way to set the budget for LGPS funds. For most LGPS funds this is in the context of the administering authority being a local authority which has responsibility for delivering the scheme manager function for the LGPS and is not legally separate from the local authority. The principle that the Review is seeking to uphold is that decisions regarding the fund's budget should have appropriate input from those directly responsible for the delivery of the service. Delivery of the fund's objectives and business plan should drive the budget setting process, with decisions around recruitment, procurement, delivery of projects and specialist support being made with reference to the requirements of the business plan.

The unique nature of the SYPA means that such decisions fall legally to the Authority to make and there is no potential conflict between the needs of the Fund and a host local authority.

In effect, the system at SYPA provides a gold standard version of the process that the Good Governance Review expounds.

Findings

At the 14 March 2019 the Authority approved a new Corporate Planning Framework. This actually goes wider than just a business plan and encompasses the following documents;

- A Corporate Strategy – setting out the Authority's objectives and the actions that will be taken in order to achieve them and the risks that might prevent success in delivering those objectives.
- A Medium Term Financial Strategy – setting out financial forecast and rules that the Authority will follow to deliver the Corporate Strategy
- A Human Resources Strategy – setting out the approach to recruiting, retaining and developing the workforce required to deliver the Strategy.
- An ICT Strategy – how the Authority will maintain the technology required to deliver its objectives.
- An Equality and Diversity Scheme – setting out how the Authority will meet its equality and diversity obligations and how this will support delivery of the Strategy.

The Corporate Strategy specifically references the Authority's mission statement and sets out in clear language how the actions set out within the strategy support its delivery. The link to the mission statement and objectives continues through the staff appraisal process and the setting of individual objectives.

The document itself is clearly set out and readable. In fact, the index could be used as checklist of what a business planning process should look like.

- What we are here for and what we need to do to achieve it
- How are we going to go about fulfilling our objectives?
- What we are going to do over the next three years?
- How we will know if what we have done has had an impact?
- What are the things which might stop us from achieving our objectives?
- What's it all going to cost?
- What about our people?

Accountability is ensured by means of a Quarterly Corporate Report, which is supported by more detailed quarterly reports covering all LGPS matters and an update on risks.

In our view the Corporate Planning Framework adopted by the Authority is an exemplar of the business planning process.

Excellent Delivery

Why this matters?

Ensuring the Authority has appropriate resource and structures in place is key in delivering on any of the objectives it sets for itself, be that in relation to investment, funding, administration or governance. The pension fund exists to provide a service to Scheme members and employers and this must ultimately be the mark of how well the fund is performing.

Excellent delivery can be considered in terms of the Authority having the following elements in place;

- Strong leadership and a clear direction
- A sufficiently resourced team with the right level of knowledge and skills
- Benchmarking of performance to evidence delivery and lead to improvement where required

Background

Over the years there has been a steady increase in the number of overriding legislative requirements on pension administration teams and other officers charged with managing the LGPS fund as per the table below.

Organisation	Issue
MHCLG	Funds are required to provide much more statistical information to MHCLG for the purposes of their reporting and scheme wide analysis
HMRC	Successive changes to the pension taxation system since 2006 have increased the complexity of individual member calculations and the quarterly or annual reporting to HMRC
Public Service Pensions Act 2013 (“PSPA 2013”)	The PSPA 2013 requires each LGPS fund to establish a local pension board. While the local pension board can undoubtedly add value to LGPS funds, there is nonetheless an increased requirement for officer time to support the board
The Pensions Regulator	Since 2014, the code of practice 14 has required far greater need for compliance (and the need to demonstrate compliance) in areas such as knowledge & understanding, publishing of scheme information, conflicts and breaches of the law, scheme record keeping, maintaining contributions and dispute resolution
The Pensions Ombudsman	Member pension disputes have become more high profile over the years, with the need to ensure sufficient time and effort is placed in collating evidence and making individual determinations more time consuming
Investment Pooling	The requirement for LGPS funds to pool their assets has placed a significant additional workload on senior pension officers and elected members, as they have had to become familiar with a number of new concepts and approaches. While it could be argued that pooling will eventually become “business as usual” it is likely that the transition to full pooling will take a number of years and will continue to place a large demand on officer and committee resource

Findings

Strong leadership and a clear direction

One of the recommendations of the SAB's Good Governance review was that each LGPS fund appoint an "LGPS Senior Officer". This was a reflection of the fact that the best run funds typically have a lead officer with responsibility for all LGPS matters.

