Lancashire County Council

Pension Fund Committee

Friday, 1st December, 2017 at 10.00 am in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston

Agenda

Part I (Open to Press and Public)

No.	Item	
1.	**Apologies**	
2.	**Disclosure of Pecuniary and Non-Pecuniary Interests** Members are asked to consider any Pecuniary and Non-Pecuniary Interests they may have to disclose to the meeting in relation to matters under consideration on the Agenda.	
3.	**Minutes of the Meeting held on 15th September 2017** To be confirmed, and signed by the chair.	(Pages 1 - 8)
4.	**Lancashire County Pension Fund Strategic Plan 2018/19 to 20/21**	(Pages 9 - 24)
5.	**Lancashire County Pension Fund 2017/18 Q2 budget monitoring**	(Pages 25 - 30)
6.	**Responsible Investment**	(Pages 31 - 108)
7.	**Update from the Responsible Investment Working Group**	(Pages 109 - 114)
8.	**Lancashire County Pension Fund Risk Register**	(Pages 115 - 130)
9.	**Lancashire County Pension Fund Voluntary Scheme Pays**	(Pages 131 - 142)
10.	**Implementation of the Markets in Financial Instruments Derivative (MiFID II)**	(Pages 143 - 150)
11.	**Feedback from members of the Committee on pension related training, conferences and events.**	(Pages 151 - 154)

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12. Urgent Business

An item of urgent business may only be considered under this heading where, by reason of special circumstances to be recorded in the Minutes, the Chair of the meeting is of the opinion that the item should be considered at the meeting as a matter of urgency. Wherever possible, the Chief Executive should be given advance warning of any Member's intention to raise a matter under this heading.

13. Date of Next Meeting

The next meeting of the Committee will be held at 10.30am (preceded by a 30 minute briefing) on the 23rd March 2018 in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

14. Exclusion of Press and Public

The Committee is asked to consider whether, under Section 100A(4) of the Local Government Act, 1972, it considers that the public should be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading to the item.

Part II (Not open to Press and Public)

I Young
Director of Governance,
Finance and Public Services

County Hall
Preston

Lancashire County Council

Pension Fund Committee

Minutes of the Meeting held on Friday, 15th September, 2017 at 10.30 am in Committee Room 'C' - The Duke of Lancaster Room, County Hall, Preston.

Present:

County Councillor Eddie Pope (Chair)

County Councillors

J Burrows	T Martin
S Clarke	J Mein
G Dowding	J Rear
C Edwards	A Riggott
K Ellard	A Schofield
J Fillis	

Co-opted members

Paul Crewe, (Trade Union Representative)
Councillor Mark Smith, (Blackpool Council Representative)
Councillor Ron Whittle, (Blackburn with Darwen Borough Council Representative)
Councillor Ian Moran, (District Leaders Group)
Councillor David Borrow, (District Leaders Group)
Jennifer Eastham, FE/HE Institutions

Independent Advisers

E Lambert and A Devitt

1. Apologies

No apologies for absence were presented.

2. Disclosure of Pecuniary and Non-Pecuniary Interests

No declarations of interest were made in relation to items on the agenda.

3. Minutes of the Meeting held on 30th June 2017

The Head of Fund informed the meeting that the report on the draft revised Strategic Plan for the Lancashire County Pension Fund was not included on the agenda and would be presented to the Committee in December 2017

Resolved:

1. That a report on the draft revised Strategic Plan for the Lancashire County Pension Fund be presented to the Committee in December 2017.

2. That, subject to the update specified at 1 above, the Minutes of the meeting held on the 30th June 2017 are confirmed as an accurate record and signed by the Chair.

4. Lancashire County Pension Fund - Admission and Termination Policy

Mr J Livesey, Principal Actuary from Mercers, reported that the main area of the Policy which had been reviewed related to the actuarial assumptions used to assess the value of the liabilities at the point an employer exited the Fund as it was considered that the current methodology did not provide enough protection for the remaining employers from the downside risks.

It was reported that a number of different options for setting a discount rate had been considered and it was proposed to adopt an approach based on the yields available on corporate bonds at the date of exit which was a recognised approach used by a number of other LGPS Funds, based on publically available information, and was similar to the approach used to calculate pension liabilities in employers accounts.

A minor amendment was also proposed for the existing charging structure for new admission agreements and academies joining the Fund which would involve additional interest charges where initial pension contributions were paid to the Fund late.

It was noted that, if approved, the revised Policy would be subject to a 3 month consultation period with employers which would also provide an opportunity for them to prepare to exit the Fund if they wished as a result of the changes in policy.

Resolved:

1. That the changes to the admission and termination policy, as set out in Appendix 'A' to the report presented, are approved for consultation with the employers in the Lancashire County Pension Fund.

2. That a further report on the outcome of the consultation specified at 1 above is presented to the Committee on the 23rd March, 2018.

5. External Audit – Lancashire County Pension Fund Audit Findings Report 2016/17

Karen Murray, Director from Grant Thornton, presented her report and informed the Committee that the Audit Findings Report attached at Appendix 'A' set out the findings of the external audit of the Pension Fund Accounts for 2016/17.

It was reported that the findings had been presented to the Council's Audit and Governance Committee in July and any outstanding items highlighted in red at that time had subsequently been finalised with the external auditor issuing an unqualified audit opinion on the Fund accounts following the meeting on 10th August 2017.

Ms Murray and the Chair thanked the Head of Fund and her Team for their assistance with the external audit.

Resolved: That the contents of the Audit Findings report for the Lancashire County Pension Fund Accounts for 2016/17, as set out in the Appendix to the report presented, is noted.

6. Lancashire Local Pension Board 2016/17 Annual Report

Mr W Bourne, Chair of the Lancashire Local Pension Board, presented the Annual Report on activity by the Board in 2016/17 which included details of Board members attendance at meetings and training events, activity during the year and the costs associated with the operation of the Board.

He also highlighted specific recommendations which the Board had made in relation to tracing missing members and the need for additional resources for the Head of Fund and the subsequent action which had been taken.

Resolved:

1. That the Annual Report of the Lancashire Local Pension Board for 2016/17, as set out in the Appendix to the report presented, is noted.

2. That the Chair and members of the Board be thanked for their contributions to the work of the Board and supporting the operation of the Fund.

7. 2016/17 Pension Fund Annual Report

The Head of Fund presented a report on the Lancashire County Pension Fund Annual Report for the year ended 31 March 2017.

In considering the report the Committee noted the number of calls received by the dedicated helpdesk during the year and that additional resources had been allocated to address the dip in performance. It was reported that the Head of the Administration Service was due to attend the Lancashire Local Pension Board in October to discuss performance against agreed KPIs.

The Chair welcomed the report and recognised that the LCPF had grown in terms of membership and value over the last year.

Resolved: That the Lancashire County Pension Fund Annual Report for the year ended 31 March 2017, as set out in Appendix ‘A’ to the report presented, is approved for submission to the Full Council.

8. Responsible Investment

The Committee received an update report on a range of responsible investment matters. The Head of Fund informed the meeting that the Responsible Investment Manager from the Local Pensions Partnership had been invited to attend the Working Group on the 20th September 2017 which had been arranged in accordance with the decision taken at the last Committee.

Resolved:

1. That the update on responsible investment activity, as set out in the Appendix to the report presented, is noted.

2. That the Working Group on the 20th September 2017 be authorised to review the Fund's current approach to responsible investment and establish its ongoing reporting requirements in that area.

3. That the recommendations of the Working Group specified at 2 above be reported to the Committee on the 1st December 2017

9. LCPF - 2017/18 Q1 Budget Monitoring Report

A report was presented on the income and expenditure of the Lancashire County Pension Fund for the period 1st April to 30th June 2017 with comparison to the budget for the same period.

Resolved: That the analysis of variances between actual results and the budgeted income and expenditure for the period 1st April to 30th June 2017, as set out in the report presented, are noted.

10. LPP Annual Report and Financial statements 2016/17

The Head of Fund presented a report on the Annual Report and accounts for the Local Pensions Partnership (LPP) for the period ended 31st March 2017 which had been approved by LPP's Board on the 24th July 2017.

When considering the report the Committee noted the salaries of Executive and Non-Executive Directors and recognised that this was consistent with the market place and the Remuneration Policy previously agreed by the County Council Employment Committee.

Resolved: That the contents of the Local Pension Partnership Annual Report for 2016/17, as set out in the Appendix to the report presented, is noted.

11. Feedback from members of the Committee on pension related training, conferences and events.

A report was presented on the attendance by members of the Committee at internal/external pension related training events since the last meeting.

County Councillor J Fillis reported that he had found the 14th Annual LGPS Trustees' Conference in June useful and informative and he referred members of the Committee to his written report on the Conference which was available to view in the Pensions Library.

Councillor D Borrow stated that he had found the format of the LAPF Strategic Investment Forum in July, with shorter sessions on subjects such as pooling and ethical investment, to be effective. He also highlighted an interesting presentation which had been given on the ability of individuals to challenge the 'group think' of organisations on matters such as finance.

County Councillors Ellard and Mein both reported that they had found the sessions at the LGC Investment Summit 'Navigating the new landscape' in September to be interesting and informative, particularly with regard to future pooling requirements. It was noted that information from the Summit would be made available to members of the Committee via the Pensions Library.

With regard to the internal workshops on the Annual Report and Accounts (June) and the LCPF Risk Register (July) the Chair reported that both sessions had been informative and well attended and he urged members of the Committee to attend future workshops.

Resolved: That the report and feedback given at the meeting is noted.

12. Supply of Lancashire Pension Fund Custodian Service

The Head of Fund presented a report on the timelines and award criteria for the procurement of a new custodian services contract for the LGPS as the current contract was due to expire on 31st July 2018. In considering the report the Committee noted that the selection criteria would include both quality of service and price and that the County Councils procurement framework would include consideration of any associated social value.

Resolved: That the County Council's Procurement Service undertake the following procurement processes:

1. Appoint an independent specialist firm via a 3 quote process, to assist the Fund in developing a specification for the custodian services and assist in the evaluation of potential tender responses as a result of the procurement exercise outlined below;

2. Undertake an independent open OJEU compliant procurement exercise to appoint an independent provider of custodian services for 3 years (commencing on 1st April 2018) with an option to extend for any given period up to a maximum of a further 3 years.

13. Urgent Business

No items of business were raised under this heading.

14. Date of Next Meeting

It was noted that the next scheduled meeting of the Committee would be held at 10.30am (preceded by a 30 minute briefing) on the 1st December 2017 in Committee Room 'C' - The Duke of Lancaster Room at County Hall, Preston.

15. Exclusion of Press and Public

Resolved: That the press and public be excluded from the meeting during consideration of the following items of business on the grounds that there would be a likely disclosure of exempt information as defined in the appropriate paragraph of Part 1 of Schedule 12A to the Local Government Act, 1972, as indicated against the heading of each items. It was considered that in all the circumstances the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

16. Local Pensions Partnership - Quarter 1 update

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Director of Strategic Programmes and Group Company Secretary and the Managing Director and Chief Investment Officer from the Local Pensions Partnership (LPP) presented a report on the investment and administration functions operating within LPP.

Resolved: That the report is noted.

17. Investment Panel Report

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee received a report on matters considered by the Investment Panel since the last meeting which included:

- The Investment and Market context in which the LCPF operated.
- The performance of the LCPF.
- The Policy Portfolio and current asset allocation.

It was also reported that the Panel was in the process of reviewing the current Investment Strategy against cash available to meet the payment of future pensions. The Strategy would be discussed further with members of the Committee at a workshop in November and a further report presented to the Committee in December 2017.

Resolved:

1. That the report of the Investment Panel is noted.

2. That the recommendations of the Panel in relation to the future Investment Strategy of the LCPF are reported to the Committee on the 1st December 2017

18. LCPF Performance Overview June 2017

(Exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972. It was considered that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information).

The Committee was informed that the LCPF continued to outperform both internal and external actuarial benchmarks and noted that the recommendations of the Investment Panel with regard to the future Investment Strategy would be presented to the next meeting for consideration.

Resolved: That the report is noted.

I Young
Director of Governance, Finance and Public Services

County Hall
Preston

Agenda Item 4

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected: (All Divisions);

LCPF Strategic Plan 2018/19 to 20/21
Appendix 'A' refers

Contact for further information: Abigail Leech, 01772 530808, Head of Fund,
Abigail.leech@lancashire.gov.uk

Executive Summary

The Strategic Plan defines the key objectives of the Fund. Given the dependence of the Fund on the three yearly actuarial valuation cycle as a driver for much of its activity, the strategic plan looks at specific objectives over this time period. The management of the Fund is broken down into four areas, namely:

- Governance
- Asset and Liability Management
- Administration
- Communication

The draft plan is attached at Appendix A

Recommendation

The Committee is recommended to approve the draft Lancashire County Pension Fund Strategic Plan – 2018/19 – 2020/21, as set out in Appendix 'A'.

Background and Advice

The need for the Pension Fund to have a clear strategic planning framework was identified and reported in the annual governance statement in June 2014. Therefore a strategic plan to cover the three years up to 2017/18 was developed and approved. A new plan is now required to cover the period 2018/19 to 2020/21.

It is considered that the areas of activity around which the existing Plan was constructed are still valid and therefore the proposed Plan is built around:

- Governance – Ensuring the effective operation of the framework of control and the understanding and addressing of the risks to which the Fund is exposed.

Lancashire County Council

- Asset and Liability Management – The design and delivery of investment strategies aimed at meeting specific investment objectives, whether in terms of growing the asset base or offsetting movements in liabilities.

- Administration – Processes for maintaining member contribution records and for the accurate and timely calculation and payment of benefits.

- Communication – Processes for communicating both with scheme members and employers and promoting the benefits of participation in the scheme.

A draft three year Strategy is attached as Appendix 'A' for approval

Consultations

The Plan is derived from potential regulatory changes or issues that have been discussed with the Pension Fund Committee or the Local Pension Board. No further consultation has been undertaken.

Implications:

This item has the following implications, as indicated:

Risk management

The Strategic Plan has been developed in line with the risk register. Having a strategic plan will assist in the management of those risks faced by the Fund.

Financial

There are no direct financial consequences of adopting the Plan.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund

Strategic Plan 2018/19 – 2020/21

Lancashire County Council as administering authority of
Lancashire County Pension Fund

Lancashire County Council

www.lancashire.gov.uk

Contents

Foreword

The Lancashire County Pension Fund is the means of pension saving and the provider of retirement security for around 167,000 people employed by around 400 organisations across the County. With assets approaching £7.2bn invested to provide retirement security for members.

This Strategic Plan sets out the key objectives of the Fund.

Like any business we need to set ourselves clear objectives and plan our work to achieve them. As much of what we do is driven by the cycle of actuarial valuations of the Fund we do this over a three year period.

This Strategic Plan sets out what we plan to do to achieve our objectives in four areas over the coming three years. This plan will be reviewed by the Pension Fund Committee each year and progress will be reported within the Fund's Annual Report.

We welcome feedback on the work of the Fund, and if you would like to make contact details are provided at the end of this plan.

County Councillor E Pope
Chair of the Pension Fund Committee

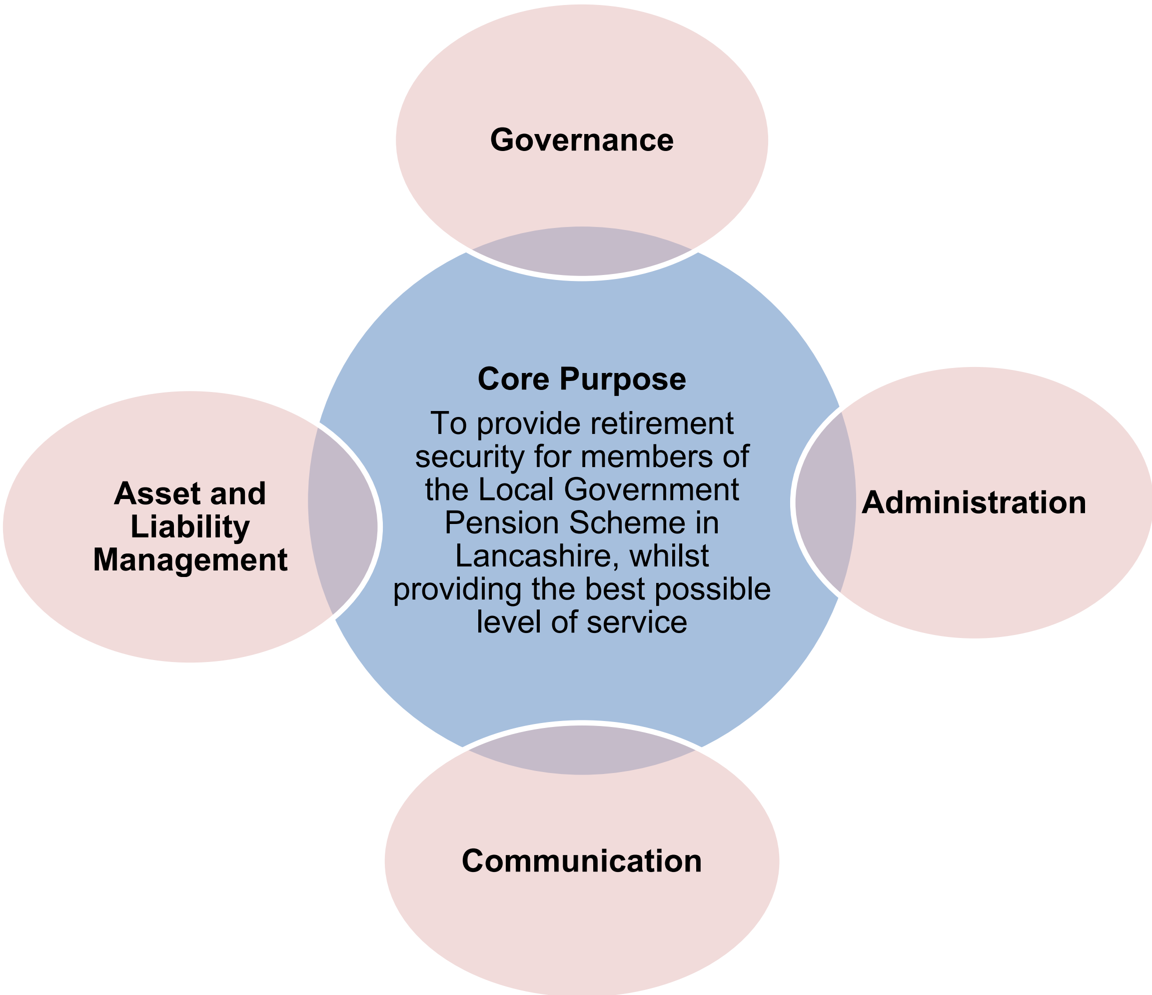
Abigail Leech
Head of Fund

What Are We Here For?

The core purpose of the Lancashire County Pension Fund, or more simply the reason we are here is to provide retirement security for members of the Local Government Pension Scheme in Lancashire, whilst providing the best possible level of service.

How Things Fit Together – Our Planning Framework

Our planning framework is based on doing the things that help us deliver our core purpose. These fall into four groups, or dimensions, which are shown in the diagram below:



The following sections of this plan set out the objectives we are aiming to achieve within each of these dimensions and the things that we are going to do over the next three years in order to achieve those objectives.

Governance

Governance is the overall set of processes we use to run the Pension Fund. It forms a key part of a number of the other areas of focus within this plan but is also crucial in its own right.

Our objectives in this area are:

- To be open and accountable to our stakeholders for our decisions, ensuring they are robust and evidence based;
- To ensure that the Pension Fund is effectively managed and its services are delivered by highly motivated people who have the appropriate knowledge and expertise, and with access to appropriate systems;
- To deliver value for money, excellent customer service and compliance with regulatory requirements and industry standards where appropriate.

