

IPSA GOVERNANCE REVIEW REPORT

1. Introduction

1.1 IPSA is an independent body, established by the Parliamentary Standards Act 2009. The Act specifies the composition and powers of IPSA's governing body, the Board.

1.2 The Board of IPSA last reviewed its effectiveness in 2015. It resolved in 2019 to carry out a review to assess IPSA's governance against relevant governance standards in public service, and key recent developments in corporate governance, and evaluate the existing governance framework, taking into account structure, roles and responsibilities; functions; processes, and competencies. The terms of reference for that review are attached as Annex 1.

1.3 The most recent annual report of IPSA (2018/19) noted that this review has been commissioned to ensure that IPSA's governance arrangements 'enable the organisation to focus effectively on its strategic and operational demands, and reflect good governance practice compatible with the requirements of the Parliamentary Standards Act 2009. As part of its remit the review will make recommendations to establish more clearly the basis on which future payments can be made to Board Members, including Board members' remuneration for activities that are not part of their core responsibilities'.

1.4 In carrying out this review, evidence was gathered using a number of methods and existing information sources including Standing Orders, Code of Conduct for the Chair and Members of IPSA, Terms and Conditions of Appointment for a Board member, Gifts and Hospitality Code, and IPSA policies. Board members and senior executives completed self-evaluation surveys, were interviewed individually by an external consultant, and participated in two externally facilitated workshops. Best practice was considered including published codes of practice for the third sector (Charity Commission) and the corporate sector (FRC), and the Cabinet Office code of conduct for board members of public bodies (2019) and code of good practice (2017).

2. Background: the governance structure

2.1 The Board of IPSA sets out the strategic vision for IPSA and approves its corporate plan and annual report and accounts, reviews the performance of the organisation, holds the executive to account and is responsible for determining schemes of MPs' pay, pensions, business costs and expenses. The Board is statutorily responsible for the decisions about the regulation of MPs' pay, pensions, business costs and expenses and therefore has collective responsibility for those decisions.

2.2 In line with most public bodies, IPSA's governance arrangements have an additional layer of oversight by Parliament through the Speaker's Committee for the IPSA (SCIPSA), which reviews the IPSA's annual estimate of the resources it needs, in order to ensure the estimate is consistent with the efficient and cost-effective discharge of the IPSA's functions. It also considers the Speaker's proposed appointments to the board of IPSA before recommending these to the House of Commons for approval and appointment by the Queen.

2.3 There are three sub-committees of the Board: the Audit and Risk Assurance Committee, the Remuneration Committee and the Nominations Committee. The responsibilities of these are set out in Standing Orders. In December 2018 the ARA Committee reviewed its effectiveness using the framework produced by the National Audit Office. The review indicated a positive position within which a number of areas were identified for development. For example, the Committee would like

to have more information about the full range of assurance sources available to management and the Board.

2.4 IPSA’s administration functions (including the payment of salaries, business costs and expenses and the delivery of its corporate plan) are carried out by the Chief Executive.

2.5 The Board aims to take decisions based on consensus, and its Standing Orders contain the following principles: discussions are constructive, free and frank, encouraging debate, making clear decisions and providing scope for appropriate challenge. The Board is transparent about the decisions it makes, and IPSA’s annual report includes an assessment of the effectiveness of IPSA’s governance arrangements.

2.6 A code of conduct, and the terms and conditions of appointment of board members, set out the responsibilities of board members and expectations for their performance of these, including:

- resignation and removal from office (the latter may only be done by HM the Queen on an address of both Houses of Parliament)
- remuneration and expenses
- gifts and hospitality
- conflicts of interests and political activity
- conduct
- attendance.

3. Self-evaluation findings

3.1 The following is a summary of key findings drawn from the evaluation of the board’s effectiveness. Overall, the Board was felt to be more effective when working in the abstract, and less so at the interface where the Board meets the organisation. It acts with integrity, but there is a gap when problems arise. The Board lacks effective mechanisms for learning from its own experience.

3.2 While it recognises the value of diversity, the Board has yet to take action in that direction. Several respondents felt that the arrangements for recognising and consulting with stakeholders are not good enough, and that communication with stakeholders has not been effective.

Table: summary of evaluation findings

Strengths	Weaknesses
Purpose	
Agreeing budgets, agreeing operational and strategic plans, and monitoring income	Developing long-term strategy and the goals that flow from the strategy Evaluating results and assessing outcomes and impact
Leadership	
Taking responsibility for decisions, clarity around roles, valuing diverse perspectives, awareness of legal operating framework	Understanding overall structure of organisation and whether it is fit for purpose
Integrity and diversity	
Acts with integrity	Insufficient policy on diversity, equality, fraud, anti-terrorism arrangements and environmental impact

	Absence of clear procedures on whistle-blowing, complaints and grievances as they relate to Board members
Exercising effective control	
Clear committee structure Monitors spend against plan and budget Decides risk appetite and manages risks	Committee and board memberships are one and the same Reviewing delegated matters
Working effectively	
Board planning and papers managed through the chair	Effectiveness reviews
Openness and accountability	
Transparency of decision making	Demonstrating how learning is used to improve performance Stakeholder engagement

4. Skills audit

4.1 An audit of board member skills was carried out and evaluated by an external consultant. The key findings, focussed on potential gaps or areas for improvement in future recruitment, are:

- Project management, programme management and change management (including effective use of digital technology solutions): if IPSA is to continue to undertake large-scale projects during the lifetime of the next Board, the Board should have some expertise in this area, or at the very least should have access to external expertise and advice independent from the executive.
- Making successful senior appointments: this should be a key skill to look for in appointing new Board members, particularly the new Chair. And if needed before then, the Board should ensure it has access to high-quality external expertise and advice.
- The Board should ensure it has the skills and ability to understand, scrutinise and challenge the operational implications of the strategies, budgets and policies that it is discussing.
- Performance management of the organisation (as opposed to that of individuals) should be a skill set to target in the next round of Board recruitment, especially for the new Chair.

4.2 The audit identified some skills which are highly desirable to have represented on the Board, but where there are currently low levels of experience. This is clearly a consequence of the statutory requirements imposed on IPSA for the composition and size of the Board. A key issue for the Board is to consider whether it has access to sufficient independent and high-quality advice when it is needed. This is especially true of commercial decision-making, management and customer information, health and safety, and environmental issues.

5. The governance of IPSA Online

5.1 It is instructive to consider recent lessons learned from an internal audit of the IPSA Online programme reported to the Audit and Risk Committee in October 2019. This found that although the

governance arrangements for IPSA Online were mostly 'copybook' (and based on the standard Managing Successful Programmes model), false early assumptions and unrealistic initial plans were not challenged effectively by the Board. The IPSA Board had no IT or programme management expertise on it, and there is no record in the minutes of them questioning the timescale of the programme or the underlying assumptions. The Board did, however, reduce the proposed budget for the programme which supports the view that they did not appreciate the complexity of the programme.

5.2 The internal audit concluded that governance arrangements would have been improved by enabling more objective expert challenge and by taking decisions in a more formal way, and recommended that the Board should consider the merits of co-opting or engaging someone with specific expertise to provide advice when reviewing major programmes or initiatives.

5.3 In addition, the Board could consider establishing committees or sub-committees tasked with overseeing important elements of its strategy.

6. Other relevant issues

6.1 A number of other issues have been raised during the review. First, the relationship of the Board with the Compliance Officer merits attention. The post of Compliance Officer was established by the Parliamentary Standards Act 2009 and the Compliance Officer's duties and powers are defined in the Act. The Compliance Officer for IPSA reports to, but is not directed by, IPSA's Board. In the course of her duties, the Compliance Officer gains an expert understanding of the context in which IPSA operates, the policies it pursues and the effectiveness of the organisation. The Board does not, however, routinely receive root cause analysis or other information from the Compliance Officer that would be of strategic value.