The LGPS Senior Officer should be an individual with the appropriate technical and leadership skills to provide an overall direction for the LGPS function and should be of sufficient seniority to represent the fund at a corporate leadership level. They should be someone with a strategic view of the fund but also be close enough to all aspects of the fund's business to ensure that no areas are overlooked.

The SYPA is unique among LGPS funds in that the Fund Director is also the Authority's head of paid service⁴. In effect this means the Fund Director is the chief executive of the organisation.

The Fund Director's roles and responsibilities are clearly defined within the Authority's constitution and as head of paid service they are responsible for the management and coordination of the Authority's employees and reporting to the Authority on these matters. In short the Fund Director is responsible for determining the structure, filling it with suitable individuals and ensuring their continued welfare, training and development.

The constitution also provides the Fund Director with delegations linked to the following matters;

- Requirements of the LGPS Regulations
- Financial
- Investment
- Legal
- Pension Administration

These delegations clearly represent the full range of LGPS functions and are in keeping with the recommendations of the Good Governance Review.

A sufficiently resourced team with the right level of knowledge and skills

The Fund's administration has seen some changes over the last 2 years. A new Head of Pensions Administration was recruited in February 2018 and a review of the delivery of the administration function has been undertaken. This has resulted the adoption of a 'digital by default' strategy and changes to the administration team in order to support this strategy and deliver the objective of providing excellent customer service.

The team structure has been approved by the Authority and an active recruitment process has taken place to fill vacancies.

From our research we believe there is a commitment within the authority to invest appropriately in administration, recruit to a suitable structure and to train and develop staff.

⁴ As required under s4 (1) (a) of the Local Government and Housing Act 1989

Benchmarking of performance to evidence delivery and lead to improvement where required

Once the Fund has set its strategic objectives, set out how they will be achieved within its business plan and put in place the personnel, resources and policies to deliver them, progress in achieving those objectives should be monitored, measured and benchmarked. Measuring and benchmarking provides several benefits, including;

- Allowing the Authority to assess how well it is doing the delivery of its objectives
- Allowing the tracking of progress against specific targets
- Making better data driven decisions
- Making comparison with others and allowing for the sharing of best practice

By, ensuring that benchmarking applies to investment, funding and administration functions it will ensure that the full spectrum of the Fund's activities is covered.

Following the streamlining of governance bodies in 2019, the full Authority and the Local Pension Board receive all performance and benchmarking reports.

At each meeting the Authority receives a Corporate Performance Report which provides an update on performance in key areas, including;

- Various projects underpinning the Authority's corporate strategies
- Investment performance
- Administration performance
- Financial performance

As well as covering all of the areas we would typically expect to see the report also reflects the unique nature of the Authority and provides updates on the kind of corporate matters that would not normally come before a local authority pension committee, for example HR and employment policy matters.

The report is presented at each quarterly meeting of the Authority and provides a comprehensive insight into the activities being undertaken and progress made.

The Corporate Performance Report is supported by specific investment and administration reports which are taken to the Authority and the Pension Board respectively which provides for more detailed oversight of these areas.

In addition to regular reporting the Authority benchmarks its performance in a number of ways, including;

- A Fund Performance Quarterly Report which gives details of asset performance against benchmark and liability and funding level information.
- Participation in the CIPFA LGPS Benchmarking Club. The Benchmarking club compares performance across a series of key administrative task. Although participation by LGPS funds in the CIPFA benchmarking exercise has decreased over time, it remains the principle option for comparing administration performance across funds.

