

<b>COMMITTEE:</b> <b>Pensions Committee</b>	<b>DATE:</b> <b>21 July 2011</b>	<b>CLASSIFICATION:</b> <b>Unrestricted</b>	<b>REPORT NO.</b> <b>PC/005/112</b>	<b>AGENDA NO.</b>
<b>REPORT OF:</b> <b>Corporate Director of Resources</b>  <b>ORIGINATING OFFICER(S):</b> <b>Oladapo Shonola – Chief Financial Strategy Officer</b>		<b>TITLE:</b> <b>Report on Governance Compliance Statement and Statement of Investment Principles</b>  <b>Ward(s) affected:</b> N/A		

<b>Lead Member</b>	<b>Cllr Anwar Khan, Chair of Pensions Committee</b>
<b>Community Plan Theme</b>	<b>All</b>
<b>Strategic Priority</b>	<b>One Tower Hamlets</b>

### **Special circumstances and reasons for urgency**

This report was not prepared in time to enable publication in accordance with the Council's access to information rules. This was due to competing priorities. If the report is not considered by the Committee at its meeting on 21 July 2011, then there is not a further meeting of the Committee scheduled until November 2011. There is some risk that the auditor may require the documents the subject of the report to be agreed before agreeing the accounts of the fund.

#### **1. SUMMARY**

- 1.1 The Local Government Pension Scheme (Administration) Regulations 2008 require the Council to keep under review the written statement prepared and published under regulation 73A of the Local Government Pension Scheme Regulations 1997 (the Governance Compliance Statement). The Council is required to make appropriate revisions following a material change to specified matters (concerning delegation of the Council's function of maintaining the pension fund and related matters). In reviewing and making revisions to the Governance Compliance Statement the Council must consult such persons as it considers appropriate. The updated Governance Compliance Statement attached at Appendix 1 reports on the Council's governance arrangement against a set of best practice principles.
- 1.2 As part of the Governance Compliance Statement, administering authorities are required to state how they comply with the guiding principles as outlined in the DCLG paper on best practice in governance arrangements for Local Government Pension Schemes. This authority is fully compliant in all but the principle of membership on the Committee. Although, membership of the Committee has been extended to admitted bodies, this invitation has not been accepted. Officers continue to work to engage with admitted bodies to enlist external representation on the Committee.
- 1.3 The requirement to produce a Statement of Investment Principles is set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These regulations specify the

policy matters to be covered in the Statement of Investment Principles. The statement must be reviewed and, if necessary, revised by the Council from time to time. If there is a material change in the Council's policy, then the review and revision must take place within 6 months of the change. Once the statement has been revised, the Council is required to publish it.

- 1.4 As part of the Statement of Investment Principles, administering authorities are required to state how they comply with the Myners Principles and explain where they do not comply. This authority is compliant with all of the 6 revised Myners Principles.

## **2. DECISIONS REQUIRED**

- 2.1 Members are recommended to approve:
  - The revised Governance Compliance Statement at Appendix A; and
  - The revised Statement of Investment Principles at Appendix B.

## **3. REASONS FOR DECISIONS**

- 3.1 The regulatory requirements in relation to the Governance Compliance Statement are set out in paragraph 1.1 above. In 2008, the Department for Communities & Local Government issued best practice guidance to all pension funds against which they should measure themselves. The governance arrangement of the Tower Hamlets Pension Fund adheres to these best practice principles and the Compliance Statement at Appendix A outlines how the Fund meets these principles.
- 3.2 The Council had formally adopted the original 10 Myners principles in its Statement of Investment Principles and had reported against them in the past. The Principles were reviewed in October 2008 and reduced from ten to six. The Fund's response to the Myners Principles has to be updated to reflect the latest guidance issued by CIPFA on applying the revised set of Principles.

## **4. ALTERNATIVE OPTIONS**

- 4.1 The Council is the administering body for the Tower Hamlets Pension Funds and it is responsible for the governance of the Fund in line with regulatory requirements.
- 4.2 The Council's legislative obligations in relation to the Governance Compliance Statement and Statement of Investment Principles are summarised in section 1 above. The revisions contained in the annexed versions of these reports are considered to best comply with the relevant guidance and principles. If the committee were minded to adopt different revisions, then these would need to be carefully considered against the Secretary of State's guidance on both documents.

## **5. BACKGROUND**

- 5.1 The regulatory requirements and guidance around the Governance Compliance Statement and the Statement of Investment Principles have been revised and the Council's documents have been revised to reflect the relevant changes.

## **6. COMMENTS OF THE CHIEF FINANCIAL OFFICER**

- 6.1. The comments of the Corporate Director Resources have been incorporated into the report.

## **7. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)**

- 7.1 The relevant legislative requirements in relation to review and revision of the Governance Compliance Statement and Statement of Investment Principles are correctly set out in section 1 of the report.

## **8. ONE TOWER HAMLETS CONSIDERATIONS**

- 8.1 Any gains or losses arising from the use of derivatives contracts could impact on the Council through an increase or decrease in contributions in order to make good the Pension Fund's commitment to honour benefits that have been accrued by members of the Fund.
- 8.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

## **9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

- 9.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

## **10. RISK MANAGEMENT IMPLICATIONS**

- 10.1 The use of any form of investment inevitably involves a degree of risk. Although, the use of derivative contracts is a means to reduce exposure to currency risk that the Fund.

## **11. CRIME AND DISORDER REDUCTION IMPLICATIONS**

- 11.1 There are no any crime and disorder reduction implications arising from this report.

## **12. EFFICIENCY STATEMENT**

- 12.1 The use of derivate contracts is an efficient use of financial instruments that helps to minimise risk to Pension Fund assets and also maximise returns.

### Appendices

Appendix 1 – Governance Compliance Statement

Appendix 2 – Statement of Investment Principles

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**LOCAL GOVERNMENT ACT 1972 (AS AMENDED) SECTION 100D**  
LIST OF "BACKGROUND PAPERS" USED IN THE PREPARATION OF THIS REPORT

*Brief description of "background papers"*

*Name and telephone number of holder  
And address where open to inspection*

*None*