6.2 Second, in 2019 a gap was identified in how Board members' remuneration for carrying out activities should be governed. The Board committed in the 2019/20 annual report to establish more clearly the basis on which future payments can be made to Board Members, including Board members' remuneration for activities that are not part of their core responsibilities. This requires a clarification to the code of conduct and terms and conditions of appointment, and such a provision should only be triggered within clear boundaries by proper agreement of the Board and on the advice of the Accounting Officer.

6.3 Third, the legislation is inflexible with regard to the length of term served by Board members, as well as the background of three members, and the overall number. In addition, the appointment process, as required by the legislation, is lengthy and not in the control of IPSA. This makes it important for succession planning to be done early to avoid undesirable vacancies and to enable a transition, and places a premium on other relevant best practices including exit interviews to capture the knowledge of departing members on the completion of their term.

6.4 Fourth, an internal audit of assurance arrangements in late 2019 focused on how IPSA management and the Board obtain confidence that risks are being managed and controlled in practice. The Board and its committees and their standing orders are essential in this, but it was concluded that the Board should be clearer about how it will get the assurance required and when. A number of improvements were agreed by the ARAC, in particular to create a single, integrated, more clearly defined assurance framework and better reporting.

6.5 Finally, as noted above, board members can only be removed by HM the Queen on an address of both Houses of Parliament. Whilst this protects the independence of the Board, it restricts the

Board's ability to replace one of its number following performance failures. This underlines the importance of regular and effective performance appraisals of all board members (including the Chair).

7. Conclusions

1. Assessed against the principles of public life, and other relevant good practice codes, the structures and basic processes of governance at IPSA are in line with legislation, generally follow best practice and are fit for purpose. The review has identified a number of areas for improvement; given the will and the resources, these improvements are achievable by the end of the current calendar year, many of them sooner than that. The Board should commit itself to a light-touch review early in 2021, to assure itself that the recommendations made as a result of this review have been fully addressed.
2. As with most public bodies, IPSA's governance arrangements have an additional layer of oversight by the Speaker's Committee for the IPSA (SCIPSA), which reviews the IPSA's annual budget and plan, and proposals for board members including the Chair. This line of accountability to SCIPSA is helpful but requires IPSA to proactively engage with SCIPSA members to ensure close understanding and support for its strategy.
3. Present Board members are felt to act with integrity, with a clear and transparent process for declaration of interests. The Board operates transparently, with clear papers and published minutes of meetings.
4. In 2019 the Board received an assessment of assurance arrangements and directed that its recommendations for improvement are implemented in full, including an improved organisation-wide risk-based assurance framework.
5. The composition of the Board as laid down in the Parliamentary Standards Act can limit its effectiveness by precluding members with needed skills and experience. Terms of appointment are prescribed in the legislation, and are not sufficiently flexible to address normal considerations of continuity or specific skills needed on the Board. However, it is unlikely that the SCIPSA or Parliament would want to reopen these matters, and the Board should consider alternative strategies to address these issues.
6. The Board does not have a Senior Independent Director (SID), and therefore lacks a designated person to act as an intermediary when necessary between board members and the chair, or the chair and CEO. A SID would be expected to lead an annual appraisal of the performance of the Chair and to assist with senior stakeholder engagement.
7. Standing orders have not been reviewed and updated regularly to ensure they are in line with best practice and changing circumstances. The present gaps include:
 - reference to the code of conduct for Board members and senior executives;

- reference to wider IPSA policies and procedures including grievance, disciplinary, sexual harassment, diversity and inclusion, data protection and information security, and confidentiality to make plain that Board members are bound by IPSA policies;
 - that the Nominations Committee should approve Board members' terms of appointment that are not prescribed by legislation, including succession planning and termination arrangements;
 - a regular review of lessons learned from the Compliance Officer;
 - procedures for annual light-touch reviews of governance and effectiveness, and annual appraisals of the performance of the Chair and individual Board members;
 - the procedure for senior executive performance management, including the CEO's performance appraisal
 - the scope for ad hoc committees to oversee programmes of work that are of strategic importance
8. The code of conduct for the Chair and Members of the IPSA has not been regularly reviewed and does not include sufficient detail on wider IPSA policies, or on arrangements for remuneration where Board members' carry out non-core activities.
9. The Board should have a greater focus on diversity and environmental policy and practice.

8. Recommendations

1. The existing **standing orders** should be reviewed by the Board and updated with the following additions:
 - the designation by the Board of one Board member to act as Senior Independent Director,
 - reference to an updated code of conduct for Board members and senior staff attending Board
 - a reference to a regular review of lessons learned from the Compliance Officer
 - for the Nominations Committee to approve Board members' terms of appointment, including succession planning and termination arrangements, and CEO performance appraisal
 - reference to wider IPSA policies and procedures to make plain that Board members are bound by IPSA policies.
2. The existing **code of conduct** and **terms and conditions of appointment** for the Chair and Members of the IPSA are to be reviewed by the Board and updated with references to wider IPSA policies and procedures including grievance, disciplinary, sexual harassment, diversity and inclusion, data protection and information security, and confidentiality to make plain that Board members as well as senior executives are bound by IPSA policies. This will also be revised to confirm how Board members' remuneration for activities that are not part of their core responsibilities might be made, by prior approval of the Board.
3. The Board should **review its effectiveness** through self-appraisal annually and with external expertise every three years, including the impact of decisions to improve assurance arrangements. It should consider the need for changes to the structure of governance, for example by the creation of sub-committees to oversee strategically important programmes of work, performance or diversity and inclusion.

4. Board members' **induction** should be updated to include the code of conduct and guidance from the SID on working effectively with executives.
5. The Board should consider how to arrange for a small number [maximum 3] of relevant **external experts** to be appointed to attend Board or Committee meetings as non-voting technical advisers, to broaden the skills and experience brought to bear in decision making as strategic priorities require. In addition, closer liaison and involvement with expert SCIPSA lay members would be valuable. In forthcoming recruitment, the identified skills gaps should be addressed if possible.
6. The Board should agree on and enact a plan for addressing **diversity and inclusion**, with appropriate training for members as a starting point. In forthcoming recruitment, diversity and inclusion considerations should be prominent in the process.
7. The recent review findings and plan of action for improving **assurance** arrangements should be taken forward by the ARAC, led by its chair.
8. The Board should review IPSA's **communications strategy**, to ensure that its role in stakeholder engagement is sufficiently defined, supported and executed.
9. The Board should review its **scheme of delegation**, setting out clearly which matters are reserved to the Board, and which formally delegated to the Chief Executive and his staff.

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Date: 14 April 2020

IPSA GOVERNANCE REVIEW

Terms of reference

Background

1. IPSA is a statutory, independent body, established by the Parliamentary Standards Act 2009. The Act specifies the composition and powers of IPSA's governing body, the Board. In line with public sector requirements an annual report includes an assessment of the effectiveness of IPSA's governance arrangements.
2. An internal audit of Board effectiveness has not been conducted since 2015. The Board have agreed it is timely to undertake a wider, full and robust review of governance at IPSA, drawing on recent experience.

Terms of reference

3. The review will assess IPSA's governance against the seven principles of public life, other relevant governance standards in public service, and key recent developments in corporate governance.
4. It will evaluate the existing governance framework for:
 - **structure, roles and responsibilities** including those of the Chair and Board members, CEO and Directors
 - **functions** including strategy, regulatory policy, compliance, executive accountability, risk management and strategic communications
 - **processes** including standing orders, meetings, committees, agenda, papers, minutes, evaluation, and informal interaction with the executive
 - **competencies** including knowledge, skills, selection, induction, and behaviours.
5. Recently, Board members have specifically requested that the review include:
 - a code of conduct for Board members and senior staff
 - NED terms of appointment, including termination arrangements
 - wider IPSA policies and procedures to ensure that these are designed to cover a range of scenarios, including those involving Board members.
6. The review will make recommendations for improvement so that the governance of IPSA meets best practice standards, and more effectively supports the aims and objectives of IPSA.
7. This might include any interim measures that would contribute to achieving these, and if necessary, an assessment of the legislative framework for IPSA governance.
8. The review will be carried out by an external expert, working with the Board, CEO and Directors, and will report within a timeframe designed to support the next round of selection processes.