- Participation in a new benchmarking initiative provided by CEM. Although fewer LGPS funds participate in the CEM exercise, it does draw on comparisons with private sector pension schemes. Rather than focus on performance over a series of specified administration tasks the CEM approach seeks to assess administration more holistically by measuring factors that correlate to strong customer service.

In our view the Authority and the Pension Board receive comprehensive, relevant information on the performance of the Fund and how it compares to others. We have also seen evidence that performance data is used by officers to inform decisions about resourcing delivery. Participating in new benchmarking exercises such as that provided by CEM is evidence that the fund is using performance data and benchmarking to support delivery of its objectives, in this case to provide a first class customer service. This approach is consistent with the SAB Good Governance report which recommends that LGPS funds use benchmarking in order to identify and encourage best practice.

Risk Management

Why this matters?

Having a proper risk management framework in place allows those responsible for the management of the Fund to understand the types of issues that might adversely impact it and the extent of that impact should they do so. It can also assist in preventing issues arising or helping to reduce their impact where they do arise. It can also be used to ensure any opportunities that arise can be maximised.

Risk management should not be focussed solely on funding or investment risks but should cover all aspects of the management and administration of the fund, including the day-to-day administration responsibilities, employer risk management and overall governance arrangements.

Risk management should also be aligned with the Fund's objectives and embedded in the culture of an institution. As well as forming a key role as part of the decision making process risk management should also be seen as an integral part of the day-to-day administration.

Under The Pensions Act 2004⁵ the scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

For these purposes 'internal controls' means:

- arrangements and procedures to be followed in the administration and management of the scheme,
- systems and arrangements for monitoring that administration and management, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

⁵ S249B

Findings

We have considered how the Authority approaches the matters of risk management and internal controls in three parts;

- The risk management policies and the risk register
- Internal controls
- Evidence of audits

Polices and risk register

The Authority has a Risk Management Policy which states clearly what the Fund's objectives are in terms of managing risk. These include putting in place a robust approach to understanding and managing risk and embedding that approach within the organisation. Importantly the policy recognises that risk per se is not a bad thing. Indeed, a pension fund is predicated on the idea of taking an appropriate and well understood level of risk.

The Risk Policy is supported by a risk register in which risk are defined as follows;

*In order to properly express the risk it needs to be considered as an **event** which if it manifests will have a **consequence** which may then have a negative **impact** on the achievement of the organisation's objectives, as illustrated below*

Within the Risk Register risk are categorised and scored according to probability and impact as is usually found within risk registers.

The Corporate Risk Register is reviewed monthly by the Senior Management team and is presented to the Authority quarterly.

Internal Controls

Identifying risks is only the start of the process and every fund should have in place appropriate internal controls that serve to mitigate some of those risks.

It is outside the scope of this report to carry out a detailed analysis of any internal controls in place at the authority. However, we are reassured that the Authority does have in place the policies and processes that we would expect to see.

For example;

- The Authority operates monthly data returns for employers and has recently moved to the collection of contributions, monthly by direct debit.
- There are a number of policies designed to support the secure management and transfer of data including a Data Handling and Security Policy which implements the requirements of General Data Protection regulations including the use of secure data transfer.
- The Authority operates an ICT policy which explicitly addresses how it will ensure Information Governance and Security. There is also a Business Continuity Plan which was tested in the Spring of 2020 when, like all LGPS funds, the Authority had to switch rapidly to a homeworking set up as result of the COVID-19 pandemic. It is our understanding that the policy was successful and fund business continued with minor disruption. We know this was not the case across all LGPS funds. Following the implementation of the policy, officers are set to review and amend it based on lessons learned.

- The Authority also has in place an Anti-Fraud Policy Statement which sets expected standards for staff, members, contractors and suppliers. There is also an Anti-Fraud and Corruption Strategy which details how potential fraudulent activity is monitored, reported and dealt with. Finally a Whistleblowing policy confirms the rights of individuals raising matters of concern.

This is not an exclusive list of all internal controls, but at a high level the presence of such documents suggests an organisation that is serious about the safe custody and security of its assets.

Audit

Once risks have been identified and mitigating measures put in place, the effectiveness of those processes are assessed by the audit process.