Over the next three years we are aiming to undertake the following actions in this area:

Outcomes	Actions	Timeframe
Implement any new governance requirements to reflect changes in the Council's management structure	• Assessment of governance policy documentation of the fund in consultation with the new S151 officer. • Review officer scheme of delegation • Implement any changes in 2018/19.	2018/19
Compliance with all statutory regulations.	• MiFID2 – ensure all appropriate documentation is completed by the deadline of Jan 2018. Continue to monitor compliance with MiFID2. • General Data Protection Regulations (GDPR) – ensure that the fund and LPP will be fully compliant with the new regulations by the deadline of May 2018 • Work with LPP representatives to implement changes	2018/19
Ensure that LPP are operating effectively and to the agreement	• Regular meetings with LPP • Monitoring of performance and KPI's	Throughout period of Strategic Plan
Ensuring LCPF interests are protected as other funds join the LPP Pool as clients	• Performance monitoring • Analysis of any proposal which impacts on shareholding arrangements	Throughout period of Strategic Plan as proposals are submitted
Ensure appropriate and effective implementation of Responsible Investment	• Working group to review; • Develop an RI Policy; • Evaluate closer working with LPFA; • Review RI Reporting	June 2018
Continue to enhance risk management processes	• Ongoing assessment of existing and new risks; • Where appropriate inking of risk register to LPP risk register • Develop a fund risk management	Risk approach to be enhanced on an ongoing basis throughout 2018/19

	framework;	
Implement any changes to the Local Pensions Board arising from the Advisory Board review of their effectiveness	• Assessment of Advisory Board findings and identify any weakness in the working of the Lancashire Local Pension Board	Throughout period in response to publications and recommendations
Ensure compliance with the Pension Regulator's (TPR) code of practice No. 14	Review the TPR's governance and administration 2017 report and guidance, specifically:- • Ensure scheme managers and pension board members are aware of their roles and responsibilities in running the pension scheme. • Undertake an annual data review and introduce an improvement plan (where required) • Ensure compliance with forthcoming TPR guidance on record keeping and breach reporting	March 2019

Asset and Liability Management

Asset management is the process of achieving returns on the contributions to the Fund made by members and employers so ensuring that the money required to pay pensions is available when required. Liability management is the process by which the impact of changes in the value of the obligation to pay future pensions on the Fund is mitigated.

Our objectives in this area are:

- To ensure that resources are available to meet the Fund's liabilities through achieving investment performance at least in line with actuarial assumptions.
- To achieve full funding (i.e. no funding deficit) over a period no longer than the current recovery period.
- To achieve, as far as possible, stable employer contribution rates;
- To manage employers' liabilities effectively having due regard to the strength of each employer's covenant by the consideration of employer specific funding objectives.
- To maintain liquidity to meet projected net cash flow outgoings.
- To minimise irrecoverable debt on the termination of employer participation.
- To be a good asset owner.

Over the next three years we are aiming to undertake the following actions in this area:

Outcomes	**Actions**	**Timeframe**
Ensure effective cash-flow management to meet pension fund payments in the future	• Revised Investment Strategy implemented from 1 April 2018, which increases liquidity in the portfolio, Continue to monitor cash-flow throughout the plan.	2018/19 and reviewed throughout Plan
All appropriate assets pooled. Agreed methodology for reporting savings.	• To oversee the completion of the pooling of investments • Continue development of a model to capture savings	Expected completion of pooling early 2018 Savings model established 2018/19
Improve the transparency over the costs of the Fund	• Implement the CIPFA Code of Practice on Management expenses and the LGPS Advisory Board Code on Transparency	On-going in line with publication of the CIPFA guidance on the Codes
Ensure that the Investment Strategy is up to date and appropriate.	• To periodically review the Investment Strategy and implement any changes	Ongoing throughout the period
Completion of the 2019 Actuarial Valuation and identification of changes, if any, required in the Investment Strategy	• Provision of data to the Actuary at individual member level. • Agreement of key assumptions	Provision of data from April 2019. •Agreement of assumptions

	with the Actuary by the PFC • Engagement with employers on an ongoing basis throughout the process, but particularly as results become available. • Review of Funding Strategy in light of results	by PFC to be in line with Actuary's timetable. •Feedback of results from September 2019. •Revised Funding Strategy Statement PFC Feb / March 2020. •Implementation of revised Rates and Adjustments Certificate from April 2020

Administration

Administration is the process through which the information required to maintain members' contribution records, collect contributions due and calculate and pay their benefits in an accurate and timely way is undertaken.

Our objectives in this area are:

- To deliver a high quality, cost-effective, user-friendly and informative service to all members, potential members and employers at the point where it is needed;
- To ensure that benefits are paid and contributions collected accurately and on time;
- To demonstrate compliance with all relevant regulatory requirements;
- To ensure that data is handled securely and used only for authorised purposes.

Outcomes	Actions	Timeframe
To ensure that the level of complaints and errors does not increase	To review the impact of the re-organisation of LPP administration service on LCPF	2018-19
Implementation of the penalty system policy from April 2018	Review and implement revised Pensions administration strategy statement to include specific charging scales and ensure procedures are put in place to recover those charges from employers.	June 2018
Manage Employer Risk	Develop employer engagement strategy to assess risk of individual employers which will include • A review of Pension strain factors underlying early retirement costs • Implementation of a revised Admissions and termination policy amending the actuarial assumptions used to assess the value of the liabilities at the point an employer exits the fund. • An on-going review of the employer covenant reports provided by LPP. • Consideration of on-going funding checks of scheme employer using bespoke actuarial monitoring tools.	April 2018 April 2018 Annually Annually
Implementation of changes to statutory regulations	Review and implement all amending legislation including the following legislation expected in 2018 : • The 3 proposed policies covering caps and reforms being considered by government in respect of exit payments	Implemented in accordance statutory timetables

	made to or in respect of a person leaving public sector employment. • LGPS amending legislation covering fair deal in the LGPS, Freedom and choice options for AVC,s and extended early release options for deferred members	

Communication

Communication is the process by which we ensure that Fund members and employers are aware of their benefits and of their responsibilities; and of the overall performance of the Fund. It is also the process by which we promote the benefits of the Fund.

Our objectives in this area are:

- To provide good pension information, promoting pensions in the workplace and to actively promote the Scheme to prospective members and their employers.
- To ensure transparency; building trust, confidence and engagement in pension saving as the norm, and ensuring that investment issues are communicated appropriately to the Fund's stakeholders.
- To communicate in an appropriate and direct way to all our stakeholders, treating them all fairly, achieving appreciation of the benefits of being a member of the Fund
- To ensure that our communications are simple, relevant and have impact;
- To deliver information in a way that suits all stakeholders, increasingly taking advantage of advances in technology.
- To treat information security with the upmost importance.

Over the next three years we are aiming to undertake the following actions in this area:

Outcomes	Actions	Timeframe
To ensure that all members and stakeholder appropriately identify and recognise LCPF	• Develop LCPF Branding • Develop a new website.	2018-19
Implementation of new AVC funds	• Communicate new approved funds being added to Prudential's portfolio • Assist employers who wish to implement Salary sacrifice shared cost AVC arrangements	April 2018 Ongoing throughout period of Strategic Plan from June 2018

Glossary

GDPR- A European regulation which replaces current data protection requirements including the UK Data Protection Act 1998

PFC – The Pension Fund Committee the body of elected councillors and other representatives of employers and scheme members responsible for making the key decisions about the management of the Fund.

LCPF –Lancashire County Pension Fund.

LGPS- Local Government Pension Scheme. This is a statutory scheme with regulations stipulating the benefits available.

LPB – The Local Pension Board, a body of 4 employers and 4 scheme members together with an Independent Chair who are responsible for overseeing the work of the County Council as Administering Authority for the Fund and making recommendations for improvement.

LPP - The Local Pensions Partnership is a collaboration between two LGPS funds – Lancashire County Pension Fund and London Pensions Fund Authority. It covers both investment and administration activities.

MiFID 2 -The second Markets in Financial Instruments Directive (MiFID II) is to be implemented in the UK from 3rd January 2018. Under this firms will be obliged to treat all local authorities, including Pension Funds, as retail clients unless they opt up to professional client status and meet certain criteria. These criteria include holding a minimum £10 million investment balance and employing knowledgeable and experienced staff to carry out investment transactions. LCPF will be opting up to professional status.

TPR – The Pensions Regulator who is responsible for ensuring that all public sector pension schemes adhere to proper standards of governance and service quality.

Contacts for further information

For further information on the contents of this plan please contact:

Overall management of the Pension Fund

Abigail Leech

Head of Fund

Lancashire County Council

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E mail abigail.leech@lancashire.gov.uk

Administration and Benefits

Diane Lister

Head of Your Pension Service

Local Pensions Partnership

Phone (01772) 534827

E mail: diane.lister@localpensionspartnership.org.uk

For individual queries please contact

Phone (01772) 530530

E mail: AskPensions@lancashire.gov.uk

Website www.yourpensionservice.org.uk

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected: None;

Lancashire County Pension Fund 2017/18 Q2 budget monitoring
(Appendix 'A' refers)

Contact for further information: Abigail Leech, Head of Fund,
Abigail.leech@lancashire.gov.uk

Executive Summary

This report sets out the income and expenditure of the Fund for the period 1st April to 30th September 2017 with comparison to the budget for the same period.

Recommendation

The Committee is asked to note the analysis of variances between actual results and the budgeted income and expenditure for the period 1st April to 30th September 2017.

Background and Advice

The 2017/18 budget is a key tool for monitoring the financial performance of the Fund, and in particular the achievement of planned savings through LPP.

The one year budget for the year ending 31 March 2018 was approved by the Pension Fund Committee at its meeting on 17 March 2017.

It was noted in the report to Committee in March that it is difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy but it was agreed that a quarterly review of variances against the budget would provide useful management information for the monitoring of the financial position of the Fund.

Referring to the key income and expenditure items outlined in the budget, a comparison of actual results to budget is set out below. The budget has been phased evenly throughout the year, the budget for the first half of the year is 50% of the full year budget. For some budget headings (for example property expenditure) this is a simple approach which will result in variances attributable to timing / phasing of spend.

Lancashire County Council

INCOME

Contribution income (YTD budget £123.2m, YTD actual £116.6m)

Overall, regular and deficit contributions are broadly in line with budget. There is an adverse variance against the evenly phased budget for pension strain of £5.5m. At this time this is considered to be a timing difference and not an indication of a full year under recovery of income.

Also contributing to the under-recovery of income against budget for the first six months of the year are deficit contributions payable by employers within the Fund. The budget deficit contribution income was based upon the preliminary valuation results. The final deficit contribution required was £3m lower than at the preliminary stage and as a result there will be an under-recovery of £3m for the full year and £1.5m for the year to date.

The remaining £0.4m variance (favourable) is the net of other variances in contributions from both employers and employees.

Transfers in (YTD budget £3.3m, YTD actual £6.3m)

As noted at the end of Q1, the budget for transfers in is based upon average income over the previous two years and an assumption that the income will begin to reduce in line with the number of employees within the member organisations. Actual income is not linear throughout the year but the budget assumes that it will be received on a straight line, or even, basis.

Investment income (YTD budget £54.6m, YTD actual £65.0m)

A favourable variance of £17.8m against the budget for income from pooled investments has arisen due to the receipt of dividends within the global equities pool.

This income is reported in the budget monitoring report but the overall impact on the bottom line is nil as the Fund's policy is to reinvestment dividend income.

An additional £1.3m favourable variance on investment income comes from fixed interest investments.

Offsetting the above are an adverse variance of £5.5m on rental income, the result of budget phasing, and other less significant variances amounting to £3.2m in total.

EXPENDITURE

Benefits payable (YTD budget £127.3m, YTD actual £126.7m)

Pensions paid and lump sum benefits are broadly in line with budget.

Transfers out (YTD budget £6.9m, YTD actual £8.2m)

As for transfers in, the budget for transfers out is based upon the historic trend and the expenditure will not be incurred on a regular basis throughout the year.

Administrative expenses (YTD budget £1.9m, YTD actual £1.7m)

Similar to the position at the end of Q1, core administration, employer risk and liability modelling expenditure is in line with budget. The net budget saving on administration costs as at the end of September is £0.2m.

Investment management expenses (YTD budget £17.0m, YTD actual £16.6m)

Included within investment management expenses are amounts payable to LPP, amounts payable to transition managers and amounts payable to other investment managers – for example to Knight Frank for the management of the directly-owned property portfolio.

When the budget was presented to committee in March 2017, it was noted that an overall saving on investment management expenses (after transition costs) of £5.5m was anticipated. The results for the first half of the year are in line with expectations.

Investment management fees payable to LPP are £1.0m lower than budgeted for the first half but this favourable variance is partly offset by an overspend against budget of £0.6m on other investment management fees, resulting in an overall saving of £0.4m for the year to date.

The most significant element of investment management expenses are fund-value based fees which are calculated as a percentage of the market value of funds under management. The budget assumed assets under management with LPP by 31 March 2018 of approximately £7.3bn. As at 30 September 2017, the value of the Fund as reported was £7.3bn.

Oversight and governance costs (YTD budget £4.2m, YTD actual £3.8m)

The under-spend against this category of costs is considered to be due to timing and no overall saving for the full year has been identified at this point.

Legal and professional fees are underspent against budget and are a function of investment activity.

Net surplus before realised and unrealised profits on investments (YTD budget £23.7m, YTD actual £30.6)

The budget variances discussed above contribute to the overall favourable variance of £6.9m for the year to date.

Consultations

Variances between actual results and budget, where relevant to LPP, have been discussed with the LPP finance team as appropriate.

Implications:

This item has the following implications, as indicated:

Risk management

Regular monitoring against the budget of the fund will provide an explanation of key variances, better inform future budget setting and forecasting. It will also ensure that the Committee has oversight of the costs of LPP and that the planned savings are being realised as in the approved business plan.

Budget monitoring for the period to 31 December 2017 will be presented to Committee at the meeting on 23 March 2018.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Q2 budget monitoring summary	10 November 2017	Abigail Leech 01772 530808

Reason for inclusion in Part II, if appropriate

N/A

Lancashire County Pension Fund
Fund Account Budget Monitoring - year ended 31 March 2018

	Budget 2017.18 Q1 + Q2 £'000	Actual 2017.18 Q1 + Q2 £'000	Budget variance Q1 + Q2 £'000 (Favourable) / Adverse	Comments
INCOME				
Contributions Receivable				
From Employers	(94,877)	(88,511)	6,366	Phasing of budgeted pension strain payments (£9m budget YTD, £3.6m actual YTD).
From Employees	(28,361)	(28,081)	280	
Total contributions receivable	**(123,238)**	**(116,592)**	**6,646**	
Transfers In	**(3,325)**	**(6,255)**	**(2,930)**	
Investment Income	**(54,613)**	**(65,031)**	**(10,418)**	Dividend income in August(£19m) reinvested in Global Equity Pool. Offset by movement in market value of investments 'below the line'. Property rental income due for the quarter ended 30 September (c.£7m) will be received in October but is phased evenly in the budget.
TOTAL INCOME	**(181,176)**	**(187,877)**	**(6,702)**	
EXPENDITURE				
Benefits Payable				
Pensions	104,440	106,452	2,012	
Lump Sum Benefits	22,875	20,271	(2,604)	
Total benefits payable	**127,315**	**126,723**	**(592)**	
Transfers out	**6,875**	**8,197**	**1,322**	
Refund of Contributions	**290**	**283**	**(7)**	
Contributions Equivalent Premium	**0**	**(18)**	**(18)**	
Fund administrative expenses				
LPP administrative expenses	1,788	1,345	(443)	
Other administrative expenses	71	310	239	
Write off of bad debts	8	5	(2)	
Total administrative expenses	**1,866**	**1,659**	**(207)**	
Investment management expenses				
LPP investment management fees	3,071	2,104	(967)	
Transition costs	866	0	(866)	Transition costs for global equities recognised in 16/17. Fees awaited for infrastructure and private equity transitions.
Other investment management fees	13,041	14,527	1,486	

Appendix A

Total investment management expenses	**16,978**	**16,631**	**(347)**
Oversight and Governance expenses			
Performance measurement fees (including Panel)	45	(1)	(46)
IAS19 advisory fees	50	52	2
Other advisory fees (including abortive fees)	2,100	1,686	(414)
Actuarial fees	25	39	14
Custody fees	50	66	16
Audit fees	26	(21)	(47)
Legal & professional fees	300	50	(250)
LCC recharges	323	323	0
Bank charges	4	2	(2)
Property expenses	1,250	1,577	327
Total oversight and governance expenses	**4,173**	**3,773**	**(399)**
TOTAL EXPENDITURE	**157,497**	**157,248**	**(248)**
(SURPLUS) / DEFICIT BEFORE REALISED AND UNREALISED PROFITS AND LOSSES ON INVESTMENTS	**(23,679)**	**(30,629)**	**(6,950)**

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected:
(All Divisions);

Responsible Investment
(Appendix 'A' refers)

Contact for further information: Abigail Leech, Head of Fund, Lancashire County Pension Fund (01772) 5 30808 abigail.leech@lancashire.gov.uk

Executive Summary

Responsible Investment (RI) encompasses a range of stewardship activities associated with Lancashire County Pension Fund (LCPF) fulfilling its fiduciary duty to act in the best long term interests of fund beneficiaries.

The report at Appendix 'A' provides the Pension Fund Committee with an update on Responsible Investment matters.

Recommendation

The Committee is asked to note the report at Appendix 'A'.

Background and Advice

The report at Appendix 'A' has been prepared by the Responsible Investment Manager at LPP Investments Ltd and provides information on how the Fund is being supported to fulfil its commitment to long term responsible asset ownership in line with the approach set out within its Investment Strategy Statement.

For the purposes of reporting on voting, engagement and litigation monitoring activities, the information provided within the report at Appendix 'A' relates to the second quarter of 2017/18 and focusses on the period from 1st July to 30th September 2017. For the purposes of reporting on wider matters, more recent developments are also reflected as part of bringing current and emerging issues to the Committee's attention.

Working Group on Responsible Investment

As reported to the last meeting of the Committee, a Responsible Investment Working Group has been established to consider the Fund's approach to stewardship and RI and review the committee's requirements for monitoring information in this area going forward.

Lancashire County Council

The Working Group comprises the following members of the Committee, supported by Fund officers and the LPP I Responsible Investment Manager:

County Councillor K Ellard – Labour (Chair);
County Councillor S Clarke – Conservative;
County Councillor G Dowding – Green;
Councillor R Whittle – co-opted member representing Trade Unions.

The Working Group was convened for the first time on 20th September 2017 and held a second meeting on 8th November 2017 which was attended by invited representatives from the London Pensions Fund Authority. A third meeting is scheduled for 12th December 2017.

An update on the activities of the Working Group is included as a separate item on the agenda.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

It is an important component of good governance that the Fund is an engaged and responsible investor committed to actions which are in the best long term interests of fund members and beneficiaries.

As an LGPS Fund, LCPF is required to be a signatory to the UK Stewardship Code and to uphold the principles espoused by the code.

The monitoring of investee companies and the promotion of good corporate governance practices can help to reduce the risk of unexpected losses arising as a result of poor over-sight and lack of independence.

Responsible investment practices underpin the fulfilment of LCPF's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by LPP I.

Quarterly RI Reports provide information to the Pension Fund Committee on the stewardship of the Fund's assets by LPP I and enable the committee to monitor the activities undertaken.

