

## CONSULTATION SUMMARY

In January 2010, CIPFA published the first comprehensive technical knowledge and skills frameworks for those involved in the day to day financial management and decision-making in public sector pension schemes.

*At the launch of 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), CIPFA committed to maintaining and developing the frameworks over time.*

We have since, in association with Hymans Robertson, launched a knowledge and skills toolkit and training needs analysis tool ([www.knowledgeandskillstoolkit.com](http://www.knowledgeandskillstoolkit.com)) which complement the frameworks.

In December 2010, CIPFA published an interim compliance statement that public sector pension funds were encouraged to adopt to demonstrate their approach to providing practitioners and members with the training and skills required to carry out their roles as the financial managers and decision-makers in this key area of public finance.

In this compliance statement, CIPFA set out its intention to formalise the requirements set out in the statement as a Code of Practice and committed to consulting with stakeholders in the process.

**We would therefore be grateful for your comments on the following draft Code of Practice by Friday 10 June 2011. Comments should be sent by email to [nigel.keogh@cipfa.org](mailto:nigel.keogh@cipfa.org).**

# Public Sector Pensions Finance - Knowledge and Skills: A CIPFA Code of Practice – consultation draft

## **ACKNOWLEDGEMENTS**

This draft Code of Practice has been developed by the CIPFA Pensions Panel, supported by Nigel Keogh (CIPFA pensions technical manager).

The current members of the Pensions Panel are:

Bob Summers (Chairman) – Treasurer, Norfolk Police Authority  
John Wright – Hymans Robertson  
Ian Coleman – Wirral Council  
Terry Crossley – Communities and Local Government  
Terry Edwards – Local Government Employers / Local Government Pensions Committee  
John Hattersley – South Yorkshire Pension Fund  
Paul Dale – London Borough of Bromley  
Geoff Dobson – Suffolk County Council  
Nicola Mark – Norfolk Pension Fund  
Richard McIndoe – Glasgow Council  
Graeme Russell – Torfaen County Borough Council  
Trevor Salmon – Belfast City Council  
Mike Taylor – London Pension Funds Authority  
Paul Mayers – Audit Commission  
Peter Tait – Audit Scotland

## **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 service 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.

They should also ensure that those charged with pension scheme governance 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 Frameworks, published in January 2010, were launched as good practice guidance and were intended to have persuasive rather than mandatory force.

However we were hopeful 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 on-going development of the Frameworks, CIPFA prepared an interim compliance statement that all public sector pension schemes were encouraged to include within their annual reports regarding 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, the Principles for Investment Decision-Making and Disclosure in the LGPS in the UK (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.

The 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 finance officers (CFOs).

These statements set out several over-riding principles which are relevant to this Code of Practice Framework, 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<sup>1</sup>;
- lead and direct a finance function that is resourced to be fit for purpose<sup>2</sup>;
- supporting and advising democratically elected representatives<sup>3</sup>
- supporting and advising officers in their operational roles<sup>4</sup>;
- maintain strong financial management underpinned by effective financial controls<sup>5</sup>;
- lead and manage an effective and responsive financial service<sup>6</sup>;

<sup>1</sup> Principle 3 of the CIPFA Statement of the Role of the Chief Financial Officer. ([http://www.cipfa.org.uk/panels/finance\\_director/download/Role\\_CFO.pdf](http://www.cipfa.org.uk/panels/finance_director/download/Role_CFO.pdf))

<sup>2</sup> Principle 4 of the CIPFA Statement of the Role of the Chief Financial Officer.

<sup>3</sup> From the CIPFA Statement of the Role of the Finance Director in Local Government ([http://www.cipfa.org.uk/pt/download/jan03\\_financedirector.pdf](http://www.cipfa.org.uk/pt/download/jan03_financedirector.pdf)).

<sup>4</sup> As above.

<sup>5</sup> As above.

<sup>6</sup> As above.

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

### **Support for the Code**

In preparing the Code, 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 expressed their support for the Code:

*(Supporting organisations to be listed here)*

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 circumstances, organisations may, where justified, make alterations to the recommended wording without adversely affecting its 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 overrides or should be taken as overriding any statutory provision or requirement. Nor does the Code make 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 and decision-making 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 management 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 will designate 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 organization adopts the key recommendations of *Public Sector Pensions Finance - Knowledge and Skills: A CIPFA Code of Practice*.
2. This organisation recognises that effective financial management and decision-making<sup>7</sup> can only be achieved where those involved have the requisite knowledge and skills.
3. Accordingly this organisation will create and maintain 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 management 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 name of officer*<sup>8</sup>] 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)."

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<sup>7</sup> In this context, decision-makers are those with executive authority serving on governing bodies: boards, pensions committees, investment committees etc.

<sup>8</sup> 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 be the chief finance 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 9) 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 management 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 appoint 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)*, both of which were published by CIPFA in January 2010.

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

The framework is 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 framework is designed so that organisations and individuals can tailor it to their own particular circumstances. Users are therefore strongly encouraged to adapt the framework as necessary to meet their own requirements.