The Authority has a specific Audit Committee whose role is to consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. The Audit Committee receives reports from internal and external audit and ensures that audit recommendations are being undertaken.

The minutes from Audit Committee meetings clearly show that the Committee is fully apprised of internal audit recommendations and has oversight of progress against delivery of those recommendations. The Committee also receives the external audit report, annual report and accounts and governance compliance statement.

Our discussions with the Authority's then Chief Auditor also provided reassurance that appropriate controls were in place, the audit process was well managed and there was a pro-active use of auditors which meant that auditors were engaged in order to build in assurance from the start of projects.

Decision Making

Why this matters

Clear objectives lead to better decision making. By having clear objectives in place this ensures each decision being taken is linked to a stated Fund objective. This in turn helps keep the Administering Authority on track in achieving its strategic aims.

Three main elements contribute to ensuring the Administering Authority can have confidence in the decisions it takes, which we have considered below:

Governance structure and effectiveness of meetings

In order to achieve clear decision making it is essential that the Administering Authority has the correct governance structure in place. In this regard it is important to note that there is no "one-size-fits-all" solution and so each LGPS Administering Authority needs to decide what structure and approach is best for them. This is particularly true in the case of SYPA where the members of the Authority are required to manage not just LGPS matters but also corporate functions which in a typical LGPS set up would fall to other committees.

It is also important to get the right balance in terms of length or frequency of meetings against the number of items needing to be considered. Meetings must also be appropriately managed in order to ensure that all members can make contributions and that all views are considered.

Clarity of roles and responsibilities

In our experience problems can occur at LGPS funds in circumstances where there is a lack of clarity over the roles of the pension committee, board, officers and the administering authority. This can result in decisions being made by the wrong party, for example committee members becoming too operational. In extremis it can also produce a situation where elected members or officers blur the line between the interests of the pension fund and the interests of the wider administering authority.

This issue was addressed in the SAB's Good Governance Review Phase II, from which the following is taken;

Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a "roles and responsibilities matrix" which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make. The "roles and responsibilities matrix" should reflect the host authority's scheme of delegation and constitution and be supported by a clearly documented management structure.

Clarity of roles and responsibilities also promotes transparency and accountability.

Knowledge and skills

This is critical to the success of the Administering Authority in delivering its objectives. All members of the Pension Committee and Pension Board, as well as officers, need to have the appropriate levels of knowledge and understanding to perform their respective roles and need to be able to demonstrate this.

At a high level this can be assessed against the Pensions Regulator's Public Service toolkit, albeit this is by nature generic across all public service schemes and does not fully cover the funded nature of the LGPS.

More specifically knowledge and understanding can be measured against the CIPFA Knowledge and Skills Frameworks.

As well as assessing knowledge and understanding against any of the above it is important that the Administering Authority documents its approach to training in a formal training policy.

Findings

Governance structure and effectiveness of meetings

In October 2018 the Authority revised its governance arrangements in recognition of the changed environment in which it now operates. The main drivers of the change were;

- To address any potential conflicts that may arise as a result of the Authority being both a client of, and shareholder in, the Border to Coast Pension Partnership.
- To reflect the fact that pooling means that members of the Authority now spend much less time on operational investment matters such as the appointment and dismissal of specific managers.
- A belief that matters of strategic importance should be within the purview of the entire Authority
- To avoid duplication, rationalise meetings and use precious member time more effectively.

The changes saw the discontinuation of some existing committees and the creation of;

An Audit Committee chaired by the Vice-Chair of the Authority which meets three times per year to deal with all internal and external audit matters.

A Staffing, Appointments and Appeals Committee chaired by the Chair of the Authority which meets as required and with a remit to deal with staffing matters to make specific officer and other appointments.

In addition, the Authority also operates a Local Pension Board as required under the Public Service Pensions Act 2013. The purpose of the Board, as set in out in its constitution is to;

- Secure the effective and efficient governance and administration of the LGPS for the South Yorkshire Pension Fund
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Local Pension Board or person to be appointed to the Local Pension Board does not have a conflict of interest.
- Ensure the South Yorkshire Pension Fund effectively complies with the Code of Practice on the Governance and Administration of Public Service Pensions Schemes issued by the Pensions Regulator and is effectively managed and administered in compliance with the Code

The membership of the Board was confirmed at the meeting of the 17 October 2019 and is comprised as follows;

Employer representatives will consist of:

- 2 Local Authority members (rotated every 2 years)
- 1 'Other Large Employer' (appointed for 3 years)
- 1 Academy (appointed for 3 years)
- 1 Admitted Body (appointed for 3 years)

Employee representatives will consist of:

- 3 Trades Unions who must be LGPS Scheme members (appointed for 3 years)
- 2 members selected from active, pensioner and deferred members (appointed for 3 years)

Historically, certain key functions of the Pensions Authority were carried out by the South Yorkshire Joint Secretariat ("SYJS"). This was a body established after the abolition of South Yorkshire County Council as a separate department of Barnsley MBC to provide support services to a range of successor bodies.

Support Structures

In 2015 the ("SYJS") itself was abolished and statutory functions passed to district officers and a Joint Authorities Governance Unit, was created to oversee and provide governance support related to the various bodies.

For the South Yorkshire Pensions Authority this means that certain statutory functions are provided as follows;

Clerk	As required under s34(8) of the Local Government Act 1985	Chief Executive Barnsley MBC
Monitoring Officer	s5 of the Local Government and Housing Act 1989	Service Director Legal Barnsley MBC
Treasurer	s73 of the Local Government and Housing Act 1989	Service Director -Finance Barnsley MBC

Comments on Structure

During our initial review we noted a number of small inconsistencies within the Authority's constitution, which we included in the drafting this report. During that period, the Authority agreed a revised constitution at its 11 June ordinary meeting, in which all of the points we had noted were addressed.

We, therefore, include our original observations for historical interest and because they serve to confirm that the Authority does continually review its governance arrangements and make changes as required.

Historical issues subsequently dealt with

We have noted an apparent inconsistency with the constitution as posted on the Authority's website. Part 1 "Summary and Explanation" are dated April 2014 and reflect the old committee structure. The Remainder of the document is undated but does reflect the changes made in October 2018. This is probably down to a link on the website not having been updated.

The terms of reference for the board are not in the authority's constitution but are contained in a separate document. In our experience it is more common to see the local pension board's terms contained within the council's overall constitution. The approach taken by the Authority is equally valid, however, purely for ease of reference and provide the full picture, it might be useful for the Authority constitution to reference the Local Pension Board constitution; this might be in the form of an appendix or link.

There also appears to be a discrepancy between aspects of the constitution that refer to the Authority's role as a shareholder in Border to Coast.

Part 2 of the constitution "Articles of the Constitution" in article 8 reads;

Exercise of the Authority's rights as a shareholder in the Border to Coast Operating Company will be undertaken by the Chair in consultation where practical with the s 41 members.

However, Part 3 of the constitution "Delegations to Officers" on page 12 gives the following delegation to the Head of Fund

In consultation with the Chair

i. To exercise the Authority's vote as a shareholder in the Border to Coast Pensions Partnership, in all cases having consulted with those members appointed by each of the District Councils under s41 of the Local Government Act 1985.

A reading of the papers of the Authority meeting of 4 October 2018, suggests that members were asked to approve a solution that involved the Fund Director making a recommendation to the Chair following appropriate consultation. This would suggest that the intention is that the ultimate decision remains with the Chair who acts on advice from the Fund Director.

Support Structures

With regard to the use of Barnsley MBC officers to provide statutory functions, we note that this is an historical arrangement and we are not aware that it has been reviewed since being put into place. We would suggest that this arrangement be reviewed for the following reasons;

- Good practice suggest that all suppliers and arrangements be reviewed from time to tie to ensure that they remain appropriate;
- The individuals carrying out these functions are all extremely busy and the Authority should be comfortable that they have the capacity to provide the level of support necessary;
- LGPS governance is becoming increasingly specialist. With the increased professionalism expected by TPR and the SAB's Good Governance review likely to require more statutory compliance and reporting, those carrying out key functions for the Authority must have the necessary expertise.