Involvement in a non-US type of "class action" may result in the recovery of losses incurred by the Fund but, should the claim be lost, the Fund may incur related costs which may not be known with certainty at the time of filing.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

LOCAL PENSIONS PARTNERSHIP INVESTMENTS LIMITED

Lancashire County Pension Fund

Pension Fund Committee
Responsible Investment Report

1 December 2017
Appendix A

Title of Paper	Quarterly Report on Responsible Investment (2017 Q3)
Lead Officer:	Frances Deakin Responsible Investment Manager Local Pensions Partnership Investments Ltd frances.deakin@localpensionspartnership.org.uk
Appendices	Appendix A1 - Climate Change Investment Policy Framework and Guidance Appendix A2 - LAPFF's Q3 2017 Engagement Report Appendix A3 - Fuelling the Fire (LGPS Investments in Fossil Fuels) Appendix A4 - PRI – Outcome of 2017 Reporting Assessment

1. Executive Summary

This report provides members of the Pension Fund Committee of Lancashire County Pension Fund (LCPF) with a quarterly update on Responsible Investment (RI) matters.

2. Introduction

The Fund's approach to RI has been articulated within an Investment Strategy Statement which confirms that the objective of RI is to decrease investor risk, improve risk-adjusted returns and assist the Fund's adherence to the UK Stewardship Code.

The Fund's preferred approach to RI encompasses four main areas of activity:
- Voting Globally
- Engagement through Partnerships
- Shareholder Litigation
- Active Investing

Responsibility for the practical implementation of the Fund's approach to RI is devolved to Local Pensions Partnership Investments Ltd (LPP I) as LCPF's provider of investment management services. The report which follows provides the committee with an update on RI activity during the period 1st July to 30th September 2017 plus insight on current and emerging issues.

3. Voting Globally

Through its investment in the LPP I Global Equities Fund (GEF) LCPF owns units in a pooled fund which invests in listed companies globally. Investors in the GEF delegate the control and exercise of shareholder voting to LPP I as part of arrangements which accommodate a pooled fund structure and associated ownership arrangements. This reflects that clients who hold units in the GEF are beneficial owners in common but do not directly own underlying securities.

LPP I exercises shareholder voting rights for the GEF centrally rather than delegating voting to individual asset managers. Decisions are taken in line with protecting the collective best interests of client pension funds as institutional investors and take account of voting recommendations from an external provider of proxy voting and governance research. Institutional Shareholder Services (ISS) provide voting recommendations in line with applying a Sustainability Voting Policy designed to ensure the consideration of ESG factors within analysis. LPP I review voting recommendations and take the final decision on all voting.

In the third quarter of 2017 shareholder voting headlines for the GEF were as follows:

Total company meetings taking place	18
Total resolutions (management and shareholder proposals)	218
Total company proposals in the period	212
Total shareholder proposals in the period	6

Company Proposals

Voting was in line with Management recommendations	196	92%
Voting was against Management recommendations	16	8%

Shareholder proposals supported by LPP I	3	50%

The table below summarises resolutions by type and indicates the subject of shareholder resolutions seen in Q3.

Resolutions by Type	Number of proposals
Antitakeover Related	3
Capitalization (Share Issuance/Repurchase)	25
Director Related (nominations)	123
Remuneration	21
Reorganisation & Merger Related	2
Routine/Business	38
SH - Compensation Related	1
SH - Director Related	3
SH - Health/Environmental	2
Total	218

LPP voted against management resolutions in 16 instances, 13 of which were at the AGM of **Compagnie Financier Richemont SA** (Accessories & luxury goods). LPP opposed Richemont increasing the maximum remuneration of directors on the grounds that the current level is already high by market standards.

LPP also voted against the election/re-election of 11 directors on the grounds of a lack of independence. This echoed a similar position at the 2016 AGM when LPP opposed nominees on the same basis. No voting results have been released by the company from which it is possible to assess levels of shareholder support/dissent at either the 2016 or 2017 AGMs.

The Swiss Code of Best Practice for Corporate Governance (updated in 2014) recommends that the majority of any board should be composed of independent, non-executive members. ISS considered that of 14 Non-Executive Directors nominated by Richemont in 2017, only 7 are independent.

Detailed analysis shows that the level of independent Board member representation is improving over time, something which becomes apparent by reviewing the proportion of independent directors on key bodies as follows:
The Board (up from 16% to 37%)
Nomination Committee (up from 14% to 47%)
Audit Committee (up from 0% to 40%)
Compensation Committee (up from 0% to 100%).

At the AGM of **Vtech Holdings Ltd** (world's largest manufacturer of cordless phones) LPP opposed 2 management resolutions; one on the issuance of equity/equity linked securities (shares) without pre-emptive rights and another on the re-issuance of repurchased shares. Opposition centred on the fact that, taken together, the two resolutions would allow the Board to issue more than 10% of share capital. ISS advice is that the aggregate share issuance limit (inclusive of share reissuance limit, if any) should be no more than 10 percent. Pre-emption gives existing shareholders preferential status, often conferring the right to purchase additional shares in a company before these are made available for purchase by the general public.

In Q3 LPP supported 3 shareholder resolutions at 2 AGMs (against the advice of management). These were as follows:

Environmental

Saputo (packaged foods & meats) – LPP supported a shareholder proposal that the Company disclose how it incorporates environmental objectives into the evaluation of the performance of its executive officers.

The proposal failed, 24 % of votes were in favour.

Darden Restaurants Inc. – LPP supported a shareholder proposal that Darden Restaurants adopt an enterprise-wide policy to phase out routine uses of medically important antibiotics in meat and poultry sources, and report to shareholders on the potential timetable and measures for implementing the policy.

The proposal failed, 13 % of votes were in favour.

Corporate Governance

Saputo (packaged foods & meats) – LPP supported a shareholder proposal that the board of directors adopt a policy for the implementation of an advisory vote on executive compensation.

The proposal failed, 31 % of votes were in favour.

Members are able to view details of voting for all meetings via the LPP website where quarterly reports for the GEF are made publicly available.

https://www.localpensionspartnership.org.uk/what-we-do/investment-management

4. Engagement through Partnerships

LPP I regularly participates in collaborations which aim to make progress on commonly held issues and both represent and augment the collective influence of institutional investors. Key partners include the Local Authority Pensions Fund Forum (LAPFF) the Pensions and Lifetime Savings Association (PLSA) the Principles of Responsible Investment (PRI) the Institutional Investor Group on Climate Change (IIGCC) and the UK Pension Fund RI Roundtable.

LAPFF

LAPFF has long been LCPF's preferred engagement partner and recently the Fund nominated its Governance & Risk Officer as a key contact for future interactions with LAPFF. This is a decision which will encourage a more direct relationship with the Forum, rather than one which is primarily maintained by LPP I.

LAPFF's most recent quarterly Business Meeting took place on 27 October 2017. The Fund was represented by the Governance and Risk Officer and County Councillor Charles Edwards. Headlines from the meeting included the following matters:

- **Climate Change Investment Policy Framework and Guidance (Appendix A1)**

LAPFF has produced a Climate Change Investment Policy Framework and accompanying Guidance for LGPS Funds which is intended to encourage/assist them to formally identify and publish their approach to the management of climate change risk.

Following a process of consultation, feedback and review involving Forum members and the LGPS Cross Pool Collaboration Group's RI Sub-Group, final versions were presented for approval at the October Business Meeting. The Framework has subsequently been published on the LAPFF website and is publicly available. A copy appears at **Appendix A1**.

The Framework is deliberately focused on best practice and includes caveats that LGPS Funds at an early stage of recognising climate change as an investment risk will initially need to identify what is realistic and attainable whilst working towards more the more comprehensive standards recommended. The Framework provides model wording for inclusion in Policy statements and is also a good source of guidance and information, providing insight on some key initiatives including the Taskforce on Climate related Financial Disclosure. A confidential Guidance tool has been developed by LAPFF as an additional resource and this will continue to be kept updated over time kept "live". This Guide will only be available to LAPFF members and will be accessible via the secure member only section of the LAPFF website.

LPP I has been involved in the evolution of the LAPFF Framework and Guidance tool and will be offering insights on potential action points for LCPF as part of referencing and reflecting the framework within ongoing advice and support.

- **Tax Strategy Reporting (FTSE 50)**

The Business meeting received an informative presentation from Richard Murphy – an external advisor to LAPFF on tax matters and a key engagement partner in the forum's Corporate Tax Transparency Initiative. Richard and his team at City University have been undertaking research on tax reporting practices among the FTSE 50 as assessed against new tax reporting legislation in the UK (which includes Country by Country Reporting) and tax reporting practices in the banking and insurance sectors.

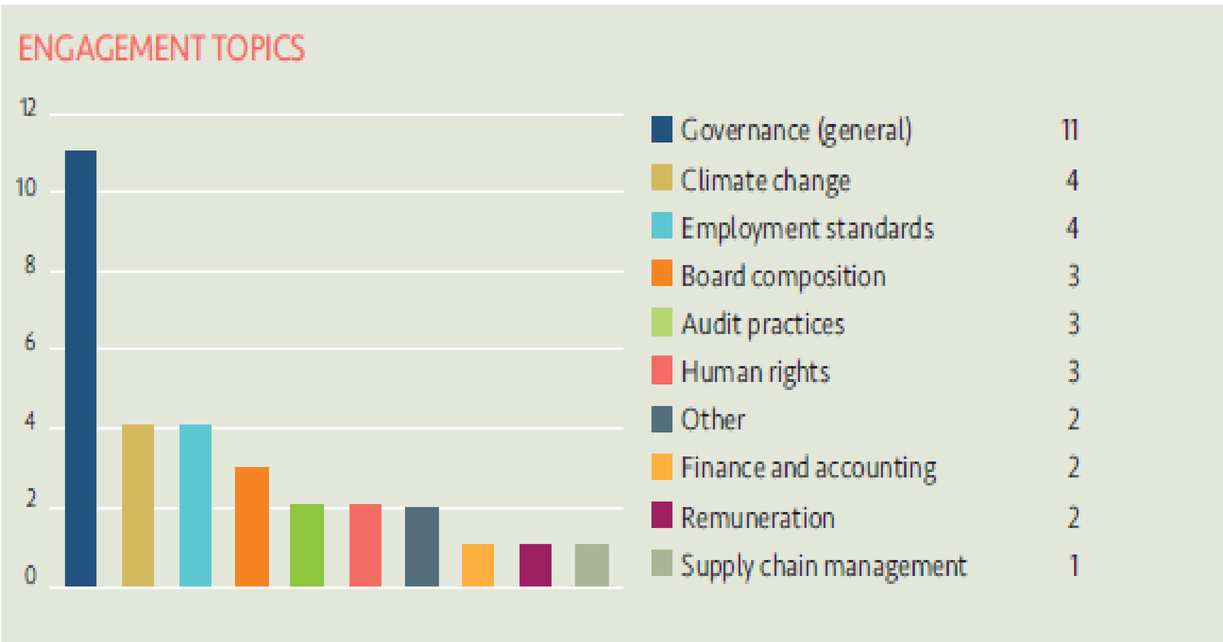
A report on tax reporting practices among the FTSE 50 was presented to the meeting. A second report on the tax practices of banks and insurance companies is forthcoming. The meeting received a proposal to provide financial support to publish and publicise the FTSE 50 report which was duly agreed by members.

Richard's presentation covered the findings of latest research and his wider activities in association with the Fair Tax Mark. This is as an accreditation scheme which recognises businesses that are good taxpayers. It is the only scheme of its kind in the UK, and describes itself as "bridging the gap between corporate responsibility and the wider tax justice movement".

- **LAPFF Q3 Engagement Report (Appendix A2)**

The LAPFF engagement programme reflects the Forum's assessment of key priorities from across the collective equity holdings of LAPFF members. On a quarterly basis LAPFF provides Forum members with a summary of the engagement activities undertaken on their behalf. LAPFF Quarterly Engagement reports were previously marked confidential with circulation restricted to Forum members but within the last quarter reports have been re-classified and are now made publicly available via the LAPFF website. LAPFF's Q3 2017 Engagement Report is attached at **Appendix A2**.

Quantified across thematic topics, engagement activity by LAPFF was as follows:



The companies engaged with and the topics raised with them by LAPFF were as follows:

Q3 2017 ENGAGEMENT DATA

	Company	Topics	Activity	Outcome
1	Ashtead Group Plc	Remuneration	AGM	Satisfactory Response
2	Aviva Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
3	British American Tobacco	Public Health/Supply Chain Management/ Board Composition	Meeting	Small Improvement
4	Hanwha Corp	Human Rights	Letter/Letter Received	No Improvement
5	HSBC Holdings Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
6	International Consolidated Airline Group SA	Governance (Cybersecurity)	Letter	Dialogue
7	ITV Plc	Governance (Cybersecurity)	Letter	Awaiting Response
8	Lonmin Plc	Employment Standards/ Climate Change/ Finance and Accounting	Meeting	Substantial Improvement
9	Marks & Spencer Group Plc	Governance (Cybersecurity)	Letter	Awaiting Response
10	National Grid Plc	Climate Change	AGM	Dialogue
11	Prudential Plc	Governance (Cybersecurity)	Letter	Dialogue
12	Sainsbury Plc	Governance (Cybersecurity)	Letter	Awaiting Response
13	Segro Plc	Board Composition	Letter	Awaiting Response
14	Southern Company	Climate Change	Meeting	Moderate Improvement
15	Sports Direct International Plc	Employment Standards/ Board Composition/ Governance	AGM/Alert Issued/ Roundtable	No Improvement
16	SSE Plc	Employment Standards (Cybersecurity)	AGM	Change in Process
17	Standard Chartered Plc	Governance (General)	Letter	Awaiting Response
18	Tesco Plc	Mergers & Acquisitions	Meeting	Moderate Improvement
19	Total SA	Environmental Risk	Meeting	Substantial Improvement
20	WPP	Governance (Cybersecurity)	Letter/Letter Received	Dialogue

Principles of Responsible Investment (PRI)

- Engagement on Cyber Security

As detailed in the last RI report to committee, the PRI is co-ordinating an investor engagement on Cyber Risk. The project aims to improve risk management from the Board's perspective and is to be targeted from a governance point of view. Cyber Risk is recognised as an area of technical complexity and Boards need to be fully aware of the risks this brings, and have the knowledge to proactively question management, and ensure the risks are being actively monitored across the organisation.

Whilst it is unorthodox (since LPP is not a PRI member in its own right) LPP I has been allowed to participate on behalf of LCPF and LPFA as signatories and clients on this occasion.

Since the Committee's last meeting, a first call has taken place between PRI and the investors who have joined the engagement. Discussions involved agreeing Terms of Reference and the scheduling and organisation of forthcoming activities.

5. Shareholder Litigation

LPP I employs Institutional Protection Services (IPS) as an external provider of litigation monitoring services to ensure shareholder litigation cases affecting securities owned by the GEF are known about, claims are filed in a timely way and progress is monitored and followed up with Claims Administrators. In addition, IPS monitor cases relating to shares held by LCPF in the period before the Fund pooled its listed equity investments from November 2016. Litigation can arise quite some time after shares have been sold and monitoring new cases and referring back to historic holdings records to establish rights of ownership is an ongoing task.

IPS provide LPP I with monitoring information on a quarterly basis detailing the number of cases investigated. The monitoring report provided for Q3 2017 confirmed that 10 potential new cases where the Fund might have an entitlement to join an action were detected in the period July to September 2017. Further analysis discounted 7 of these and the remaining 3 cases currently remain subject to further review.

6. Active Investing

This section of the RI report is dedicated to updating the Committee on new developments within stewardship and RI and interpreting these within the context of the Fund's responsibilities and interests.

Fuelling the Fire (LGPS Investments in Fossil Fuels) – Appendix A3

Subtitled "A new report on the local government pension scheme and fossil fuels" Fuelling the Fire was published online on Thursday 9th November by GoFossilFree, an umbrella organisation representing 350.org, Friends of the Earth, Platform and Community Reinvest. https://gofossilfree.org/uk/fuellingthefire/

The report presents the results of re-visiting the issue of LGPS exposure of LGPS after a two year break since a first set of figures was published in September 2015. The holdings data used to produce calculations is described as being based on the end of 2017 financial year (presumably March 2017) and retrieved from responses given to Freedom of Information requests.

The new report presents an analysis and league table of funds showing their direct and indirect interests in the world's 200 biggest extractors of fossil fuels. The outcome of comparison is the headline finding that whilst the value of LGPS investments in the sector has increased, the aggregate proportion invested in fossil fuels has decreased.

	Total scheme value (£ million)[5]	Fossil fuel investment	% Fossil fuels	Direct FF investment	Est. indirect FF investment
2015	229,160	13,811	6	5,464	8,347
2017	295,109	16,149	5.5	6,872	9,278
Change	+65,949	+2,338	-0.5	+1,408	+931

LCPF is identified within the list of 10 Funds with highest total investment in fossil fuels (£340m) which is a simple measure of quantum. LCPF does not feature within the table of funds with the highest proportion of their assets in fossil fuels, the highest being Greater Manchester at 10.2%. Lancashire's figure is quoted in the league table as 4.8%.

The Local Pensions Partnership is identified as the LGPS pool with the lowest level of exposure (2.5%) based on a calculation which includes Berkshire, LCPF and LPFA assets.

LGPS Pool	Total fund value (£)	Fossil fuel investment	% Fossil fuels
Northern Ireland*	4,150,840,054.46	348,957,569.59	8.4%
Northern Powerhouse[7]	38,687,065,250.00	3,079,208,399.00	8.0%
Wales	15,382,932,477.08	1,027,843,384.05	6.7%
Border to Coast	43,195,823,160.76	2,424,417,484.64	5.6%
London	32,657,670,389.82	1,739,055,134.54	5.3%
Midlands	37,910,823,065.54	1,927,118,373.09	5.1%
ACCESS	34,892,425,632.91	1,759,064,452.97	5.0%
Brunel	26,886,619,323.24	1,292,394,146.47	4.8%
Scotland*	42,766,627,234.00	1,810,599,752.00	4.2%
Lancashire/LPFA	17,613,202,144.33	437,632,962.00	2.5%

**Scottish LGPS funds are not pooled and the Northern Ireland scheme is run as a single fund. Data are provided for comparison.*

The publication of Fuelling the Fire was accompanied by a blanket email campaign encouraging constituents to send a standard email to their elected representatives asking them to support the divestment of their Local Government Pension Fund from fossil fuels. A number of elected members at Lancashire County Council have been recipients of this email to which a standard response has been produced (agreed by the Head of Fund and the Chair of the Pension Fund Committee).

Review of the UK Stewardship Code

RI practitioners from each of the LGPS pools were recently invited to meet with the Financial Reporting Council (FRC) to consider a proposed review of the UK Stewardship Code. The Code has not been refreshed since 2012 and it is acknowledged that stewardship best practice has evolved in the intervening period. A meeting between the FRC and RI Sub-Group members took place on 13th October 2017 and occasioned an initial exchange of views.

It was clarified that a review of the Stewardship Code will not involve a formal consultation of the type due to be issued shortly on the Corporate Governance Code but will feature an exercise in gathering ideas on how the Code could usefully be developed. The responses received will be the basis for the FRC producing an updated draft of the Code which will then occasion a full consultation before any new version of the code is adopted.

Workforce Disclosure Initiative (WDI) – update

LPP I is a named supporter of the WDI, a project which aims to "bring institutional investors together behind a call for comparable workforce reporting by publicly listed companies on their global operations and supply chains". 88 institutions managing $8.6 trillion in assets are named supporters.

ShareAction are managing a pilot survey for the WDI programme and have circulated a detailed questionnaire to a subset of 75 companies. This seeks information on workforce composition, workforce development, and worker engagement. The intention is that the survey's coverage will be expanded over time to encourage better corporate disclosure to a standard format.

