

## PENSIONS COMMITTEE

**19 SEPTEMBER 2017**

**Subject Heading:**

**LOCAL AUTHORITY PENSION FUND  
FORUM MEMBERSHIP**

**CMT Lead:**

**Debbie Middleton**

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**Policy context:**

Investment Strategy Statement and its views on the exercise of rights (including voting rights) attaching to investments

**Financial summary:**

Annual subscription of £8,250 or £8,460 - dependent on years of membership

**The subject matter of this report deals with the following Council Objectives**

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

<b>SUMMARY</b>
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This report provides the committee with an overview of the Local Authority Pension Fund Forum (LAPFF).

A representative from the LAPFF will be making a presentation to the committee and officers are requesting that the committee consider whether the Havering Pension Fund (the 'Fund') should become members of the LAPFF.

## **RECOMMENDATIONS**

The Committee:

1. Consider whether the Fund should become members of the LAPFF, and if so,
2. Note that the Investment Strategy Statement will need to be amended to reflect the membership of the LAPFF and this to be incorporated at the next review and,
3. Agree to sign up for an annual or three year subscription.

## **REPORT DETAIL**

### **1 Background**

- 1.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 paragraph 7 (2) (f) states that the authority's investment strategy must include the authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 1.2 In line with regulations (above) and guidance the current Investment Strategy Statement includes the following :
  - a. "The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions."
  - b. "...the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers

and receive reporting from their advisers to support this on an annual basis.

- 1.3 At the 28 March 2017 Pensions Committee meeting members agreed to receive a further report on the LAPFF in order to establish whether the Havering Pension Fund should become members.
- 1.4 A representative from the LAPFF will also be making a presentation to the committee to explain the role of the LAPFF and to answer any questions the committee may have. The presentation is attached as **Appendix A**.
- 1.5 The LAPFF also produce a standard template for Administering Authorities to use for submission to their committees that also outlines their role and is shown in the following section.

## **2 LAPFF Report**

- a) The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of local authority pension funds and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:
  - i. Seeks to protect and enhance the value of members shareholdings by optimising Local Authority pension funds' influence as shareholders on ESG (environmental, social and governance issues) and thereby to promote Corporate Social Responsibility (CSR) and high standards of Corporate Governance
  - ii. Facilitates commissioning of research and policy analysis of issues more effectively than individual members
  - iii. Provides a forum for consultation on shareholder initiatives
  - iv. Provides a forum for information exchange and discussion about any investment issues
  - v. Provides a forum to consider issues of common interest to all pension fund administrators and trustees.
- b) The Forum has 4 business meetings a year plus an AGM and an annual conference with each member fund having one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. It also employs a part-time Forum Officer (a former City/County Treasurer) to assist with the promotion of its activities.
- c) The Forum currently has 72 local authority members including 26 English counties; 22 London authorities (including the City of London Corporation and the LPFA); 8 English metropolitan/ unitary authorities; 8 Welsh authorities; 4 Scottish authorities; NILGOSC (the Northern Ireland Local Government Officers Superannuation Committee), The Environment Agency and 2 passenger transport authorities.

- d) LAPFF member funds now control assets of around £190 billion. The annual cost of membership would be the annual subscription of £8,460 or £8,250 pa for a three year membership. (This subscription has been held at the same level for the past nine years as more funds have joined the Forum – LAPFF membership has increased by 300% since 2003.
- e) Benefits of membership would include:-
- i. Supporting shareholder value through engagement and activism on issues relating to ESG issues.
  - ii. Strength in numbers when engaging with companies at the highest level (i.e. Chairperson or other senior board members)
  - iii. Collective and more cost effective approach to research
  - iv. Saving of officer time and cost in researching issues
  - v. Sharing research costs with 72 Forum member funds
  - vi. Providing a Forum for discussion of any related local government pension fund issue
  - vii. Opportunities for networking with colleagues from all parts of UK and all types of authority
  - viii. Facilitating collaboration with other major institutional investor groups both nationally and internationally.
  - ix. The Forum's aims are to provide a customised, cost effective vehicle for local authority pension funds to make their compliance with Myners principle 5 (responsible ownership) more effective.
- f) Membership of LAPFF would further demonstrate the Fund's commitment to socially responsible investment and the promotion of high standards of corporate social responsibility (on environmental, social and governance issues etc) and re-enforce our aim to maximise shareholder value.
- g) It is now widely accepted that it is in all shareholders' interests to promote high standards of corporate governance and corporate social responsibility. The Havering Pension Fund has for many years been actively interested in promoting good corporate governance. Corporate governance can be defined **narrowly** as the relationship of a company with its shareholders and how it governs its activities, or more **broadly** as its relationship to society on environmental, social and governance (ESG) issues.
- h) The Cadbury Report on Corporate Governance in 1992 defined corporate governance as:
- i. *"the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, while shareholders' role in governance is to appoint the directors and auditors and to satisfy themselves that a proper governance structure is in place. "*
  - ii. or as the Financial Times put it *"Corporate governance can be defined narrowly as the relationship of a company with its shareholders or more broadly, as its relationship to society"*

i) Cipfa Guidance:

- i. -The Myners Principles were updated in 2008 when the original ten principles were distilled down to six principles. Principle 5 relates to Responsible Ownership and in this context the *CIPFA Guide to the application of the revised Myners Principles* says:-
- ii. *“Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues. **For example, the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.**”*

2.1 Whilst the new LGPS (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles the Committee agreed to still publish and explain compliance against these principles to demonstrate best practice. This was published voluntarily with the new Investment Strategy Statement in March 2017.

3.2 If members decide to join the LAPFF then this decision will need to be reflected in the Investment Strategy Statement. Results of any annual reviews will be presented to the Pensions Committee in November so officers suggest that any changes required are incorporated at that time.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

The annual cost of membership would be the annual subscription of £8,460 or £8,250 pa for a three year membership. The LAPFF have managed to hold the subscription at the same level for the past nine years due to the increase in membership.

The membership costs would be met from the pension fund.

The LAPFF offer a service that is not currently delivered by officers. In support of the Committee's ongoing monitoring requirements, the Fund will still produce an

annual update on responsible investment activities undertaken by the Fund's Investment Managers.

Being an LAPFF member would demonstrate the Fund's commitment to enhancing the Fund's position on socially responsible investment and engagement.

**Legal implications and risks:**

None arise directly from this report

**Human Resources implications and risks:**

None arise from this report.

**Equalities implications and risks:**

None arise from this report.

<b>BACKGROUND PAPERS</b>
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**Background Papers List**

None