We would emphasise that none of the above observations reflect on the quality of the service currently provided or the individuals involved. We merely wish to highlight the importance of the Authority receiving the specialist advice it requires to function effectively.

Recommendation

Review the arrangements whereby the roles of Clerk, Monitoring Officer and s73 Officer are filled to ensure that the Authority has access to the expert advice and support that it requires.

Comments on clarity of Roles and Responsibilities

We note that Authority meetings are attended by non-voting members. This is not specified within the constitution but according to the Authority's Governance Compliance Statement;

In addition, 3 non-voting observers nominated by the Regional Secretaries of the three largest trade unions recognised by the National Joint Council for Local Government Services are provided with the facility to attend and participate in meetings of the Authority and its committees, other than in matters concerned with staffing and labour relations.

One of these observer posts is currently taken by the Chair of the Local Pension Board. We feel this potentially has the result of blurring the distinction between the Authority and the Local Pension Board.

The LGPS Regulations explicitly prevent "an officer or elected member of an administering authority" who is responsible for the discharge of any LGPS functions from also sitting on a local pension board.

The intention behind this is to ensure that there is an appropriate degree of separation between the decision-making body (in this case the Authority) and the body that exists to ensure compliance with regulations and the principles of good governance (the Local Pension Board). As stated in the Authority's own Annual Report for 2018/19, the Board "provides oversight, challenge and scrutiny over how the administering authority exercises its responsibilities."

While we recognise that the Chair of the Local Pension Board is neither an officer nor an elected member of the Authority, and that the role of observer is a non-voting one, we suggest that this practice is changed as it could be seen as a potential conflict of interest.

If the Chair of the Local Pension board is present and able to participate in, albeit not vote, in the meeting at which decisions are made, some might then question whether the appropriateness of that same individual chairing the body whose role is one of “oversight, challenge and scrutiny”.

There is also a risk of confusion as to the role being fulfilled by an individual on this position. For example are they representing the Local Pension Board and by extension the entirety of the scheme membership and employer base or is their role to represent only scheme members, or perhaps trade union members?

It should be noted that this is a separate issue to the Chair of the Local Pension Board attending a meeting of that Authority in that capacity. We would suggest that this is good practice.

It is important to stress that none of the above observations, should be regarded as a criticism of any particular individual or implying a question mark over anybody’s integrity. Neither has our research for this project found any examples of conflicts of interests arising or the governance of the Authority being compromised. However, in the interests of addressing perceptions of conflict and mitigating future risks, we recommend that this arrangement is reviewed.

Recommendation

Amend the Local Pension Board Constitution to require that a member of the Local Pension Board may not also be an observer at meetings or sub-committees of the Authority. This would have the effect of requiring a new observer to attend Authority meetings.

Knowledge and skills

This is critical to the success of the Authority in delivering its objectives. All members of the Pension Committee and Pension Board, as well as officers, need to have the appropriate levels of knowledge and understanding to perform their respective roles and need to be able to demonstrate this.

Over time a patchwork of different training requirements has evolved for those involved in the LGPS. Only members of local pension boards have a statutory requirement⁶ to attain the knowledge and understanding necessary to exercise the functions of their role. However, those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors under MiFID II⁷, or otherwise be treated as a retail client. In making such a determination, those providing investment services may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions.

At a high level knowledge can be assessed against the Pensions Regulator’s Public Service toolkit, albeit this is by nature generic across all public service schemes and does not fully cover the funded nature of the LGPS.

More specifically knowledge and understanding can be measured against the CIPFA Knowledge and Skills Frameworks.

⁶ S248A of the Pensions Act 2004

⁷ Markets in Financial Instruments Directive II (2014/65/EU)

As well as assessing knowledge and understanding against any of the above it is important that the Administering Authority documents its approach to training in a formal training policy.

Comments on Knowledge and skills

The Authority has a Learning and Development Policy which applies to its members. Typically for the policies we have reviewed for this piece of work the Learning and Development policy has clearly stated objectives and sets out how those objectives will be delivered, and success measured. In addition the development of personal learning plans and a nominated lead member for learning and development are examples of best practice in this area.

However, we note that the policy is only in respect of members of the Authority and does not extend to observers and members of the Local Pension Board. The Board's own constitution does make reference to the knowledge and skills required to its members and the report on member learning and development taken to the Authority on 13 June 2019 makes clear that internal and external training is also available to observers and Board members.

We would suggest that for consistency the Learning and Development Policy be extended to cover all those who attend Pension Committee and Board. Although the groups might require a different emphasis in their training the general objectives and principle set out in the current Member Policy are equally applicable to observers and Board members.

Recommendation

The Learning and Development Policy be extended to cover all those who attend Pension Committee and Board.

Next Steps

We recommend that this paper is presented to the Pension Board and to the Authority and that our overall findings and recommendations be considered for their approval. If recommendations are accepted, we suggest plan is developed in relation to implementing them and that progress is monitored on reported.

Prepared by:-



Ian Colvin

3 July 2020

For and on behalf of Hymans Robertson LLP

Appendix 1

Summary of recommendations

Recommendation 1

The Authority should consider adopting a funding objective.

Recommendation 2

The Authority should consider reviewing its LGPS employer discretion policy to include all areas over which it has discretion.

Recommendation 3

Review the arrangements whereby the roles of Clerk, Monitoring Officer and s73 Officer are filled to ensure that the Authority has access to the expert advice and support that it requires.

Recommendation 4

Amend the Local Pension Board Constitution to require that a member of the Local Pension Board may not also be an observer at meetings or sub-committees of the Authority. This would have the effect of requiring a new observer to attend Authority meetings.

Recommendation 5

The Learning and Development Policy be extended to cover all those who attend Pension Committee and Board.

Appendix 2

Review of key policies & documents

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Funding strategy statement	2020	LGPS Regulations	<p>Final FSS approved on 23/01/2020 (after consultation with employers).</p> <p>Clearly sets out the purpose of the FSS and what the long-term objective is early on.</p> <p>Transparency on responsibilities of key stakeholders.</p> <p>Good detail on primary and secondary rates, margins built in for volatility and reasons some employers rates will vary.</p> <p>Full details on actuarial assumptions.</p> <p>Regulations cited throughout.</p> <p>Comprehensive glossary of terms.</p> <p>Useful links e.g. Investment strategy and minutes of board meetings.</p>
Governance compliance statement	2019	LGPS Regulations	<p>Revised following a review of governance arrangements from beginning of 2019/2020 Municipal year.</p> <p>A few things are stated to be "mainly" compliant in the appendices but explanations are provided:</p> <p>Representation - Not practical to have representation from every employer but explanation of proportionate representation for major employers.</p> <p>Training - All members have LGA fundamentals training.</p>
Governance Policy Statement	2018/19	LGPS Regulations	<p>Scope and purpose are clearly set out and the document is linked to the CIPFA / SOLACE guidance:</p> <p>Establishes the framework of policies that provide for the governance of the Authority and how those policies will be implemented:</p> <p>Establishes clear actions and responsibilities for improving aspects of the Authority's governance and delivery.</p>

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Administration Policy	2020	LGPS Regulations – best practice	<p>Fund employers have been consulted. More straightforward approach being taken to consolidate all service agreements which seems fair and sensible.</p> <p>Aim to provide high quality and timely service. Additional services offered to ensure equality to members.</p> <p>Steps taken to ensure GDPR adhered too.</p> <p>Annual reports and financial penalties for non compliance.</p> <p>Quarterly employer performance reviews.</p> <p>Obligations and discretions for all stakeholders are apparent.</p>
Communication Policy	2016	LGPS Regulations	<p>Version on the website doesn't seem to have been updated since 2016 - Date of next review is stated as July 2017.</p> <p>Clear detail on how/when communication happens with members, employers and other stakeholders. Members are split down by contributing, preserved and pensioner.</p> <p>Various forms of communication listed e.g. Email, telephone, website, literature, social media.</p> <p>No mention of prospective members - which could be considered at a future review.</p>
Breaches of the Law Procedure	2019	Code of Practice 14	<p>The procedure for reporting breaches makes clear who is in scope.</p> <p>There is a clear process for reporting breaches and examples showing how breaches might be assessed for materiality.</p> <p>The policy was updated in 2019 to reflect audit recommendations regarding GDPR.</p>