ShareAction have produced two Signatory Bulletins (Sept and October 2017) to update supporters. These confirm that the deadline for survey responses has been extended and it is expected that 33 companies will respond in total (44%). Responses will be analysed in order to produce a short summary of findings for supporters due out in late December. An investor roundtable in January 2018 will allow supporters to discuss initial findings, share ideas on investor engagement and discuss next steps, including which countries and regions to target in the 2018 cycle.

7. Other Matters

Principles of Responsible Investment – Outcome of 2017 Reporting Assessment (Appendix A4)

As reported to the Committee at its June 2017 meeting, the Fund formally reported to the Principles of Responsible Investment (PRI) for the first time in 2017 after becoming a PRI signatory in March 2015.

The annual reporting deadline is 31 March and reporting is completed entirely online. A detailed array of indicators require a response, designed to capture the signatory's overall approach and specific efforts/ activities undertaken in the previous 12 months. The outcome of the annual reporting process is a Transparency Report for each signatory which in Lancashire's case is a composite of responses to more than 60 individual indicators. The report is made publicly available via the signatory directory on the PRI website. https://www.unpri.org/signatory-directory/

In addition, each signatory receives a confidential Assessment Report which confirms the PRI's evaluation of their reporting against an underlying assessment methodology and their position relative to a peer group. Assessment Reports are not made public by PRI but signatories can opt to publish them (subject to a caution from PRI about misrepresentation as a result of using edited highlights). Assessment Reports aim to provide signatories with the challenge of an external review process which includes objective scoring which helps to identify areas for future focus and improvement.

The 2017 Assessment Report for LCPF is attached at **Appendix A4**. The scoring approach accommodates a mark from A to E against 8 possible segments. LCPF was not required to report against 3 of the segments in 2017 and scoring is therefore across 5 segments in total. The summary Scorecard (p5) shows good scores were received across the board, only one score being below the segment median for the peer group.

The Fund received its lowest rating (C) for Direct, Listed Equity Active Ownership. This segment covers responses to questions on engagement and proxy voting which was the most challenging section of the annual reporting framework to complete for a number of reasons.

First, reporting is from the perspective of LCPF as an asset owner PRI signatory and not merely reviewing what service providers such as LPP I and LAPFF do on the Fund's behalf. Questions probe the role, standards, arrangements and participation the Fund has in engagements and stewardship.

Second, a number of voluntary indicators form part of the maximum scoring available for this segment and where these are not completed (as in 2017) this immediately reduces the score achievable.

Third, the timing of the reporting process was material, responses were being produced in March 2017 looking back over the prior 12 months. This was a formative time for the partnership and prior to new arrangements being put in place.

In terms of action points, the observations made to the Committee back in June remain pertinent.

> *Some specific learning points have arisen from the experience of working through the detailed reporting framework. One of the greatest difficulties was in clearly defining a demarcation between LCPF as an asset owner signatory and LPP as a provider who fits the PRI's definition of a fiduciary manager. It is LCPF rather than LPP which is the PRI signatory, but there are currently limited places in which the Fund formally sets out RI requirements and how they inform what is required of LPP in terms of stewardship activity and monitoring against this. For example the Fund's Statement of Investment Principles (SIP) which contained a level of detail on the Fund's preferred approach to RI was superseded by an Investment Strategy Statement in October 2016 which lacked this detail. Similarly, the timing of the redrafting of the Fund's statement of compliance with the UK Stewardship Code meant it could not be referred to in detail within the 2017 return.*

Some of these points are being addressed currently as part of the deliberations the Committee's RI Working Group.

Appendix A1

Local Authority
Pension Fund
Forum

CLIMATE CHANGE INVESTMENT POLICY FRAMEWORK

INTRODUCTION

The Climate Change Investment Policy Framework is provided to LAPFF member funds to help guide their policy approach to current and future investment risks and opportunities that result from the impacts of climate change. It is intended to help funds as they develop their investment strategies to accommodate climate change considerations. It sets out LAPFF's current view of suggested best practice guidance, recognising that for many members the level of commitment may be aspirational at this stage and is based on the assumption that funds will tailor the wording of their policies to reflect their own circumstances and investment objectives.

LAPFF recognises that member funds are at different stages in their active consideration of climate risk within their investment strategy. This framework is provided to member funds as guidance on what they might include in their own written statements and policies on climate change, wherever they are in their respective journeys to achieving best practice. It is not assumed that funds will cover all the points in the policy or in the amount of detail given. It is essential that whatever funds decide to do, that they are able to deliver, measure and report.

In developing the policy framework, consideration has been given to the requirements placed on English and Welsh Administering Authorities by LGPS Investment Regulations and DCLG Guidance on the content and coverage of Investment Strategy Statements which shape the regulatory context for funds in relation to their stewardship and responsible investment activities. Related requirements for Scottish funds are set out by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 which require administering authorities to prepare, maintain and publish a written Statement of Investment Principles.

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 73 local government pension scheme fund members, based in the UK, with combined assets of approximately £200 billion. LAPFF exists to protect the long-term investment interests of its members and to maximise their influence as shareholders by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies.

This framework was compiled by Tessa Younger of PIRC Ltd, LAPFF's research and engagement partner. We gratefully acknowledge the initial drafting by Helene Winch, investment specialist, consultant and adviser to institutional investors across public and private equity, infrastructure, renewable energy and low carbon indices. The framework has received comprehensive review and feedback by the LAPFF executive committee, LAPFF members and the Responsible Investment cross pool working group, as co-ordinated by Frances Deakin of LPPI Ltd.

For further information, please contact Tessa Younger, tessa.younger@pirc.co.uk or Lara Blecher, lara.blecher@pirc.co.uk at PIRC.

DEVELOPING A CLIMATE CHANGE INVESTMENT POLICY FRAMEWORK

LAPFF has long recognised the imperative to address climate change as a systemic and long-term investment concern for members, as it poses material financial risks across all asset classes with the potential for loss of shareholder value.

A number of studies have identified the potential for significant value loss as a result of the impact of climate change. One LSE study, Climate Value at risk for global financial assets, has quantified this and states *'We find that the expected 'climate value at risk' (climate VaR) of global financial assets today is 1.8% along a business-as-usual emissions path. Taking a representative estimate of global financial assets, this amounts to $2.5 trillion'*.

The risks investors face are not limited to physical damage through severe weather events, or from rising temperatures and increasing natural resource scarcity. They include the impact of regulation to achieve targets for global emissions reduction set in Paris in 2015 and of the global transition to a low-carbon economy now under way. These are factors which will catalyse real world market adjustments and bring changes to energy production, supply and consumption patterns.

The timing and the consequences of climate change will vary across business sectors but will impact all companies in multiple dimensions, as producers, consumers, tenants and asset owners. The likely effects will include emissions and other resource related restrictions, asset stranding, technological obsolescence, and increased costs due to natural resource scarcity. For companies unable or unwilling to recognise, plan for and adapt their business to the risks and opportunities associated with climate change, the outcome will be business failure. Investors in unsustainable companies or within exposed sectors will ultimately suffer value loss.

There is broad acknowledgement that the COP21 Paris Agreement marked a significant change in the extent and seriousness of the global commitment to taking action on climate change. It was following this that LAPFF members agreed a series of actions including the production of a 'best practice' climate change investment policy framework which would provide support and context for the development of member funds' investment and stewardship approaches.

Signatories to the Paris Agreement in summary agreed to pursue 'efforts to limit the temperature to 1.5 degrees C above pre-industrial levels', in itself a more ambitious target than expected. Signatories also agreed to aim for c.2050 as a target for net zero carbon emissions i.e. where carbon emissions caused or produced by human activity are balanced by the removal of carbon by natural sinks.

Following on from COP21, a range of other initiatives have taken place anticipating the actions and changes which will flow from the commitments made in Paris. The guidance produced by LAPFF reflects the insight and recommendations of several expert groups and commentators and will help members to benefit from and align with best practice.

In June 2017, the Bank of England published its strategic response to climate change. This reflects the Banks increasing focus on the impact of climate related financial risks within the broader context of actions being taken by central banks and by financial regulators globally and by the wider international community. Bank of England Governor Mark Carney has stated *'Financial decarbonisation of our economy is a major opportunity for long-term investors'. If pension funds are genuine long-term investors, then they may be well placed to benefit.'*

In July 2017, the EC High-Level Expert Group on Sustainable Finance, published its interim report on sustainable finance. The Commission will explore early recommendations to take further steps towards a low carbon, more resource-efficient and sustainable economy.

The Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) was set up in 2016 to develop voluntary, consistent climate-related financial risk disclosures. It identified the need for good information from companies to address investors' needs when making decisions on capital allocation, as well as being applicable to investors themselves. The current emphasis is on voluntary standards but there is the implication that this may change in future.

In June 2017, the TCFD issued its final report with recommendations. The TCFD includes Asset Owners in the scope for reporting and highlights the importance of their role at the top of the investment chain. The disclosure framework recommended by the Taskforce is defined across four themes of: Governance; Strategy; Risk Management; and Metrics and Targets.

The LAPFF framework incorporates these four themes within its guidance to member funds, recognising that the TCFD framework will be widely recognised as the best practice guide against which the activities of investors will be compared. In line with the Task-Force's recommendations that organisations should report within mainstream finance reporting, it is recommended that member funds summarise their Policy on climate change within their Investment Strategy Statements or Statement of Investment Principles, Investment Beliefs, Investment Policy and/or Risk Register of funds as well as their Responsible Investment Policy. Ensuring that their annual reporting reflects this Policy will facilitate funds reporting in line with the Task-Force recommendations.

The following guidance is suggested wording and content for funds to consider when drawing up their own policy statements, but clearly this will be dependent on the individual circumstances of each fund, and funds should tailor statements accordingly.

CLIMATE CHANGE INVESTMENT POLICY FRAMEWORK

As a Local Government Pension Fund we are long-term investors with liabilities reaching beyond the year 2100. The objective of the Fund is to meet the current and future pension benefits of our members now and when they fall due.

Investment Beliefs

The Board and Management of the Fund believe that, over the expected lifetime of the Pension Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, we will consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

The climate change investment policy will guide the Fund in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals.

Governance

The pension committee has responsibility for the direction of policy and the committee will have access to expert advice and have members with appropriate skills and knowledge. Responsibility for the implementation of this policy lies with the Fund's head of pensions and is adequately resourced. Regular monitoring of reports and impact assessments of policy implementation will be presented to the Committee and to the Local Pension Board.

Review period

We acknowledge that appropriate responses to the investment challenge of climate change are evolving rapidly and we commit to review our climate change strategy and policy every three years or otherwise as in line with the investment review cycle.

Investment Strategy

We are aware that climate change will impact all asset classes over the lifetime of the fund. As a result, many assets will be re-priced but the timing of this is uncertain and the impact will vary by asset class due to geography, liquidity and the underlying life of our assets. We also recognise that there is uncertainty over the direction and speed of policy changes in this area. We aim to integrate climate change considerations into the Investment Strategy in a number of ways, as follows.

Asset Allocation

We will consider a range of alternative investment strategies available to manage risks and opportunities related to climate change. These may include active management of carbon risk which results in some reduction of exposure, such as a tilt towards low-carbon companies and assets, alongside company engagement and an increased allocation to low-carbon investment opportunities.

Investment Managers' Oversight

We will engage with our investment managers to ensure they take account of climate change in investment practices and processes. Managers will be encouraged to ensure that active portfolios include positions that maximise the investment benefits, and minimise the risks, from climate change. All Investment Managers will be monitored on their approach to climate change as part of the regular review process.

Use of scenario analysis

We will review a variety of research and analytical materials to encourage the use of scenario analysis which provides estimations of relative performances of asset classes and sectors under different scenarios. When we have found scenario analysis that we consider robust and meaningful, we will request such research be utilised where possible in our Asset Allocation decisions and encourage our investment advisers to do likewise.

Climate-Related Investment Opportunities

Climate-related investment opportunities are available in areas such as energy efficiency, choice of energy sources, products and services and new markets.

We consider that currently there are limited climate-related investment opportunities in the public markets with more opportunities existing in the private markets across private equity, private debt, infrastructure and real assets. This has asset allocation implications due to the illiquidity and complexity of some of these asset classes. Property is a significant asset class allocation and we are aware that buildings are responsible for over one-third of total green-house gas emissions in the UK[1]. For directly-held properties, we will look to work with our property management teams on focus areas such as energy management and owner-occupier relations to reduce these emissions, and we will expect indirectly-held property managers to do likewise.

[1]Committee on Climate Change report https://www.theccc.org.uk/wp-content/uploads/2013/06/CCC-Prog-Rep_Chap3_singles_web_1.pdf

Risk Management
Climate risk will be measured and managed by integrating climate change into our risk management processes. We, or our managers on our behalf, will also consider the following:

- include climate related financial risk on our risk register;
- monitor the scheme's carbon intensity;
- monitor policy dialogues for early indicators of change; and
- increase internal awareness of publicly available climate change scenarios and other risk analysis tools.

This will include seeking to reduce climate-related risks by improving the resilience of our investments where possible as well as identifying investments where appropriate in suitable low-carbon[2] assets to rebalance the investment portfolio away from carbon intensive assets.

Company Engagement
Where shares are held directly by the Fund, we identify, with guidance from investment managers and advisers, companies in our portfolios that are at the greatest financial risk from the transition to a low-carbon economy. We use our shareholder rights to engage directly, collaboratively (including with LAPFF) and through our fund managers, with companies exposed to the greatest risks, to encourage them to adapt their business models to ones that are better aligned to a low-carbon economy. We further encourage companies to take account of the Financial Stability Board Task-Force on Climate-Related Financial Disclosure (TCFD) recommendations. Company responsiveness to engagement is taken into account in voting activity and the Fund will co-file and support relevant shareholder resolutions where appropriate. Where possible, we extend this engagement to investee companies across all asset classes.

Public Policy
Policy uncertainty is a major source of climate-related risk, as policy unpredictability makes the parameters of investment decisions and forecasts of economic outcomes less certain. As such, the Fund commits to play an active role in engagement with policymakers and regulators whether directly, through its membership of LAPFF and other groups, or both. This encompasses encouraging policy makers to address market failures and to provide an appropriate strategy and policy framework, which encourages the transition to a low-carbon economy. We will report on our policy objectives and activities annually.

Collaboration
We believe collaboration with other investors helps influence and improve market best practice standards as well as strengthening the voice of asset owners and their pension beneficiaries. Consequently, through our own activities and by our membership of the Local Authority Pension Fund Forum and other organisations, we aim to support 1.5 to 2 degree business model scenarios and participate in:

- engagement with companies to improve their approaches to climate change as well as encourage them to report on their actions for future business model scenarios;
- influencing policy makers; and
- promotion of relevant research projects in areas, such as developing standardised carbon intensity measures, and investment initiatives that improve information flow and investment opportunities.

Metrics and Goals
We will report progress in our Annual Report and Accounts where possible in line with TCFD recommended metrics. We will also report additional metrics such as the number of collaborative and direct company engagement meetings held. Any measures of carbon intensity undertaken will be used to feed into investment strategy and risk management processes, to highlight specific risks and to guide company and investment manager engagement.

We aim to set targets that are measureable and reportable over time. These will cover climate related training, analysis of climate risk across the portfolio, addressing climate risk with asset managers and on asset allocation, including climate-related investment opportunities across asset classes. The Fund's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement. This decarbonisation goal will be regularly evaluated in line with our objective of maintaining long-term financial performance.

[2]The fund should identify what criteria it uses to identify a 'low carbon' asset

ABOUT THE LOCAL AUTHORITY PENSION FUND FORUM (LAPFF)

LAPFF represents the interests of 73 public sector pension fund members with combined assets of approximately £200 billion. The Forum has long been concerned about climate and carbon-related risks to the underlying investment portfolios of member funds. LAPFF members are interested in investment opportunities afforded by a low-carbon future which increase asset diversification and provide long-term returns. When engaging, LAPFF encourages companies to align their business models with a 2°C scenario to push for an orderly carbon transition.

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Local Authority
Pension Fund
Forum

Design by Stephen Levesley, West Midlands Pension Fund

10/17

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 72 public sector pension funds in the UK with combined assets of over £200 billion.

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2017

LAPFF focusses on human capital standards during company engagement meetings

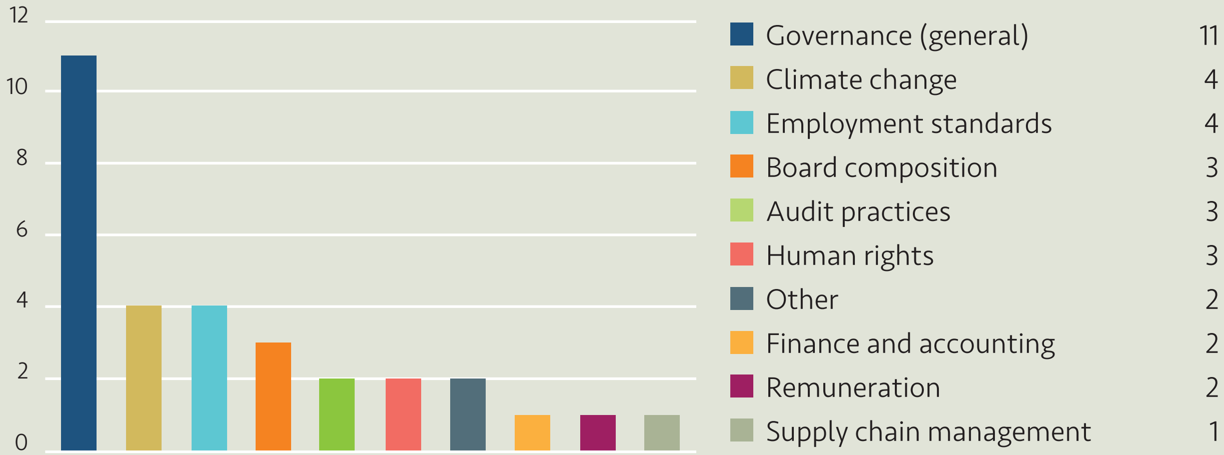
Employment practices at Sports Direct remain a concern

Cybersecurity rises up the agenda of LAPFF engagements

The Forum exposes legal inaccuracies and inconsistencies of the Financial Reporting Council

Company Engagement

ENGAGEMENT TOPICS

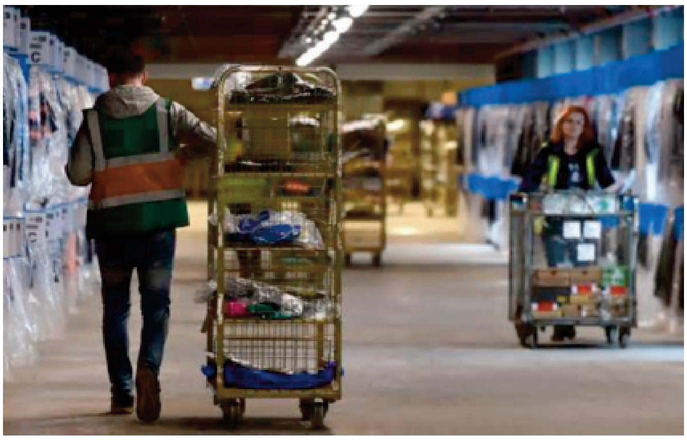


GOVERNANCE RISK

HOLDINGS-BASED ENGAGEMENT

Voting Alerts

LAPFF's engagement with **Sports Direct International** continued through correspondence over voting recommendations for the 2017 AGM. Sports Direct has been embroiled for some time in a controversy over poor corporate governance and workplace practices at its Shirebrook warehouse. The Forum was concerned about the Chairman, Mr Hellawell's ability to address workplace issues in an appropriate and timely manner. An oppose vote was also recommended for the re-election of the CEO, Mike Ashely and the Senior Independent Director, Simon Bentley. A recommendation to oppose the annual report was due to continued workplace and corporate governance concerns and inadequate reporting on steps undertaken by Sports Direct to rectify these problems. In recognition of executive remuneration being restricted solely to fixed pay, with no variable element, benefits or pensions paid, the Forum advised a vote in favour of the remuneration report.



