

22 March 2012

Agenda Item:6

REPORT OF SERVICE DIRECTOR - FINANCE & PROCUREMENT

CIPFA KNOWLEDGE AND SKILLS FRAMEWORK

Purpose of the Report

1. To inform members of CIPFA's Knowledge and Skills Framework and the associated Code of Practice and to seek views their adoption by the Fund.

Information and Advice

2. In January 2010, CIPFA launched its Knowledge and Skills Framework in an attempt to determine the right skill set for public sector pensions finance professionals and members of decision-making bodies. 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 scheme financial management needs
 - as an assessment tool for individuals to measure their progress and plan their development.
3. The Framework was developed against the background of increasing scrutiny of pension scheme finances and governance, particularly as a consequence of growing liabilities and poor investment returns. It was hoped that organisations would voluntarily adopt the guidance as a useful tool and disclose in their annual reports how the framework had been applied.
4. The LGPS Regulations require administering authorities to prepare, publish and maintain statements of compliance against a set of best practice principles for scheme governance and stewardship as well as compliance against the revised Myners Principles. The first Myners principle, in particular, requires 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.
5. These requirements have now been formalised in CIPFA's *Code of Practice on public sector pensions finance knowledge and skills* (the Code) which is intended to be a key element in demonstrating compliance with Myners. The Code states that:

“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... [and] 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.”

6. The Code has four key principles summarised as:
 - i. recognition that effective financial management and decision-making can only be achieved where those involved have the requisite knowledge and skills.
 - ii. there are formal and comprehensive objective, policies and practices, strategies and reporting arrangements in place for the effective acquisition and retention of relevant knowledge and skills.
 - iii. the associated policies and practices are based on a comprehensive framework of knowledge and skills such as set out by CIPFA.
 - iv. there is a designated named individual responsible for implementation of the policies.
7. It is expected that the named individual should be the senior officer responsible for the financial administration of the pension fund and, as the Code has been developed to work in conjunction with other CIPFA statements on the role of the chief financial officer, this would usually be the Council's s.151 officer.
8. The Code recommends that a number of clauses should be adopted as part of financial regulations or other formal policy documents. These are detailed in Appendix A. It would be possible to include these in the Fund's Governance Compliance Statement and/or Statement of Investment Principles.
9. In adopting the Code, the Fund would have to ensure that effective arrangements are in place to enable the acquisition and retention of knowledge and skills by reference to a comprehensive framework such as that set out by CIPFA. There are six key areas identified by the CIPFA knowledge and skills framework:
 - i. Pensions Legislative and Governance Context
 - ii. Pensions Accounting and Auditing Standards
 - iii. Financial Services Procurement and Relationship Management
 - iv. Investment Performance and Risk Management
 - v. Financial Markets and Products Knowledge
 - vi. Actuarial Methods, Standards and PracticesAppendix B details more specific knowledge in each of these areas.
10. The Framework envisages individual members assessing their own knowledge and skills through the use of self-assessment tools in order to build a training and development plan. These would then feed into an overall business plan for the Fund.
11. CIPFA, unsurprisingly, has developed an online toolkit, in partnership with Hymans Robertson, which enables members to undertake self-assessment tests for each of the six main areas. This is a subscription only service. However, Appendix C provides a sample self-assessment form that may be developed to meet this requirement.
12. The Pensions Committee consists of 9 members and currently has 2 sub-committees consisting of 17 members each. This presents a number of difficulties concerning training:
 - the diverse background of members impacting on their existing knowledge and skill set
 - varying levels of experience as Committee members
 - the possible transitory nature of membership arising from the political process.

These factors all suggest that training needs to be tailored to individual members. This would require members to take ownership of their training programme and access appropriate resources to facilitate it. Collective learning would be used, however, where a common theme is identified or where there are new developments which require training.