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Business Plan/Corporate strategy	2020		<p>The Authority receives a report at every meeting setting out progress against the delivery of its corporate strategy.</p> <p>The report covers all aspects of the Fund's business.</p> <p>The report identifies known and emerging risks to achieving the stated objectives.</p> <p>This is a clear, easily read summary of the Authority's position provided to members regularly.</p>
Annual report	2019	LGPS Regulations	<p>Easy to access last 20 years of accounts on the SY website.</p> <p>Provides all the information required in a set of accounts. Gives asset and liability figures, projections and details of expenditure. Detailed breakdown of deficit payment and contributions by employer.</p> <p>Sections on Administration, Governance structure, Investment strategy, all the usual financial statements and Independent auditor's statement.</p> <p>Complies with the required legislation and guidance.</p>
Guide to Scheme Employer LGPS discretionary policies	Unknown		<p>Not obvious when this was last reviewed as no date on document.</p> <p>All required discretions covered by document.</p>
Employer Discretions	2019	LGPS Regulations	<p>The discretions policy contains all of the employer discretions for which there is a statutory requirement to have a written policy:</p> <p>LGA suggest that best practice is for employers to maintain written policies in respect of all (or at least the main) employer discretions, even when there is no statutory obligation to do so.</p>
Administering Authority discretions		LGPS Regulations	<p>We were not able to obtain a copy of these.</p>

Strategy/policy	Effective date	Legal or Regulator requirement	Notes
Investment Strategy Statement	2020	LGPS Regulations	<p>Reviewed alongside 2019 valuation. Overall - comprehensive and transparent.</p> <p>Complies with regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.</p> <p>Investment objective is clear.</p> <p>Probability of return is stated.</p> <p>Sets out relationship with BCPP and how the fund will hold the pool to account.</p> <p>Includes information relating to Stewardship and responsible investment.</p>
Members' learning development strategy	Unknown		<p>Not clear when this was last reviewed.</p> <p>Obvious focus on keeping members adequately trained to help meet objectives.</p> <p>Mandatory induction for new members. Annual one-to-one development discussions and lead member appointment show they're taking learning seriously.</p> <p>We recommend the policy be extended to all those attended Authority and Pension Board Meetings.</p>
Local Pension Board Constitution	Unknown		<p>Clearly sets out the role of the Local Pension Board and its role in the governance of the Authority:</p> <p>Needs to be updated to reflect the membership changes agreed in October 2019</p>

Appendix 3

Recommendations of the Scheme Advisory Board’s Good Governance Review

Area	Proposal
A. General	A.1 MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).
	A.2 Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).
	A.3 Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be co-signed by the LGPS senior officer and S151.
B. Conflicts of interest	B.1 Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, with specific reference to key conflicts identified in the Guidance.
	B.2 The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.
C. Representation	C.1 Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to voting rights for each party.
D. Knowledge and understanding	D.1 Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committees, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
	D.2 Introduce a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding.
	D.3 Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
	D.4 CIPFA should be asked to produce appropriate guidance and training modules for s151 officers.

<p>E. Service Delivery for the LGPS Function</p>	<p>E.1 Each administering authority must document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution and be consistent with role descriptions and business processes.</p>
	<p>E.2 Each administering authority must publish an administration strategy.</p>
	<p>E.3 Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service.</p>
	<p>E.4 Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.</p>
<p>F. Compliance and improvement</p>	<p>F.1 Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.</p> <p>IGR reports to be assessed by a SAB panel of experts.</p>
	<p>F.2 LGA to consider establishing a peer review process for LGPS Funds.</p>