This is not to say that no progress has been made on governance and workplace concerns. Sports Direct has appointed an employee representative to its board, which is a welcome development. The Forum was pleased that the Company Secretary was willing to provide comments prior to the issuance of the voting alert, in the context of the failure of Mr Bentley to attend a meeting with LAPFF.

At the AGM, employment practices remained a focus. Cllr Richard Greening thanked the board for their efforts in addressing the Shirebrook issues and requested a clarification on the election process of the newly appointed staff representative. He then called for an independent review of employment practices. Mr Hellawell subsequently addressed questions regarding the new representative, the feedback system and employee satisfaction; however, he seemed reluctant to further expand on the possibility of an independent review. LAPFF will continue to push the company for an independent review of its workplace and corporate governance practices to ensure it fully captures and addresses its social risks. LAPFF has written to ask to meet the new employee director.

Remuneration

LAPFF representative, Michael Marshall, attended **Ashtead Group**'s AGM to discuss the company's remuneration in light of the new Department for Business, Energy and Industrial Strategy's green paper. The Forum was pleased that the company listened to shareholders following the 2016 AGM by changing the leverage incentive in the Performance Share Plan (PSP) pay scheme. The Forum further inquired whether the company welcomes the Government's Green Paper proposals, specifically in regards to executive pay and whether the company thinks that comparisons of CEO pay to median worker pay is a useful disclosure item for the company's stakeholders.

The Chairman personally thanked LAPFF for attending and briefly spoke to Michael Marshall about the issues he raised.

Finance and Accounting
Cllr Toby Simon of LAPFF met with **Lonmin Plc** to obtain an explanation of how the company will meet its commitments to its Social Labour Plan (SLP), to understand the company's position on carbon price and to confirm the company's ability to sustain long-term performance. The Forum was pleased with Lonmin's openness to dialogue and asked about the poor conditions of the platinum market, the company's ability to increase its net cash under these conditions, and the effectiveness of the recent rights issues.

Mergers & Acquisitions
A successful meeting took place between Dave Lewis, the CEO of **Tesco**, and LAPFF Chair, Kieran Quinn. LAPFF met with Mr Lewis to discuss the merger with Booker in order to further understand the rationale behind the deal, as well as the potential risks which may emerge. The Forum was pleased to hear the strong rationale behind the merger and has expressed support to Mr Lewis for the deal.

Cybersecurity
Cllr Alasdair Rankin raised cybersecurity at the **SSE** AGM, asking the Chairman, Richard Gillingswater, for greater detail on cybersecurity protections and how they will protect both SSE and its customers from an attack on the network and systems failures. He further asked about the results and the following recommendations of the company's internal audit on cybersecurity risks. SSE has now separately classified cybersecurity as a risk in its risk register and is managing the risk with a high priority level. A great deal of investment had taken place over the past three to four years, after the company had acknowledged its need to tighten up.

LAPFF has written to the Chairmen of **HSBC Holdings**, **Standard Chartered**, **WPP**, **Aviva** and **International Consolidated Airlines Group SA**, seeking meetings to better understand each company's respective approaches to cybersecurity and how this issue is managed at the board level.

Public Health
The Forum met with Richard Burrows, the Chair of **British American Tobacco** to understand the role public health plays in influencing the company's business strategy and business model. The meeting followed a previous meeting in 2013 on similar concerns and followed up with discussions about the necessary steps taken to address public health issues and comply with anti-smoking regulations, including the introduction of new next generation products.

ENVIRONMENTAL AND CARBON RISK

LAPFF attended the **National Grid** AGM, and asked the Chair, Sir Peter Gershon, how the final recommendations of the Taskforce on Climate-Related Financial Disclosure (TCFD) would affect the company's reporting on climate change and in particular on scenario planning. Notably the Finance Director responded, who is aiming to see if other finance directors can commit to the TCFD and noted that there will be a statement around the release of next year's annual report.

During the meeting with **Lonmin**, the Forum asked about the company's position on carbon pricing. Brian Beamish, the Chair, spoke about carbon price discussions under way in South Africa, both at the governmental level and the company level. Any carbon tax would be applicable to Eskom, the national electricity company, and would thus be transferred directly to Lonmin.

Cllr Toby Simon met with **Total**'s Senior Vice President for Strategy and Climate, to determine the company's objective for energy spreads and whether this is consistent with strategic resilience for Total's portfolio. Total's view is that climate is fully integrated into the business and that recent acquisitions align with the company's strategic ambitions on climate. This is not only to shift the energy mix but to reduce high-cost parts of the business and focus on low-cost sections in the upstream business. This aligns with the company's shift to a 60% gas, 40% oil mix from 50-50 split. Both company reporting and direct engagement evidence that the company is serious about the implications of climate change for shareholder value, through changes to its portfolio and further moves into low carbon technologies, but that Total still considers itself an oil and gas business.

The Forum also met with legal counsel at **Southern Company** along with other US investors. The conversation covered climate change and carbon risk, and explored how the company is best positioning itself to report its strategy for a two-degree scenario in the context of the 2017 shareholder resolution to the company, which received 46% of support from shareholders. While Southern has been proactive in moving towards renewables, it is still the third largest carbon emitter in the US. The meeting was co-ordinated via the Forum's partnership with the 50/50 Climate Project.

SOCIAL RISK

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Human Rights

A letter was sent to the Chief Executive Officer and the Chairman of **Hanwha Corporation** raising concern around the production and sale of cluster munitions, which cause indiscriminate death of civilians in conflict and post-conflict zones. Subsequent to some institutional investors disinvesting from the company, the Forum was exploring the extent to which Hanwha has stopped producing and selling cluster munitions, or intends to do so.

The meeting with the **British American Tobacco (BAT)** Chairman, also investigated whether supply chain risks, as well as monitoring and enforcement practices, are taken into consideration by BAT's board. The Forum's Deputy Chair, Ian Greenwood, raised concerns about cited instances of alleged poor labour practices and asked how these were dealt with by management. He also discussed the possibility of the company appointing a board member with a sustainability background to help reduce the risk of human rights abuses in the supply chain.

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Employment Standards

Employment standards were again rasied by LAPFF at the **Sports Direct International** AGM, as the situation in Shirebrook hasn't been fully resolved, with individual investors and Unite questioning the board. LAPFF member, Cllr Richard Greening, asked about a fully independent assessment of corporate governance practices and work place conditions at the Shirebrook warehouse, as well as information on the process used to select the current worker representative on the board.

The Forum had concerns about the method of selection of the representative, who holds a relatively high position (store manager) and who was elected by only half of the staff. While this individual claimed that all staff can communicate with him, Unite has informed the Forum that the representative has not contacted Unite and employees working in Shirebrook were not asked to participate in the election. At the AGM, Cllr Greening pointed out that unresolved problems with labour rights still exist, such as money owed to agencies. Overall, the Forum was disappointed to see that Sports Direct has not progressed very far to resolve concerns over its workplace and corporate governance practices.

At the **SSE** annual meeting, LAPFF also asked about human capital management, particularly how the company's human capital measure is being updated and when the outcomes will be disclosed. SSE had committed to producing a further report on the position.

Employment standards were also raised during the meeting with the **Lonmin** Chair, in light of criticism of the company's failure to adequately address employee housing problems and implement provisions of its existing SLP. While the Forum recognises the company's commitment to rectify the situation, there has been extensive press coverage regarding the company's failure to meet its SLP obligations.

RELIABLE ACCOUNTS

LAPFF has long held that the Financial Reporting Council (FRC) has been setting accounting standards that are not aligned with the law, in particular the requirement to reflect the solvency of a company. A Freedom of Information Act request (FOI) by PIRC revealed that the Government has not confirmed that LAPFF's is wrong, nor that the FRC position is right. That is contrary to what the FRC had said publicly, including to Parliament.

Given that, LAPFF has written to the Senior Partners of the six largest accounting firms and the Chairs of their public interest committees to set the record straight as well as the three FRC board members, setting out the catalogue of problems and legal inaccuracies and inconsistencies. Both letters were then intercepted by the FRC. In the case of the accounting firms the FRC convened a closed meeting to co-ordinate a response which repeats existing FRC assertions. That said, some of the Big 4 replies are marginally better than others, and follow-up letters have been sent, with no replies as yet. In the case of the LAPFF letter to FRC NEDs a letter was written by the FRC Chairman stating that the points would be considered by the FRC board. No reply has yet been received. All letters sent include new information and evidence not previously addressed by the FRC which is wholly contradictory to the FRC's position, including documents and guidance from the FRC itself.

PIRC on behalf of LAPFF has had two meetings with BEIS officials as a result of the Freedom of Information Act discoveries. The position has been reiterated that the problems with the FRC run so deep that the FRC should be disbanded and that a proper competent authority should be set up to replace it. LAPFF have been asked to supply a position paper on IFRS for the UK post-Brexit and then for possible endorsement bodies and criteria after Brexit.

The FRC decision not to pursue KPMG for its HBOS audit has triggered a very negative response from the mainstream press. The FRC analysis that the HBOS collapse was caused by the events of October 2008 (liquidity) is contrary to the conclusions of the Parliamentary Commission for Banking Standards, which was that October 2008 was the occasion of the collapse, but the bad lending and poor balance sheet was the cause of the loss (insolvency). The FRC position that KPMG could not have been expected, in spring 2008 when signing the December 2007 HBOS accounts, to have predicted a going concern, is also contrary to contemporaneous evidence from December 2007 where KPMG partner was at an investor meeting and admitted that the FRC itself was aware that banks had going concern issues.

MEDIA COVERAGE

Pension fund group calls for corporate governance review at Sports Direct – CityAM, 7 September 2017

Council pension funds call for review of working conditions at Sports Direct – LocalGov, 7 September 2017

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by LAPFF representatives during the quarter:

- Attendance at the Sports Direct Investors Roundtable to discuss the Company's new business strategy, *Selfridges of Sport*, and the year's financial results.
- Participation in Trade Union Shareowners event to discuss poor working conditions in the UK hotel sector and the risks these create for investors.
- Participation in the FAIRR Initiative event on the financial impact of intensive meat production.
- Participation in a webinar organised by CDP Sector on diversified miners and a seminar organised by Ceres on water risks in the food and beverage industry.
- Participation in a call on the OECD National Contact Point process and how best to use this mechanism for investor purposes.

COMPANY PROGRESS REPORT

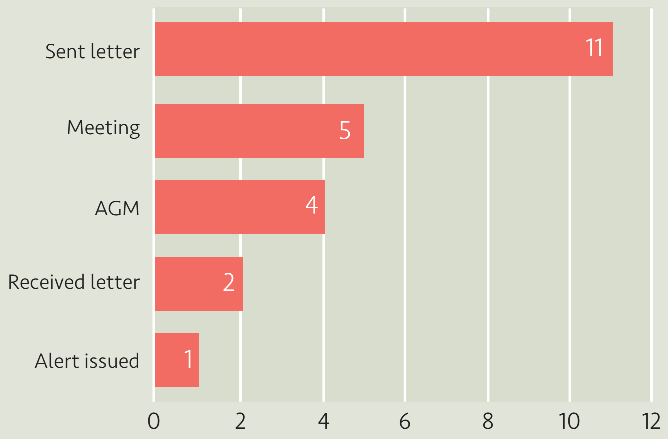
20 companies engaged over the quarter

Q3 2017 ENGAGEMENT DATA

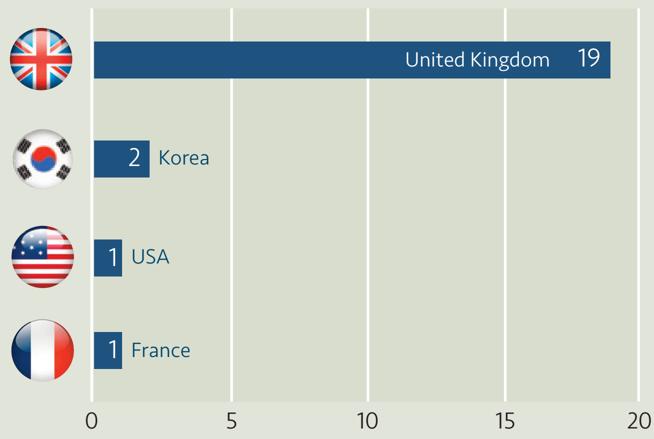
	Company	Topics	Activity	Outcome
1	Ashtead Group Plc	Remuneration	AGM	Satisfactory Response
2	Aviva Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
3	British American Tobacco	Public Health/Supply Chain Management/ Board Composition	Meeting	Small Improvement
4	Hanwha Corp	Human Rights	Letter/Letter Received	No Improvement
5	HSBC Holdings Plc	Governance (Cybersecurity)	Letter/Letter Received	Dialogue
6	International Consolidated Airline Group SA	Governance (Cybersecurity)	Letter	Dialogue
7	ITV Plc	Governance (Cybersecurity)	Letter	Awaiting Response
8	Lonmin Plc	Employment Standards/ Climate Change/ Finance and Accounting	Meeting	Substantial Improvement
9	Marks & Spencer Group Plc	Governance (Cybersecurity)	Letter	Awaiting Response
10	National Grid Plc	Climate Change	AGM	Dialogue
11	Prudential Plc	Governance (Cybersecurity)	Letter	Dialogue
12	Sainsbury Plc	Governance (Cybersecurity)	Letter	Awaiting Response
13	Segro Plc	Board Composition	Letter	Awaiting Response
14	Southern Company	Climate Change	Meeting	Moderate Improvement
15	Sports Direct International Plc	Employment Standards/ Board Composition/ Governance	AGM/Alert Issued/ Roundtable	No Improvement
16	SSE Plc	Employment Standards (Cybersecurity)	AGM	Change in Process
17	Standard Chartered Plc	Governance (General)	Letter	Awaiting Response
18	Tesco Plc	Mergers & Acquisitions	Meeting	Moderate Improvement
19	Total SA	Environmental Risk	Meeting	Substantial Improvement
20	WPP	Governance (Cybersecurity)	Letter/Letter Received	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

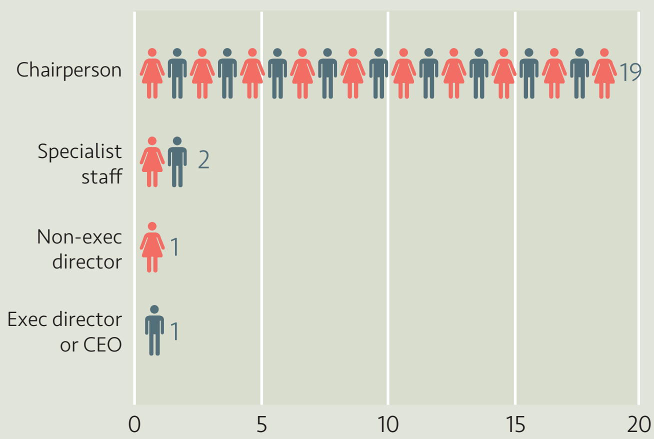
Company engagement activities



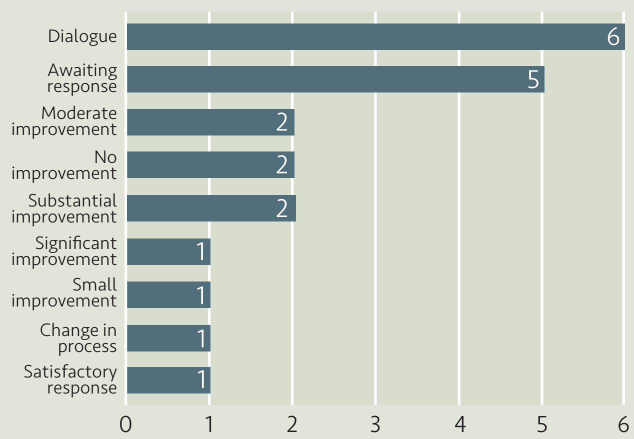
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

COUNCILS:

FUELLING THE FIRE

A new report on
the local government
pension scheme
and fossil fuels

350
friends of the earth
see things differently
Friends of the Earth Scotland
PLATFORM
COMMUNITY REINVEST

Contents

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The climate crisis in 2017

In September 2015 we published 'Local Government Pensions, Fossil Fuels, and the Transition to a New Economy'[1] detailing how our local councils were investing in the companies most responsible for climate change.

Since its publication, the world has experienced the warmest year ever recorded. 2017 has brought devastating extreme weather events including hurricanes, floods and wildfires.

This year's UN Climate Change Conference is chaired by Fiji, a nation of low-lying islands who are highly vulnerable to the impacts of climate change. It is estimated that up to 1.7 million people from Pacific Islands could be displaced by climate change by 2050. With sea levels rising, some villages have already been forced to move to higher lands.

At the 2015 Paris Summit, all countries agreed to contribute to global emissions reductions by pursuing efforts to limit the temperature increase to 1.5ºC. Already, at just 1ºC of warming, people around the world are losing their lives, their livelihoods and being forced into climate-induced migration.

The burning of fossil fuels is the main driver of climate change. Further extraction and burning of fossil fuels is not compatible with a just, safe and fair future and investing in fossil fuels is deeply irresponsible.

Pensions and the climate crisis

Pension funds are some of the largest investors in the world. In 2016, UK pension fund assets were greater than the national income.[2] With the government now requiring many more workers to join a pension fund through auto-enrolment, their influence over the wider economy will only grow. Pension funds, and the decisions made by the people who run them, will profoundly shape our future.

Local councils bear the responsibility of looking after their workers in their retirement. To do this they invest in the Local Government Pension Scheme, a £295 billion pension scheme with over 6 million members[3] across the UK administered by 97 individual authorities.

Everyone has a stake in how pension funds are invested and council pensions, managed with input from our elected local councillors, have a major role to play in creating a pensions industry that is not just paying out pensions, but also making sure we will have a future worth retiring for.

Councils have an opportunity to break away from the short-term thinking of the financial sector and move towards an investment practice that takes on the biggest challenge of our age: climate change.

What is divestment?

Divestment, also known as disinvestment or divestiture, is the process of selling a financial asset. This report calls for funds to act on climate change by publicly committing to divest from fossil fuels.

Across the world over 800 institutions, with total investments valued at $6 trillion USD, have committed to divest from fossil fuels.

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[1] Available from: https://gofossilfree.org/uk/wp-content/uploads/sites/3/2015/08/Council_Pensions_Divest-Reinvest_briefing.pdf

[2] Source: http://www.actuarialpost.co.uk/article/pension-fund-assets-in-22-markets-up-to-$36--4tn-in-2016-10614.htm

[3] Membership figures, including active, deferred and contributing members, is published by the UK Government in England and Wales (5,584,989 in 2017), the Scheme Advisory Board in Scotland (505,769 in 2016), and NILGOSC in Northern Ireland (54,546 members in 2017), totalling 6,145,304.

Six pension funds in the local government scheme have committed to cut their fossil fuel investments: the Environment Agency Pension Fund, Haringey, Hackney, Waltham Forest, Southwark and South Yorkshire. Many have also committed to increase investment in sustainable projects like local renewable energy.

Divestment makes a bold statement about a pension fund's willingness to enforce sustainability throughout its portfolio of investments. It also cuts pension funds' exposure to the risks inherent in owning shares in an industry that's on the way out.

Divestment is a practical, legal and responsible way for pension funds to respond to climate change by making an example of the climate change's worst offenders: fossil fuels companies.

Council pension investment in fossil fuels

Our analysis, based on the end of the 2017 financial year and using a list of the world's 200 biggest extractors of fossil fuels, shows that UK local government pensions currently invest £16.1 billion in fossil fuels, 5.5% of the total value of the scheme.[4]

For the 6 million people who depend on local government pension funds, this figure represents £2,628 invested in fossil fuels for every scheme member.

The majority of the funds that councils hold in fossil fuels, £9.1 billion, is invested through intermediaries.

	Total scheme value (£ million)[5]	**Fossil fuel investment**	**% Fossil fuels**	**Direct FF investment**	**Est. indirect FF investment**
2015	229,160	13,811	6	5,464	8,347
2017	295,109	16,149	5.5	6,872	9,278
Change	+65,949	+2,338	-0.5	+1,408	+931

Our analysis of the scheme in 2015[6] found that local councils were investing £13.8 billion in fossil fuels. Over this period the proportion of the Local Government Pension Scheme invested in fossil fuels has slightly decreased. However, as the scheme has grown in value its total investment in fossil fuels has gone up markedly: a gross increase of £2.3 billion.

The worst offending individual fund was the Greater Manchester Pension Fund, who invest 1 in every 10 pounds in fossil fuels and have the largest overall investment: £1.8 billion.

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4 Methodology and data sources are detailed on p.12.
5 Most fields in this table and the preceding paragraph were amended to correct an error in the first version of this report, see p.12 for details.
6 Local Government Pensions, Fossil Fuels, and the Transition to a New Economy (2015): http://reinvest.scot/wp-content/uploads/2016/09/Local_Government_Pensions_and_Fossil_Fuels.pdf

Funds with the highest proportion of their assets in fossil fuels

Local Authority Pension Fund	Total fund value (£)	Fossil fuel investment	% Fossil fuels
Greater Manchester Pension Fund	17,182,862,772.00	1,758,099,024.00	10.2%
Dumfries and Galloway Pension Fund	834,357,000.00	78,597,700.00	9.4%
Torfaen Pension Fund	2,700,194,120.00	245,856,815.50	9.1%
London Borough of Hammersmith and Fulham Pension Fund	1,002,161,068.32	90,296,580.81	9.0%
London Borough of Merton Pension Fund	633,626,884.26	54,792,192.50	8.7%
NILGOSC	4,150,840,054.46	348,957,569.59	8.4%
Dyfed Pension Fund	2,385,496,536.00	196,560,496.80	8.2%
Shetland Islands Pension Fund	449,703,247.00	36,106,628.60	8.0%
Worcestershire Pension Fund	2,453,471,046.30	191,168,673.27	7.8%
Isle of Wight Council Pension Fund	559,848,933.00	43,342,601.00	7.7%

Funds with the highest total investment in fossil fuels

Local Authority Pension Fund	Total fund value (£)	Fossil fuel investment	% Fossil fuels
Greater Manchester Pension Fund	17,182,862,772.00	1,758,099,024.00	10.2%
West Yorkshire Pension Fund	13,540,100,000.00	933,890,000.00	6.9%
Strathclyde Pension Fund	19,658,803,553.91	802,759,409.10	4.1%
West Midlands Pension Fund	13,794,157,521.36	490,383,239.10	3.6%
Tyne and Wear Pension Fund	7,761,342,119.00	472,872,654.80	6.1%
South Yorkshire Pension Fund	7,539,811,791.00	388,326,763.70	5.2%
NILGOSC	4,150,840,054.46	348,957,569.59	8.4%
Lancashire County Pension Fund	7,122,909,367.73	339,925,319.89	4.8%
Nottinghamshire County Council Pension Fund	4,717,224,227.00	327,312,727.40	6.9%
Hampshire Pension Fund	6,146,509,966.13	320,343,130.76	5.2%

In July 2016, local government pension funds in England and Wales had to submit proposals to merge or pool their funds. The fossil fuel investments of funds in the English 'pools' varies widely from Lancashire/LPFA group at 2.5% to the Northern Powerhouse at 8.0%.

LGPS Pool	Total fund value (£)	Fossil fuel investment	% Fossil fuels
Northern Ireland*	4,150,840,054.46	348,957,569.59	8.4%
Northern Powerhouse[7]	38,687,065,250.00	3,079,208,399.00	8.0%
Wales	15,382,932,477.08	1,027,843,384.05	6.7%
Border to Coast	43,195,823,160.76	2,424,417,484.64	5.6%
London	32,657,670,389.82	1,739,055,134.54	5.3%
Midlands	37,910,823,065.54	1,927,118,373.09	5.1%
ACCESS	34,892,425,632.91	1,759,064,452.97	5.0%
Brunel	26,886,619,323.24	1,292,394,146.47	4.8%
Scotland*	42,766,627,234.00	1,810,599,752.00	4.2%
Lancashire/LPFA	17,613,202,144.33	437,632,962.00	2.5%

**Scottish LGPS funds are not pooled and the Northern Ireland scheme is run as a single fund. Data are provided for comparison.*

[7] Data for the Northern Powerhouse has been amended since the first version of this report, see p.12 for details.

Fossil fuel companies under the spotlight

BHP Billiton is one of the world's largest mining companies and 11th largest extractor of coal globally. It has been listed as one of the companies most singularly responsible for climate change. The company has mined in the centre of the Borneo rainforest and faced prosecution over Brazil's worst ever environmental disaster, when a dam holding back waste water from an iron ore mine broke in 2015. The company has been accused of bribery in the US and China. Whole villages have been evicted to make way for the expansion of one of the world's largest open-cast coal mines, a joint venture of BHP's in Colombia."[8] The largest single investor in BHP Billiton was the **East Riding Pension Fund**, with a £15.4 million stake in the company.

BP are a supermajor, one of the world's six largest non-state owned oil and gas companies. Fleetingly branding themselves *beyond petroleum* they have shed their renewable businesses in recent years in favour of new investment in deep sea and arctic drilling, highly-polluting tar sands developments, and fracking. BP have campaigned against subsidies for renewable energy and have close ties with the oppressive regime in Azerbaijan. They were fined $18.7 billion, the largest environmental fine in US history, for the 'gross negligence' regarding the 2010 Deepwater Horizon spill which devastated the Gulf of Mexico.[9] The largest single investor in BP was the **Greater Manchester Pension Fund**, who directly hold a £275 million stake in the company.

Apache operate in the North Sea, Canada, Egypt and the US. Its recent fracking plans in West Texas are proving controversial due to their proximity to the San Solomon Springs that feeds the famous natural pool near the Balmorhea State Park,[10] and the risk that the fracking operations could pose to the surrounding environment. There is mounting opposition to the plans from local communities and environmental groups.[11] The largest single investor in Apache was the **Highland Council Pension Fund**, who directly hold a £4.4 million stake in the company.

Shell has been involved in several high-profile environmental scandals in recent decades, paying millions of dollars of fines for its operations in Nigeria[12] and threatening to drill in the fragile environment of the Arctic.[13] The company is involved in shale gas fracking, a highly polluting form of drilling in the Permian, Haynesville and Appalachian basins in the United Stated.[14] The largest single investor in Shell was the **Greater Manchester Pension Fund**, who directly hold a £285 million stake in the company.

ExxonMobil is one of the world's biggest oil and gas companies. A paper published in the journal Environmental Research Letters in 2017 analysed nearly 200 internal documents belonging to the company and concluded that Exxon knowingly misled the public for decades about the dangers of climate change.[15] The company's poor environmental track record has been the focus of a number of high-profile campaigns. The largest single investor in ExxonMobil was the **Strathclyde Pension Fund**, who directly hold a £34.3 million stake in the company.

[8] For citations and more about BHP Billiton visit: http://www.blog.foe-scotland.org.uk/index.php/2015/12/where-your-money-goes-the-toxic-toll-of-bhp-billiton-in-borneo-and-colombia/
[9] For citations and more information about BP visit: http://www.blog.foe-scotland.org.uk/index.php/2015/11/where-your-money-goes-bp-corruption-spills-and-gross-negligence/
[10] Source: https://www.facebook.com/saveoursspringstoo/
[11] Source: http://www.houstonchronicle.com/opinion/editorials/article/Trust-Apache-Corp-but-verify-10456936.php
[12] Source: https://www.theguardian.com/environment/2015/jan/07/shell-announces-55m-payout-for-nigeria-oil-spills
[13] Source: https://www.theguardian.com/business/2015/sep/28/shell-ceases-alaska-arctic-drilling-exploratory-well-oil-gas-disappoints
[14] Source: http://www.shell.us/energy-and-innovation/unconventional-resources/where-we-operate.html
[15] Source: https://www.theguardian.com/business/2017/aug/24/exxon-deliberately-misled-public-on-climate-science-say-researchers

Why divest?

Defend our climate

'It makes no sense to invest in companies that undermine our future.' - Archbishop Desmond Tutu[16]

By investing in fossil fuel extraction, our local governments are profiting from climate change. As public bodies, local governments have a responsibility to work for the public good; they shouldn't be financially and politically supporting the most destructive industry on the planet. Fossil fuel investments undermine existing local authority climate change mitigation and adaptation strategies and commitments.

Although most major companies have now ceased to openly deny climate change, the industry still ploughs $100 million every day into exploring for new reserves and maintains that it will not be prevented from burning its existing reserves.[17] UK-based oil companies BP and Shell are planning for a world warmed by 3-5°C *or more.*[18] The fossil fuel industry shows no sign of attempting to change its behaviour to adapt to the risks of climate change.

Clean up politics

The fossil fuel industry exerts a huge influence over our political system. For years, they have used their immense economic power to pour money into lobbying against regulations intended to address climate change or to support political candidates who are weakest on climate action.[19] Fossil fuel companies are handed subsidies by governments totalling nearly a trillion dollars globally.[20]

Recent revelations have also revealed that the fossil fuel industry suppressed information and spread doubt and lies about climate change despite knowing about it for decades. A recent academic study concluded that oil giant ExxonMobil knowingly misled the public for decades about the dangers of climate change.[21]

By divesting from fossil fuels, councils and other public institutions can collectively stigmatise the fossil fuel industry, challenging the power these companies hold over our planet, economy and politics, and call for action on the climate crisis.

Power a just transition

We are in the midst of a housing crisis, youth unemployment is high and inequality is rising. Tightly squeezed local authority budgets mean the public sector is not providing the investment needed to kick-start local economies and drive economic regeneration. These challenges would be serious on their own. But the UK also faces job losses as North Sea oil and gas declines.

Stark as this picture is we believe we can turn these challenges into an opportunity. New technologies like electric cars, wave power and floating wind can bring green jobs to our communities whilst investment in green housing and insulation could house millions and cut fuel poverty.

[16] Source: http://www.theguardian.com/commentisfree/2014/apr/10/divest-fossil-fuels-climate-change-keystone-xl
[17] Source: http://www.theguardian.com/environment/2014/apr/03/exxon-mobil-climate-change-oil-gas-fossil-fuels
[18] Source: Share Action (2017) 'Two Years After Aiming for A: Where Are We Now?'
[19] See the campaign by Oil Change International for more information: http://priceofoil.org/campaigns/separate-oil-and-state/dirty-energy-money/
[20] For more information visit: https://influencemap.org/report/Climate-Lobbying-by-the-Fossil-Fuel-Sector
[21] Source: https://www.theguardian.com/business/2017/aug/24/exxon-deliberately-misled-public-on-climate-science-say-researchers

The need for action is urgent in order to avert the environmental and economic costs of climate change and to rebalance the economy to one which provides decent work. Council pension funds can back this change by shunning fossil fuels and investing in green jobs.

Protect our pensions

To meet the global targets agreed at the UN Paris summit the vast majority of fossil fuel reserves must be kept in the ground. Mark Carney, Governor of the Bank of England has warned that the 'vast majority of [fossil fuel] reserves are unburnable' if climate change is to be limited to safe levels as pledged by the world's governments.[22] These 'unburnable' fossil fuels are a financial bubble known as the carbon bubble.

Government action on climate change makes fossil fuel investments inherently risky. Climate policies like the phasing out of petrol and diesel cars, announced by the UK Government in July 2017, and the banning of fracking in Scotland, Wales and Northern Ireland, reduce the amount of fossil fuels likely to be burnt.

However government may prove insufficient and fossil fuels *could* continue to be profitable long into the future. If this were to happen climate change would spiral out of control with the global economy pounded by rising seas inundating coastal cities, the spread of diseases, mass extinctions, extreme weather damage, loss of human life and the collapse of nation states. Pension funds will not be able to escape this damage. Instead they must invest in a way that actively contributes to fighting climate change, using divestment to cut out risk and draw attention to the issue, gathering support from investors and political leaders.

Talking isn't enough

Most local government pension schemes have existing policies to manage environmental, social and governance risks. For example, the Falkirk Pension Fund states in its investment principles that it 'wishes to promote corporate social responsibility' and that it will 'support the transition to a low carbon global economy by seeking to align the Fund with the aims of the 2016 international Paris Climate Change Agreement'. The policy concludes, however, that 'ongoing engagement with investee companies is preferable to divestment.'[23]

Years of investor engagement with the fossil fuel industry have not delivered a sustainable energy industry and many companies' environmental performance has worsened.

Following major Shell and BP shareholder resolutions in 2015, Share Action have reviewed companies' progress. They reported that neither company 'grasped the pace of the low-carbon transition' and that both were still planning on the basis of 3–5°C warming *or more*.[24]

For oil, gas and coal companies, fossil fuel extraction is their core business and they have repeatedly failed to seize the opportunity of moving towards low-carbon fuels. With fossil fuel companies unwilling to change investor engagement is an inadequate tool for protecting funds from the financial risks of the climate change.

Investors can take action

Globally more than 800 investors with combined assets of $6 trillion USD have made commitments to divest from fossil fuels.[25]

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[22] For more about this speech read: https://www.theguardian.com/environment/2014/oct/13/mark-carney-fossil-fuel-reserves-burned-carbon-bubble
[23] Source: http://www.falkirkpensionfund.org/
[24] Source: Share Action (2017) 'Two Years After Aiming for A: Where Are We Now?'
[25] Campaign group *350* maintain a list of organisations that have divested from fossil fuels at https://gofossilfree.org/commitments/

Six pension funds in the local government scheme have committed to cut their fossil fuel investments: the Environment Agency Pension Fund, Haringey, Waltham Forest, Southwark, Hackney and South Yorkshire. For example:

- The £765 million London Borough of **Waltham Forest Pension Fund** approved a policy in 2016 to 'exclude fossil fuels from its strategy over the next five years'. They have also committed to invest more in wind energy and local infrastructure. The policy received the full backing of the Conservative and Labour councillors. Chair of Fund Councillor Simon Miller said: 'Not only does this mean that the fund will not be invested in stranded assets, but will be actively investing in cleaner, greener investments to the benefit of our community, borough and environment.'[26]

- In October 2015, the £3,272 million **Environment Agency Pension Fund**, part of the local government scheme, announced it would end most of its investments in fossil fuels within the next five years. The fund's policy states its investments and processes will be compatible with UN targets'[27], and by 2010 will cut shareholdings in coal by 90% and oil and gas by 50%.

- The £7,540 million **South Yorkshire Pension Fund** committed to low carbon investment policy that excludes coal and tar sands companies with 'a long-term tilt towards a low carbon economy within its portfolios'.[28] Their policy states that the fund will cut its investments in fossil fuels 'in-line with the Paris Agreement, with a view towards progressively decreasing the Fund's carbon exposure.'[29]

Divestment can win

Successful divestment campaigns have been fought in a number of sectors with great effect. Nowhere was it more powerful than in the case of South African apartheid, where an international divestment effort played a major role in breaking the back of the regime and ending racial segregation.

By the mid 1980s a movement initiated by students saw 155 campuses, 26 state governments, 22 counties, and 90 cities divest from companies doing business in South Africa.

This, alongside the struggles of people within South Africa, played a key role in stigmatising apartheid and the government on the world stage, and ultimately led to legislative change.

Help and advice

The campaign to divest our local government pension funds is run by a network of grassroots groups supported by 350.org, Platform, Friends of the Earth (England, Wales and Northern Ireland) and Friends of the Earth Scotland.

If you would like to raise this issue in your local area, we can help!

We can link you up with more resources, contacts and expert advice, as well as put you in touch with a network of other councillors and decision-makers doing the same. A good first port-of-call is also the Fossil Free UK website: www.gofossilfree.org/uk.

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[26] Source: http://walthamforestecho.co.uk/waltham-forest-council-pension-fund-first-in-uk-to-quit-fossil-fuels/
[27] Source: https://www.eapf.org.uk/%7E/media/document-libraries/eapf2/climate-change/policy-to-address-the-impacts-of-climate-change.pdf?la=en
[28] Source: http://gofossilfree.org/uk/press-release/south-yorkshire-pension-fund-commits-to-low-carbon-investments-ahead-of-paris-talks/
[29] Source: http://www.sypensions.org.uk/Investments/Investment-Policies-and-statements

Further reading

- Global list of funds which have divested: http://gofossilfree.org/commitments/
- The carbon bubble and financial risks: https://gofossilfree.org/uk/carbon-bubble/
- Case studies of councils which have divested: https://gofossilfree.org/uk/local-councils-are-starting-to-go-fossil-free-and-heres-how/
- Legal briefing on divestment – England & Wales (p.8): http://gofossilfree.org/uk/wp-content/uploads/sites/3/2016/09/Fossil-Fuel-Divestment_v2-1.pdf
- Legal briefing on divestment – Scotland: https://foe.scot/campaign/divestment/local-government/local-gov-divestment-and-the-law/
- Examples of council pensions investing in the green economy (Scottish website): https://foe.scot/campaign/divestment/local-government/councils-investing-sustainably/

Investments in detail

Local Authority Pension Fund	Total Fund Value (£)	Fossil Fuel Investment	% FF	Direct FF Investment	Est. Indirect FF Investment
Avon PF	4,299,723,923.33	187,866,216.83	4.4%	50,483,644.40	137,382,572.43
Bedfordshire PF	2,073,598,890.75	74,334,573.58	3.6%	0.00	74,334,573.58
Buckinghamshire County Cll PF	2,631,178,698.35	106,787,459.22	4.1%	58,839,550.19	47,947,909.03
Cambridgeshire PF	2,243,600,000.00	165,260,000.00	7.4%	0.00	165,260,000.00
Cardiff and Vale of Glamorgan PF	1,601,270,687.45	86,367,269.89	5.4%	30,449,559.96	55,917,709.93
Cheshire PF	4,167,287,023.00	92,838,887.60	2.2%	74,107,928.00	18,730,959.60
City & County of Swansea PF	1,852,775,000.00	134,173,900.00	7.2%	0.00	134,173,900.00
City of London PF	964,660,000.00	61,048,000.00	6.3%	0.00	61,048,000.00
Clwyd PF	1,380,322,000.00	20,282,600.00	1.5%	0.00	20,282,600.00
Cornwall PF	1,679,243,571.69	55,540,697.26	3.3%	0.00	55,540,697.26
Cumbria County Cll PF	2,602,559,414.37	100,519,209.03	3.9%	55,878,011.68	44,641,197.35
Derbyshire County Cll PF	4,196,857,286.96	257,440,766.20	6.1%	189,100,338.00	68,340,428.20
Dorset County Cll PF	2,706,610,000.00	141,513,700.00	5.2%	0.00	141,513,700.00
Dumfries and Galloway PF	834,357,000.00	78,597,700.00	9.4%	28,638,000.00	49,959,700.00
Durham County Cll PF	2,894,951,018.29	107,797,266.06	3.7%	19,079,070.24	88,718,195.82
Dyfed PF	2,385,496,536.00	196,560,496.80	8.2%	87,837,333.00	108,723,163.80
East Riding PF	4,525,118,402.00	318,155,216.10	7.0%	245,520,687.00	72,634,529.10
East Sussex PF	3,185,010,788.01	154,934,732.53	4.9%	4,827,724.46	150,107,008.07
Environment Agency PF	3,272,966,000.00	142,296,600.00	4.3%	0.00	142,296,600.00
Essex PF	6,012,349,710.27	219,858,263.30	3.7%	19,268,642.88	200,589,620.42
Falkirk Cll PF	2,060,756,341.65	142,185,394.68	6.9%	95,399,222.86	46,786,171.82
Fife Cll PF	2,158,050,749.64	118,451,231.66	5.5%	12,216,069.98	106,235,161.68
Gloucestershire PF	2,069,445,589.27	140,448,348.78	6.8%	37,006,743.40	103,441,605.38
Greater Manchester PF	17,182,862,772.00	1,758,099,024.00	10.2%	1,241,503,318.00	516,595,706.00
Gwynedd Cll PF	1,864,232,862.00	94,271,179.30	5.1%	0.00	94,271,179.30
Hampshire PF	6,146,509,966.13	320,343,130.76	5.2%	213,252,017.76	107,091,113.00
Hertfordshire PF	4,202,354,323.37	140,475,249.33	3.3%	43,457,013.22	97,018,236.11
Highland Cll PF	1,762,942,027.27	80,934,458.90	4.6%	54,492,092.86	26,442,366.04
Isle of Wight Cll PF	559,848,933.00	43,342,601.00	7.7%	21,386,497.00	21,956,104.00
Kent County Cll PF	4,494,761,273.13	267,488,689.45	6.0%	149,455,690.72	118,032,998.73

Lancashire County PF	7,122,909,367.73	339,925,319.89	4.8%	0.00	339,925,319.89
Leicestershire County Cll PF	3,135,335,512.87	199,213,830.05	6.4%	23,802,596.03	175,411,234.02
Lincolnshire PF	2,076,602,920.91	108,092,428.57	5.2%	50,362,219.42	57,730,209.15
London Boro of Barking and Dagenham PF	906,316,007.00	34,617,534.00	3.8%	0.00	34,617,534.00
London Boro of Barnet PF	1,039,022,000.00	37,419,600.00	3.6%	0.00	37,419,600.00
London Boro of Bexley PF	795,473,873.00	46,874,979.00	5.9%	46,874,979.00	0.00
London Boro of Brent PF	802,700,000.00	37,470,000.00	4.7%	0.00	37,470,000.00
London Boro of Bromley PF	943,444,212.00	32,454,201.20	3.4%	13,130,448.00	19,323,753.20
London Boro of Camden PF	1,518,407,554.17	72,157,038.60	4.8%	6,069.56	72,150,969.04
London Boro of Croydon PF	1,091,543,000.00	58,079,300.00	5.3%	0.00	58,079,300.00
London Boro of Ealing PF	1,126,664,633.23	82,710,070.43	7.3%	47,244,533.00	35,465,537.43
London Boro of Enfield PF	1,077,221,000.00	60,593,100.00	5.6%	0.00	60,593,100.00
London Boro of Hackney PF	1,143,845,000.00	67,693,300.00	5.9%	0.00	67,693,300.00
London Boro of Hammersmith and Fulham PF	1,002,161,068.32	90,296,580.81	9.0%	24,862,004.50	65,434,576.31
London Boro of Haringey PF	1,309,093,000.00	65,454,650.00	5.0%	0.00	65,454,650.00
London Boro of Harrow PF	804,720,000.00	53,176,400.00	6.6%	0.00	53,176,400.00
London Boro of Havering PF	657,188,535.23	39,589,583.38	6.0%	676,941.69	38,912,641.69
London Boro of Hillingdon PF	954,442,059.04	61,466,611.92	6.4%	31,228,165.58	30,238,446.34
London Boro of Hounslow PF	935,637,336.00	45,488,294.70	4.9%	41,662,415.00	3,825,879.70
London Boro of Islington PF	1,262,711,447.91	48,271,475.12	3.8%	38,514,575.12	9,756,900.00
London Boro of Lambeth PF	1,346,000,000.00	58,900,000.00	4.4%	0.00	58,900,000.00
London Boro of Lewisham PF	1,271,236,000.00	85,618,800.00	6.7%	0.00	85,618,800.00
London Boro of Merton PF	633,626,884.26	54,792,192.50	8.6%	34,035,178.02	20,757,014.48
London Boro of Newham Cll PF	1,156,100,987.00	29,281,757.10	2.5%	1,030,264.00	28,251,493.10
London Boro of Redbridge PF	743,257,000.00	38,260,700.00	5.1%	0.00	38,260,700.00
London Boro of Southwark PF	1,487,862,000.00	14,228,400.00	1.0%	0.00	14,228,400.00
London Boro of Tower Hamlets PF	1,356,705,680.80	91,941,766.46	6.8%	23,457,037.60	68,484,728.86
London Boro of Waltham Forest PF	764,900,000.00	53,930,000.00	7.1%	0.00	53,930,000.00
London Boro of Wandsworth PF	2,185,838,012.55	137,628,568.77	6.3%	23,700,396.67	113,928,172.10
London PF Authority	5,304,639,078.40	242,152,247.31	4.6%	1,927,947.49	240,224,299.82
Lothian PF	7,420,982,641.00	152,615,424.40	2.1%	147,038,708.00	5,576,716.40
Merseyside PF[30]	7,964,102,478.00	387,219,375.30	4.9%	243,124,012.00	144,095,363.30
NILGOSC	4,150,840,054.46	348,957,569.59	8.4%	155,803,733.10	193,153,836.49
Norfolk PF	1,656,425,000.00	101,164,100.00	6.1%	0.00	101,164,100.00
North East Scotland PF	3,999,909,195.37	179,194,145.60	4.5%	64,328,691.93	114,865,453.67
North Yorkshire County Cll PF	3,036,748,097.33	175,702,288.57	5.8%	37,565,826.81	138,136,461.76
Northumberland County Cll PF	1,057,604,835.64	72,408,250.42	6.8%	0.00	72,408,250.42
Nottinghamshire County Cll PF	4,717,224,227.00	327,312,727.40	6.9%	251,186,825.00	76,125,902.40
Orkney Islands Cll PF	338,195,640.18	5,719,691.64	1.7%	5,719,691.64	0.00
Oxfordshire County Cll PF	2,174,177,881.39	132,642,636.59	6.1%	51,242,073.98	81,400,562.61
Peninsula PF	3,917,046,189.06	191,792,230.80	4.9%	20,655,741.19	171,136,489.61
Powys County Cll PF	594,162,271.63	27,347,922.55	4.6%	0.00	27,347,922.55
Rhondda Cynon Taf PF	3,004,479,000.00	222,983,200.00	7.4%	0.00	222,983,200.00

[30] Data for the Merseyside PF has been amended since the first version of this report, see p.12 for details.

Royal Boro of Greenwich Cll PF	1,234,032,000.00	52,974,100.00	4.3%	0.00	52,974,100.00
Royal Boro of Kensington and Chelsea PF	1,049,729,305.72	51,146,245.25	4.9%	0.00	51,146,245.25
Royal Boro of Kingston upon Thames PF	795,898,793.59	40,409,985.30	5.1%	12,593,488.48	27,816,496.82
Royal County of Berkshire PF	5,185,653,698.20	97,707,642.22	1.9%	77,675,745.93	20,031,896.29
Scottish Borders PF	655,220,426.00	30,317,010.20	4.6%	7,020,530.00	23,296,480.20
Shetland Islands PF	449,703,247.00	36,106,628.60	8.0%	0.00	36,106,628.60
Shropshire PF	1,711,531,448.05	90,890,649.47	5.3%	26,595,684.25	64,294,965.22
Somerset County Cll PF	1,962,135,001.39	125,126,256.99	6.4%	110,878,281.70	14,247,975.29
South Yorkshire PF	7,539,811,791.00	388,326,763.70	5.2%	360,241,008.00	28,085,755.70
Staffordshire PF	3,734,959,000.00	277,869,600.00	7.4%	0.00	277,869,600.00
Strathclyde PF	19,658,803,553.91	802,759,409.10	4.1%	326,537,605.00	476,221,804.10
Suffolk County Cll PF	2,636,546,639.00	128,513,586.60	4.9%	49,113,707.00	79,399,879.60
Surrey County Cll PF	3,763,033,789.00	256,604,881.60	6.8%	159,657,853.00	96,947,028.60
Tayside PF	3,427,706,411.95	183,718,656.88	5.4%	103,890,454.16	79,828,202.72
Teesside PF	3,843,434,264.14	275,422,217.21	7.2%	275,422,217.21	0.00
Torfaen PF	2,700,194,120.00	245,856,815.50	9.1%	87,103,202.00	158,753,613.50
Tyne and Wear PF	7,761,342,119.00	472,872,654.80	6.1%	188,896,031.00	283,976,623.80
Warwickshire County Cll PF	2,021,017,618.33	74,181,735.01	3.7%	20,021,111.29	54,160,623.72
West Midlands PF	13,794,157,521.36	490,383,239.10	3.6%	431,285,425.44	59,097,813.66
West Sussex PF	3,755,019,000.00	217,684,100.00	5.8%	0.00	217,684,100.00
West Yorkshire PF	13,540,100,000.00	933,890,000.00	6.9%	464,300,000.00	469,590,000.00
Westminster City Cll PF	1,261,893,000.00	96,129,900.00	7.6%	0.00	96,129,900.00
Wiltshire PF	2,174,092,468.76	68,380,000.00	3.1%	0.00	68,380,000.00
Worcestershire PF	2,453,471,046.30	191,168,673.27	7.8%	59,347,219.29	131,821,453.98

Methodology

Platform put in Freedom of Information requests through whatdotheyknow.com to the councils that manage all the UK local authority pension funds asking for a full list of investments for the financial year 2016/2017 in an excel spreadsheet. Using the data provided – or pension fund annual reports and other official documents – Platform, with help from volunteers, analysed this data to calculate the amount invested in fossil fuels overall and by pension fund.

We put the investment data for each fund into a google spreadsheet. A script pulled out the direct fossil fuel investments using the Carbon Underground 200[31] that identifies the top 100 public coal companies globally and the top 100 public oil and gas companies globally, ranked by the potential carbon emissions content of their proven reserves.

However, much of what UK councils invest on the stock market happens through pooled investment vehicles. To estimate how much of these investments is in fossil fuel shares, a script pulls out the top 15 of each fund's investments. We then analysed them manually picking out the pooled investment funds/vehicles that, we knew to contain fossil fuel investments. With these, we took an average (10%) proportion of fossil fuel investments in the fund/vehicle.

We added 10% of the market value of funds/vehicles with fossil fuel investments to the market value of direct fossil fuel investments to get a total amount invested in fossil fuels for each fund.

We researched funds and investment vehicles and 10% was an average figure. 10% is the market capitalisation 'weight' of the Carbon Underground 200 companies on the FTSE AllShare index. Pooled funds following other indices or markets could contain more fossil fuel shares (e.g. FTSE250), or less (e.g. Japanese tracker funds).

Corrections

The value of the Merseyside Pension Fund and its investments in fossil fuels that appeared in the first version of this report was incorrect. These values have been corrected and the proportion of the Merseyside Pension Fund subsequently invested in fossil fuels, the corresponding figures for the 'Northern Pool', and the UK totals and relative changes from 2015 have been amended accordingly. The revised analysis promoted NILGOSC to the top of the 'pools' table and the Isle of Wight PF top as the 10th most exposed funds. The UK total investment in fossil fuels changed by 0.1%. • Information on p.6 regarding BHP Billiton has been corrected to reflect the sale of their stake in the Indomet project • The authors apologise for these errors.

[31] Visit Fossil Free Indexes for more information: http://fossilfreeindexes.com/research/the-carbon-underground/

Appendix A4

PRI Principles for Responsible Investment

ASSESSMENT REPORT
2017

Lancashire County Pension Fund

UNEP FINANCE INITIATIVE | United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

SHARING THIS REPORT

The PRI will not publish the assessment reports in 2017 however signatories can publish or share this report. Should they choose to share/publish, they must:

- Refer to the PRI assessment methodology;
- Refer to their full Assessment Report if only a section is published;
- Refer to their Transparency Report; and
- Take every care not to represent scores out of context.

PRI DISCLAIMER

This document is based on information reported directly by signatories. Moreover, the underlying information has not been audited by the PRI or any other party acting on its behalf. While every effort has been made to produce a fair representation of performance, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for damage caused by use of or reliance on the information contained within this report.

INTRODUCTION

Thank you for participating in the annual PRI Reporting and Assessment process.

The Assessment report is designed to provide feedback to signatories to support ongoing learning and development.

A brief description of the information presented in each section of this report and how it should be interpreted is provided below. Further information about the high-level assessment methodology can be found here and a companion document explaining the assessment of each indicator can be found here.

ORGANISATIONAL OVERVIEW

This section provides an overview of the main characteristics of your organisation. This information determined which modules and indicators you reported on and determines your peer groups.

SUMMARY SCORECARD

This section provides an overview of your aggregate score for each module and the median score. These bands range from ‘A+’ (top band) to ‘E’ (lowest band).

ASSESSMENT BY MODULE

For each module you reported on, you will see a section that shows your:

- Indicator scorecard
- Section scores
- Comparison to peer groups

INDICATOR SCORECARD AND MODULE SCORES

Your indicator scorecard summarises the scores you achieved for each core and additional assessed indicator within each module.

These will range from ☆☆☆ to ★★★. It also provides basic information about the performance of your organisation compared with other signatories that responded to that indicator. The number of stars determines your overall module score. Please refer to the assessment methodology summary for additional information about how these scores are calculated.

SECTION SCORES

Each module is divided into several sections. The total number of stars you can achieve in each section are added together and presented in a spider chart.

PEER COMPARISON

Your total aggregated performance band for each module will be compared against your peer groups in a series of distribution charts.

CONFIDENTIALITY

The results of signatory's assessments can be shared and published externally if the signatory wishes to do so. PRI will not publish the assessment reports. Please see a full explanation on Page 2 of this report.

For more information, please contact the PRI’s Reporting and Assessment Team on reporting@unpri.org or +44 (0) 20 3714 3185

Organisational Overview

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Lancashire County Pension Fund
Signatory Category	Asset Owner
Signatory Type	Non-corporate pension or superannuation or retirement or provident fund or plan
Size	US$ 5 - 9.99 billion AUM
Signed PRI Initiative	2015
Region	Europe
Country	United Kingdom
Disclosure of Voluntary Indicators	87% from 23 Voluntary indicators

YOUR ORGANISATION'S ASSETS UNDER MANAGEMENT (AUM)†		
Asset Class	**Internally Managed**	**Externally Managed**
Listed equity	10-50%	10-50%
Fixed income	0	0
Private equity	0	<10%
Property	0	10-50%
Infrastructure	<10%	<10%
Commodities	0	0
Hedge funds	0	0
Forestry	0	0
Farmland	0	0
Inclusive finance	0	0
Cash	0	<10%
Other 1	<10%	10-50%
Other 2	0	0

† Asset classes were aggregated to four ranges: 0%; <10%; 10-50% and >50%

Summary Scorecard

AUM	Module Name	Your Score	Your Score / Median Score
	01.Strategy & Governance	A	A
Indirect - Manager Sel., App. & Mon			
10-50%	02. Listed Equity	A	B
<10%	07. Private Equity	Not reported	
10-50%	08. Property	A	C
<10%	09. Infrastructure	Not reported	
Direct & Active Ownership Modules			
10-50%	10. Listed Equity - Incorporation	A	A
10-50%	11. Listed Equity - Active Ownership	C	B
<10%	18. Infrastructure	Not reported	

Strategy And Governance

Indicator Scorecard

Module	Strategy and Governance
Total Score	24 ★ (out of a maximum 30 ★ from 10 indicators including the following additionally assessed indicators: SG 11, SG 13, CM 01)
Band	A

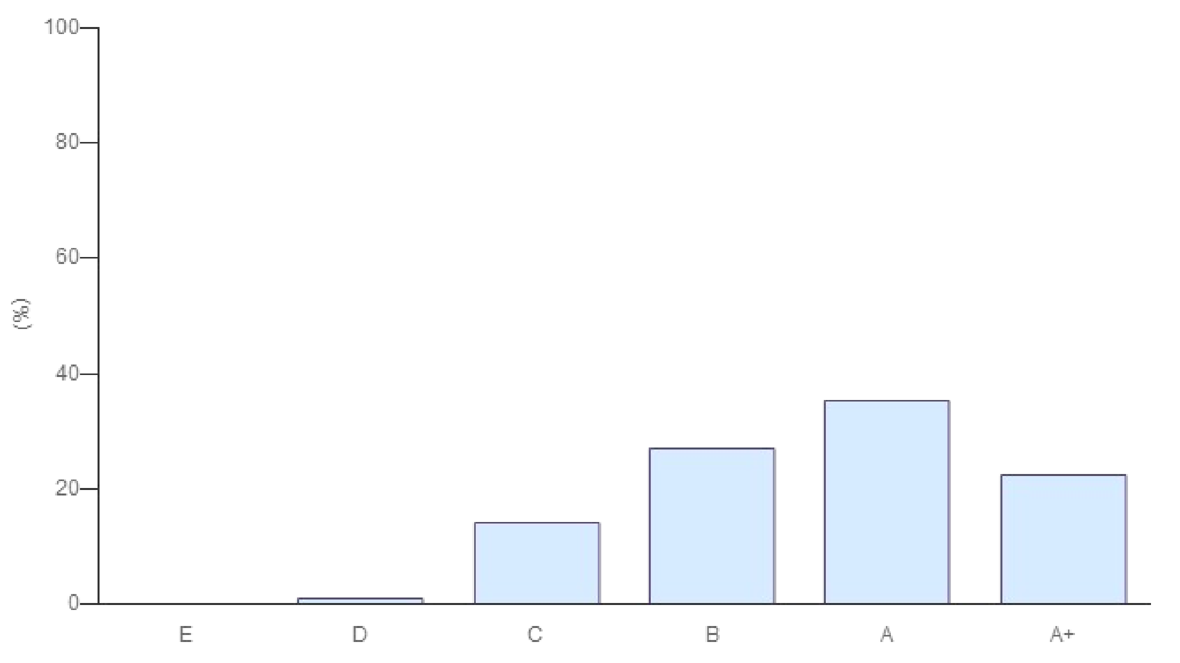
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
RI Policy	SG 01	CORE	RI Policy and coverage	★★★ (1237)	★★★	—
	SG 02	CORE	Publicly available RI policy or guidance documents	★★☆ (1237)	★★☆	—
	SG 03	CORE	Conflicts of interest	★★★ (1237)	★★★	—
Objective & Strategies	SG 05	CORE	RI goals and objectives	★★★ (1237)	★★☆	—
Governance & Human Resources	SG 07	CORE	RI roles and responsibilities	★★★ (1237)	★★★	—
	SG 08a	ADDITIONAL	RI in performance management & rewards	★★★ (1237)	☆☆☆	—
	SG 08b	ADDITIONAL	RI in personal development / training	★☆☆ (1237)	★★☆	—
Promoting RI	SG 09	CORE	Collaborative organisations / initiatives	★★☆ (1237)	★★☆	—
	SG 10	CORE	Promoting RI independently	★★★ (1237)	★★☆	—
	SG 11	ADDITIONAL	Dialogue with public policy makers or standard setters	☆☆☆ (1237)	★★★	—
ESG Issues In Asset Allocation	SG 13	ADDITIONAL	Long term investment risks and opportunity	★★☆ (1237)	★★☆	—
Assurance of Responses	CM 01	ADDITIONAL	Assurance, verification, or review	★★☆ (1237)	★★☆	—

COMPARISON WITH PEERS

Your Strategy and Governance module score has been compared to relevant peer groups in a series of distribution charts below.