13. In recent years it has been the practice for bespoke training to be provided by fund managers usually at the end of committee meetings. In addition, members have been encouraged to attend a number of key conferences during the year and also offered the opportunity to attend the LGE Trustee Fundamentals course (particularly for members new to pensions). It would be worthwhile reviewing the effectiveness of these arrangements.
14. There are a range of other potential training resources currently available although they may not be fully utilised at present. The Fund is a member of the Local Authority Pension Fund Forum, the National Association of Pension Funds and CIPFA's Pensions Network. These organisations offer free or discounted places at conferences and other training events. In addition, access can be arranged to CIPFA's online Technical Information Service (TIS) which provides extensive material on pensions and other finance matters, including access to CIPFA publications. As part of the subscription to these organisations the Council receives a number of periodicals and these could be made more widely available for members.
15. Numerous other organisations offer training courses, typically run by fund managers. For example, the Pension Fund Service can provide bespoke training for members. This organisation is funded by the asset management industry and has access to a wide range of experts who can deliver tailored courses at a time and place to suit members. This would allow more targeted training to small groups of members if this was considered appropriate.
16. The CIPFA Code and Framework are intended to provide a way to demonstrate that the Fund is ensuring that those charged with decision-making or financial management of the scheme have effective knowledge and skills. The Sub-Committee, therefore, needs to consider whether to recommend:
- a) Formally adopting the Code and Framework.
 - b) Carrying out a training needs assessment.
 - c) Formulating a training and development plan.
 - d) Producing a business plan for the Fund.

Statutory and Policy Implications

17. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

18. To determine what approach to take in relation to points (a) to (d) in paragraph 16 and to make suitable recommendations to Pensions Committee.

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Background Papers

- CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2011)
- CIPFA Pensions Finance Knowledge and Skills Framework – Technical Guidance for Elected Representatives and Non-executives in the Public Sector (2010)
- CIPFA Investment Decision Making and Disclosure in the Local Government Pension Scheme: A Guide to the Application of the Myners Principles (2009)
- CIPFA 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 (2009)

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 officer²*], 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).’

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.’

CIPFA PENSIONS KNOWLEDGE AND SKILLS FRAMEWORK

Technical Guidance for Elected Representatives and Non-Executives

1. Pensions legislative and governance context

1.1 General pensions framework

A general awareness of the pensions legislative framework in the UK.

1.2 Scheme-specific legislation

An overall understanding of the legislation specific to the scheme and the main features relating to benefits, administration and investment.

An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and Local Government Pension Scheme Administration) Regulations 2008 and their main features.

An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.

A regularly updated appreciation of the latest changes to the scheme rules.

Knowledge of the role of the administering authority in relation to the LGPS.

1.3 Pensions regulators and advisors

An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.

1.4 General constitutional framework

Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.

1.5 Pension scheme governance

An awareness of the LGPS main features.

Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.

A detailed knowledge of the duties and responsibilities of committee members.

Knowledge of the stakeholders of the pension fund and the nature of their interests.

Knowledge of consultation, communication and involvement options relevant to the stakeholders.

2. Pensions accounting and auditing standards

Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the accounts and annual report.

Awareness of the role of both internal and external audit in the governance and assurance process.

3. Financial services procurement and relationship management

3.1 Understanding public procurement

Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.

A general understanding of the main public procurement requirements of UK and EU legislation.

3.2 Supplier risk management

Awareness of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.

4. Investment performance and risk management

4.1 Total fund

Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.

4.2 Performance of advisors

Awareness of the Myners principles of performance management and the approach adopted by the committee.

4.3 Performance of the committee

Awareness of the Myners principles and the need to set targets for the committee and to report against them.

4.4 Performance of support services

Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.

5. Financial markets and products knowledge

5.1 Investment strategy

Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property).

Understanding of the role of these asset classes in long-term pension fund investing.

5.2 Financial markets

Understanding of the primary importance of the investment strategy decision.

A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.

An awareness of the limits placed by regulation on the investment activities of local government pension funds.

6. Actuarial methods, standards and practices

6.1 Valuations

Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and intervaluation monitoring.

Awareness of the importance of monitoring early and ill health retirement strain costs.

A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.

6.2 Outsourcing

A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.

EXAMPLE OF SELF-ASSESSMENT FORM

Name _____

Role elected member ☐ other ☐**EXPERIENCE:**

LGPS governance role ___year/s

Relevant employment ___year/s

(Please state job title: _____)

TRAINING

Have you attended the LGE Trustee Fundamentals Course?

If yes, please state year. Yes ☐ No ☐

Year _____

Please state any relevant conferences, courses or other training event attended in the past 2 years:

KNOWLEDGE AND SKILLS FRAMEWORK

With reference to the CIPFA knowledge and skills framework please indicate extent of your knowledge in the following areas by ticking the appropriate box.

KNOWLEDGE AREA	Good	Some	None
Pensions Legislative and Governance Context			
Pensions Accounting and Auditing Standards			
Financial Services Procurement and Relationship Management			

Investment Performance and Risk Management			
Financial Markets and Products Knowledge			
Actuarial Methods, Standards and Practices			

Please indicate 3 topics which you would like training on:
