

Code of Practice on

public sector pensions finance knowledge and skills

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Purpose

All public sector organisations charged with the financial management of pension schemes will be aware of the growing complexity of pension schemes. Pension scheme financial management in the public sector demands appropriate skills, including a knowledge of financial markets and products, financial services procurement, pensions accounting and auditing, actuarial practices, investment performance and risk management, and the implications of legal and regulatory requirements.

Every public sector organisation should secure appropriate training, having assessed the professional competence of both those involved in pension scheme financial management and those with a policy, management and/or oversight role.

Public sector organisations should also ensure that those charged with pension scheme governance, including audit committees and relevant scrutiny groups, have access to the skills and knowledge they require to carry out this role effectively.

CIPFA has produced this Code of Practice to put these requirements into a formal structure for public sector pension schemes.

Background

The *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector*, and *Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector* (the frameworks), published in January 2010, were launched as good practice guidance and were intended to have persuasive rather than mandatory force.

We hoped that organisations would voluntarily adopt the guidance as a useful tool in identifying the knowledge and skills levels and development needs of practitioners and members of their decision-making bodies.

We recommended that, as demonstration of good practice, users of the frameworks make a voluntary disclosure in their pension scheme annual reports that covers:

- how the frameworks have been applied
- what assessment of training needs has been undertaken
- what training has been delivered against the identified training needs.

In response to user requests and as part of the ongoing development of the frameworks, CIPFA prepared an interim compliance statement that all public sector pension schemes were encouraged to include within their annual reports. The statement asked schemes to detail their approach to, and activities in respect of, the acquisition and maintenance of pension finance knowledge and skills of those involved in the financial management and decision-making of public sector pension schemes. In this compliance statement, CIPFA set out its intention to work towards formalising the requirements set out in the statement as a Code of Practice.

The launch of this Code of Practice is timely. In the final report of the Independent Public Service Pensions Commission (March 2011), Lord Hutton recommended that *“every public service pension scheme (and individual LGPS Fund) should have a properly constituted, trained and competent Pension Board”*.

Consequently the case for a Code of Practice which embeds the requirements for the acquisition, retention and maintenance of appropriate knowledge and skills has never been stronger.

Status

In the local government sector, Local Government Pension Scheme (LGPS) fund administering authorities are required to report on a 'comply or explain' basis their adoption of, and compliance with, *Investment Decision-Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles* (2009). The first of these principles, Effective Decision-making, requires LGPS funds to ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

This Code of Practice represents a key element in complying with this principle and is intended to complement the Myners requirements for knowledge and skills in decision-makers.

This Code of Practice has also been developed to work in conjunction with other Institute codes and statements, in particular the two key CIPFA statements on the role of the chief financial officer (CFO).

These statements set out several overriding principles which are relevant to this Code of Practice, and which are directed at CFOs. They are that the CFO 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
- lead and direct a finance function that is resourced to be fit for purpose (principles 3 and 4 of *The Role of the Chief Financial Officer in Public Service Organisations*)
- support and advise democratically elected representatives
- support and advise officers in their operational roles
- maintain strong financial management underpinned by effective financial controls.

(Extracts from the *The Role of the Chief Financial Officer in Local Government*.)

Where this Code of Practice sets out particular requirements for chief financial officers, these should be seen in the context of the above principles.

Support for the Code of Practice

In preparing this Code of Practice, CIPFA regards it as essential that there be broad-based support for its recommendations.

Consequently the Institute has consulted widely with organisations with regulatory, professional and practitioner level responsibilities in the sphere of public sector pensions financial management.

The following organisations have fully endorsed the Code of Practice:

- Local Government Pensions Committee (Local Government Group)
- Society of County Treasurers
- Society of Welsh Treasurers
- South Yorkshire Pensions Authority
- Merseyside Pension Fund.

The CIPFA Pensions Panel is also grateful to the Department for Communities and Local Government for their support for this Code of Practice.

The Code applies to all organisations that have adopted it as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances.

CIPFA recognises that some organisations may not find the proposed form of wording to be precisely suitable to their circumstances. In such cases, organisations may, where justified, make alterations to the recommended wording without adversely affecting their stated adoption of the statement, provided that, when taken as a whole, any such changes do not materially deviate from the key aims and principles of the Code of Practice.

Nothing in this Code of Practice overrides or should be taken as overriding any statutory provision or requirement. Nor does the Code make intra vires anything that is otherwise ultra vires.

Key principles

The Code of Practice is underpinned by four key principles:

- 1 Organisations responsible for the financial administration of public sector pension schemes recognise that effective financial management, decision-making 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 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 and decision-making.
- 3 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.
- 4 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.

Statements to be adopted

CIPFA recommends that all organisations responsible for the financial management of public sector pension schemes adopt, as part of their standing orders, financial regulations or other formal policy documents appropriate to their circumstances, the following statement:

- 1 This organisation adopts the key recommendations of *the Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
- 2 This organisation recognises that effective financial administration and decision-making¹ can only be achieved where those involved have the requisite knowledge and skills.
- 3 Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration and decision-making.
- 4 These policies and practices will be 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 This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.
- 6 This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to [*insert position of officer*²], who will act in accordance with the organisation's policy statement, and, where he/she is a CIPFA member, with *CIPFA Standards of Professional Practice* (where relevant).'

1. In this context, decision-makers are those with executive authority serving on governing bodies: boards, pensions committees, investment committees, etc.

2. The officer in question should be the senior officer responsible for the financial administration of the pension scheme. In the case of the LGPS, this would usually be the chief financial officer; in the NHS (for example) it would be the accounting officer.

The knowledge and skills policy statement to be adopted

CIPFA recommends that an organisation's knowledge and skills policy statement (referred to in paragraph 3, page 11) adopt the following form of words (or similar):

- 1 This organisation recognises the importance of ensuring that all staff and members charged with the financial administration and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
- 2 It therefore seeks to utilise individuals who are both capable and experienced and it will provide/arrange training for staff and members of the pensions decision-making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.'

Application guidance

This Code of Practice is intended to be used in conjunction with the *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector* and the *Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector*, the first versions of which were published by CIPFA in January 2010 and which will be updated from time to time as required.

These frameworks attempt to determine what constitutes the right skill set for those in the organisation responsible for pension scheme financial administration and decision-making.

The frameworks are intended to have two primary uses:

- as a tool for organisations to determine whether they have the right skill mix to meet their pension scheme financial management needs
- as an assessment tool for individuals to measure their progress and plan their development.

Not all schemes will demand that their financial managers and decision-makers possess the full range of technical skills and knowledge outlined in the frameworks. However the frameworks are designed so that organisations and individuals can tailor them to their own particular circumstances. Users are therefore strongly encouraged to adapt the frameworks as necessary to meet their own requirements.

In applying the frameworks, there are a range of training courses and materials available to practitioners, such as the *CIPFA/Hymans Robertson Knowledge and Skills Framework Toolkit* (www.knowledgeandskillstoolkit.com), the Local Government Group's LGPS Fundamentals courses and the CIPFA Pensions Network, as well as a range of other training events.

Further reading and sources of guidance

PUBLICATIONS

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executive Members in the Public Sector (CIPFA, 2010)

Pensions Finance Knowledge and Skills Framework – Technical Guidance for Pensions Practitioners in the Public Sector (CIPFA, 2010)

Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (CIPFA, 2009)

Delivering Good Governance in Local Government Pension Funds: A Guide to the Application of the CIPFA/SOLACE Code of Corporate Governance in Local Authorities to their Management of LGPS Funds (CIPFA, 2009)

All of the above are available to purchase from the CIPFA online shop at www.cipfa.org.uk/shop

The following are available as free downloads from the CIPFA website:

CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) at www.cipfa.org.uk/panels/corporate_governance

CIPFA Statement on the Role of the Chief Financial Officer in Public Service Organisations (2010) at www.cipfa.org.uk/panels/finance_director

CIPFA Standards of Professional Practice (SoPPs) (2002) at www.cipfa.org.uk/conduct

The *CIPFA Statement of Expertise* at www.cipfa.org.uk/members

ONLINE RESOURCES

To support the implementation of the Knowledge and Skills Frameworks, CIPFA, in partnership with Hymans Robertson, has developed an online toolkit which includes:

- Training needs analysis (TNA) to measure skills and knowledge across the full range of CIPFA competencies. There are two versions of the TNA: one for practitioners and one for elected representatives. Sample questions can be viewed at www.knowledgeandskillstoolkit.com/documents/tna%20sample.pdf
- A knowledge library, which provides a valuable one-stop resource for elected representatives and practitioners, for pension funds who would like cost-effective, easy access to relevant and up-to-date material. Sample content of the knowledge library can be viewed at www.knowledgeandskillstoolkit.com/documents/library%20sample.pdf

The toolkit is a subscription service. More information can be found at www.knowledgeandskillstoolkit.com

TRAINING AND SUPPORT

The CIPFA Pensions Network (www.cipfanetworks.net/pensions) provides a range of seminars built around the themes in the Knowledge and Skills Frameworks, as well as tailored training for organisations.

The Local Government Pensions Committee runs training events for pension practitioners, elected members and employing authorities. Further details can be found at www.lge.gov.uk/lge/core/page.do?pageId=119624.