Module	STRATEGY AND GOVERNANCE
Band	A

All Respondents (1237)

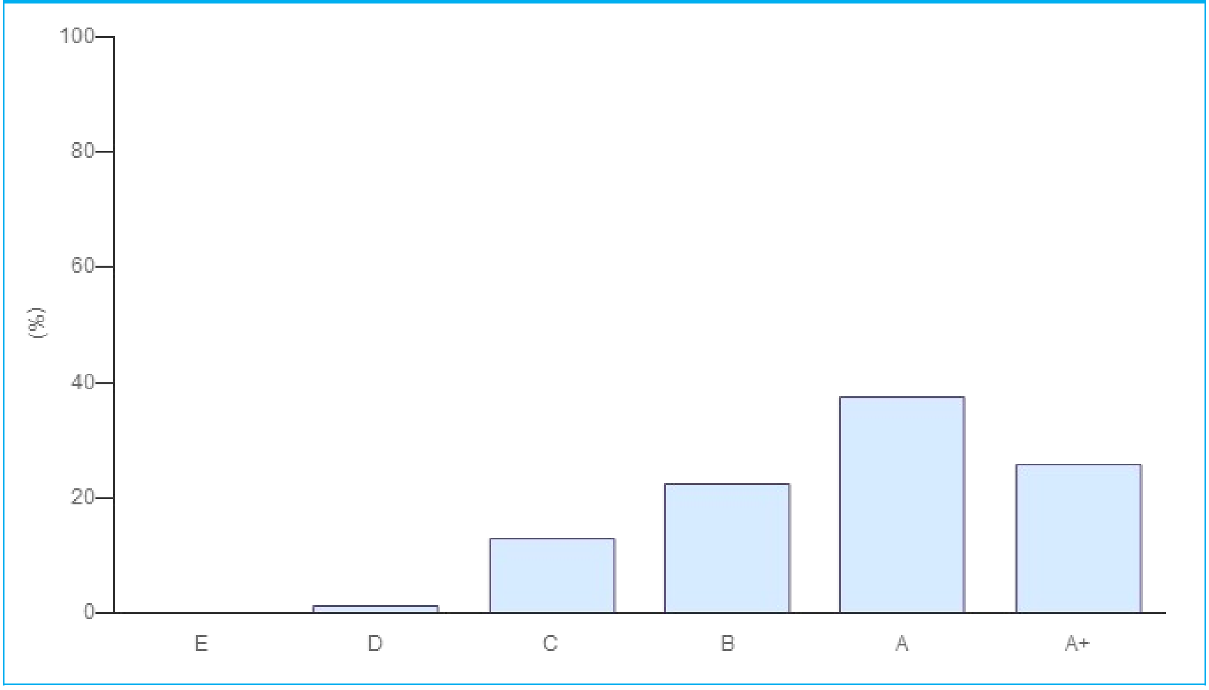


COMPARISON WITH PEERS

Your Strategy and Governance module score has been compared to relevant peer groups in a series of distribution charts below.

Module	STRATEGY AND GOVERNANCE
Band	A

Category: Asset Owner (302)



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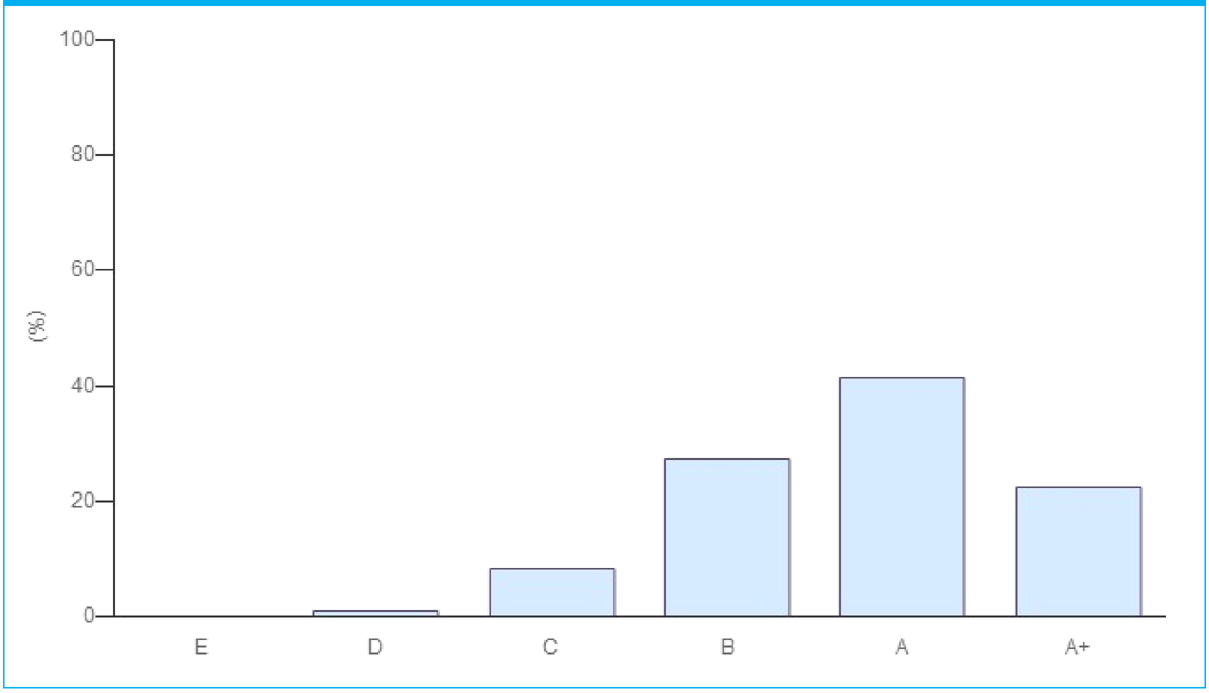
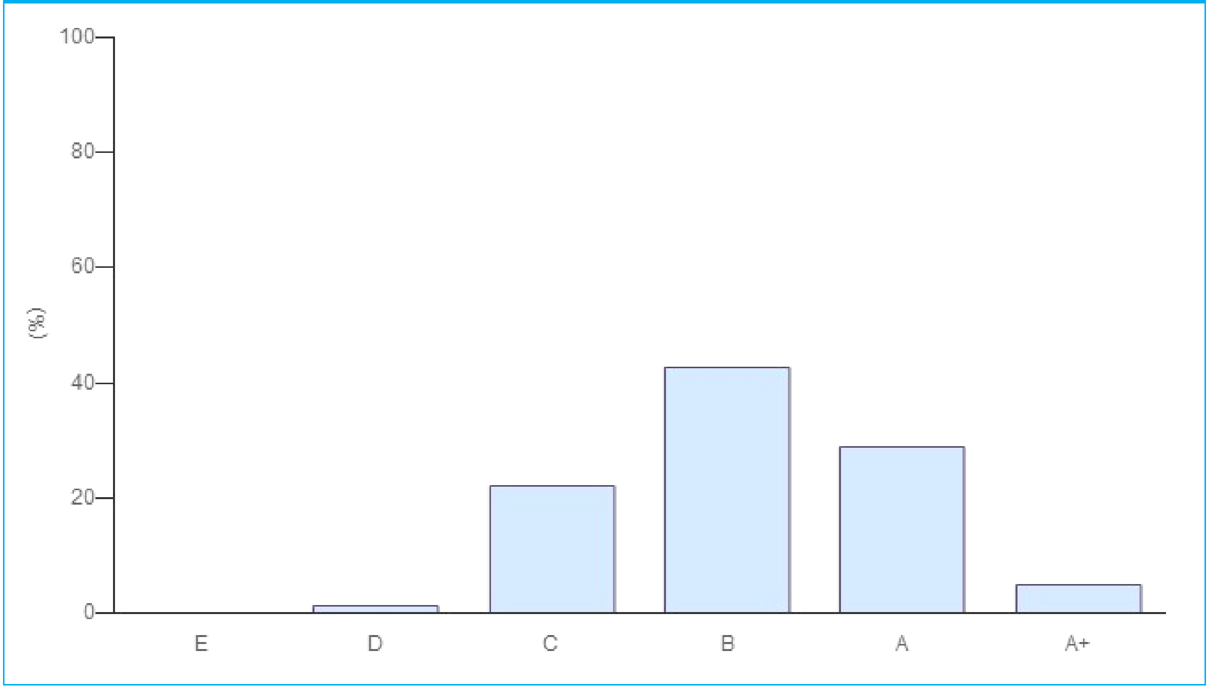


COMPARISON WITH PEERS

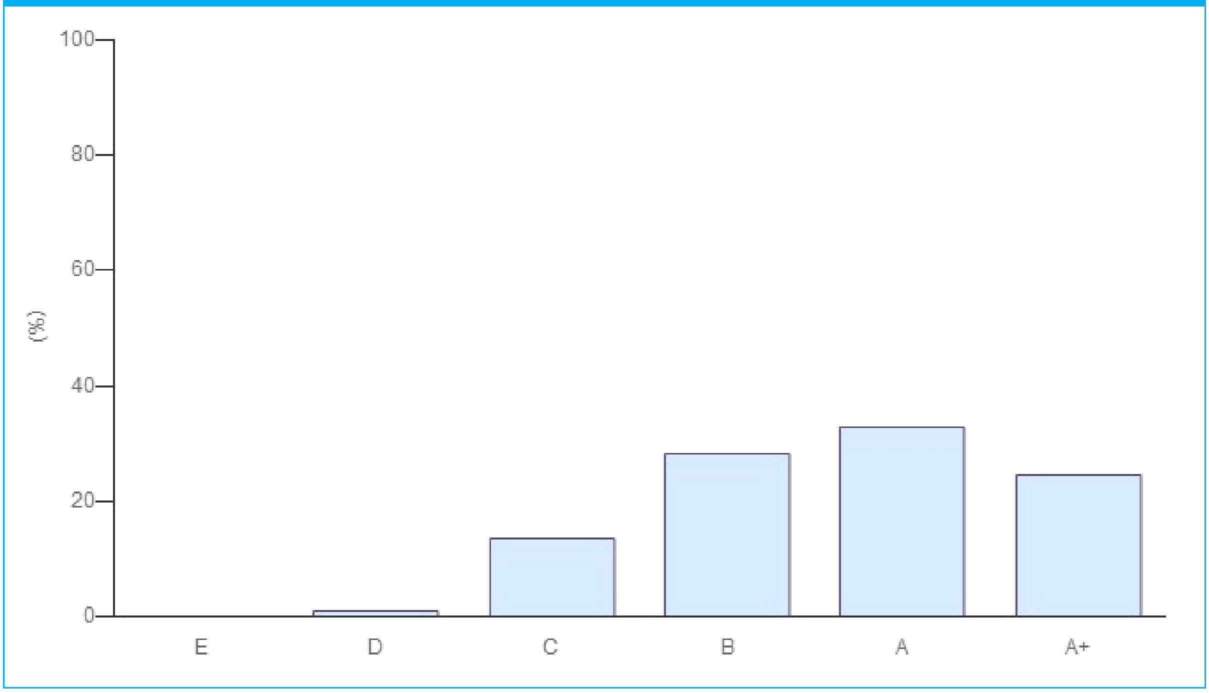
Your Strategy and Governance module score has been compared to relevant peer groups in a series of distribution charts below.

Module	STRATEGY AND GOVERNANCE
Band	A

Signed PRI: 2015 (145)



Region: Europe (693)



Indirect - Listed Equity

Indicator Scorecard

Module	Indirect - Listed Equity
Total Score	33 ★ (out of a maximum 42 ★ from 14 indicators including the following additionally assessed indicators: SAM 05.2b, SAM 05.4, SAM 06.1a, SAM 07.3)
Band	A

SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
Overview	SAM 01.3	CORE	Selection, appointment and review of investment consultants	★★☆ (121)	N/A	—
Overview	SAM 01.5	CORE	Monitoring fiduciary managers	★★★ (53)	★★★	—
Selection	SAM 05.1	CORE	Selection - RI in documentation	★★☆ (381)	★★★	—
Selection	SAM 05.2a	CORE	Selection - Strategy	★★★ (381)	★★★	—
Selection	SAM 05.2b	ADDITIONAL	Selection - ESG people/oversight	★★☆ (381)	★★★	—
Selection	SAM 05.2c	CORE	Selection - Portfolio construction/valuation	★☆☆ (381)	★☆☆	—
Selection	SAM 05.3	CORE	Selection processes - General	★★★ (381)	★★★	—
Selection	SAM 05.4	ADDITIONAL	Selection processes - RI considerations	★★★ (381)	★★★	—
Selection	SAM 06.1a	ADDITIONAL	Selection -Engagement	★★☆ (199)	★★★	—
Selection	SAM 06.1b	ADDITIONAL	Selection - (Proxy) voting	★☆☆ (194)	★★☆	—
Selection	SAM 06.2	ADDITIONAL	Selection - Engagement effectiveness	★☆☆ (199)	★☆☆	—
Selection	SAM 06.3	ADDITIONAL	Selection - (Proxy) voting effectiveness	★☆☆ (194)	☆☆☆	—
Appointment	SAM 07.1	CORE	Appointment - General	★☆☆ (381)	★★☆	—
Appointment	SAM 07.2	CORE	Appointment - Objectives & Controls	☆☆☆ (381)	★★★	—
Appointment	SAM 07.3	ADDITIONAL	Appointment - Reporting capacity	☆☆☆ (381)	★★★	—
Appointment	SAM 07.4	ADDITIONAL	Appointment - Incentives & Controls	★☆☆ (381)	★☆☆	—

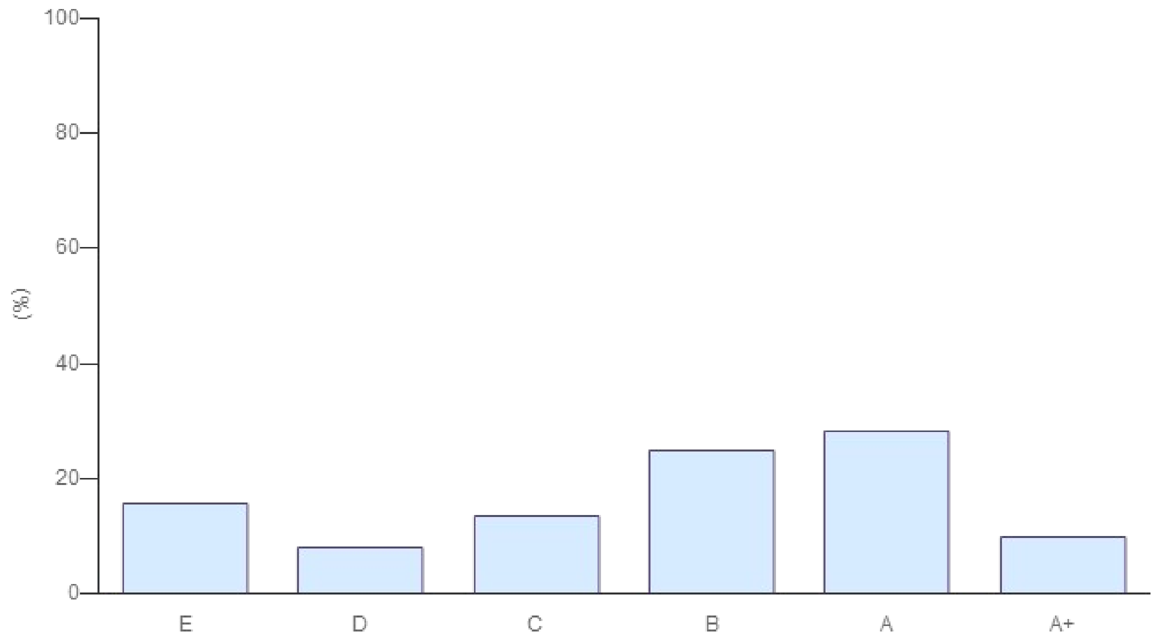
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
Monitoring	SAM 08.1	CORE	Monitoring - General	★★☆ (381)	★☆☆	—
	SAM 08.2	ADDITIONAL	Monitoring - Measuring progress	★★★ (381)	★★★	—
	SAM 09.1a	ADDITIONAL	Monitoring - Engagements	★☆☆ (199)	★★☆	—
	SAM 09.1b	ADDITIONAL	Monitoring - (proxy) Voting	★☆☆ (194)	★☆☆	—
	SAM 10	CORE	Percentages of (proxy) votes cast	☆☆☆ (194)	☆☆☆	—
Outputs and Outcomes	SAM 12	ADDITIONAL	Examples of ESG factors	★★★ (381)	★★★	—
Communication	SAM 13	CORE	Disclosure of RI considerations	★☆☆ (381)	★★☆	—

COMPARISON WITH PEERS

Your Indirect - Listed Equity module score has been compared to relevant peer groups in a series of distribution charts below.

Module	INDIRECT - LISTED EQUITY
Band	A

All Respondents (381)

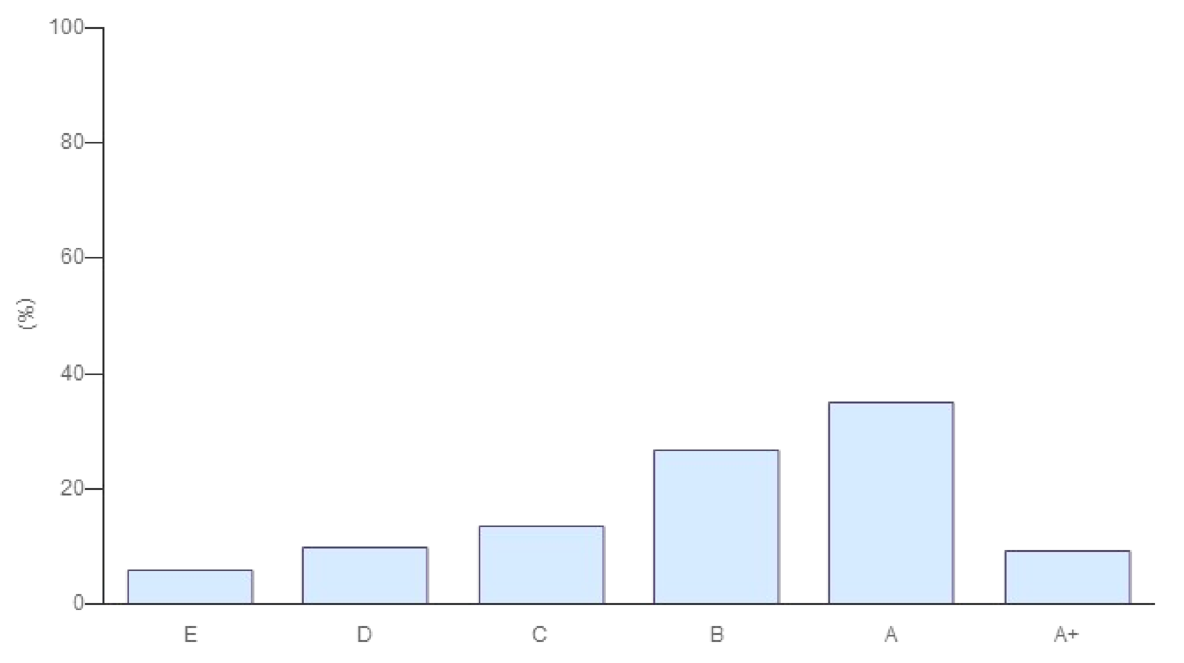


COMPARISON WITH PEERS

Your Indirect - Listed Equity module score has been compared to relevant peer groups in a series of distribution charts below.

Module	INDIRECT - LISTED EQUITY
Band	A

Category: Asset Owner (237)



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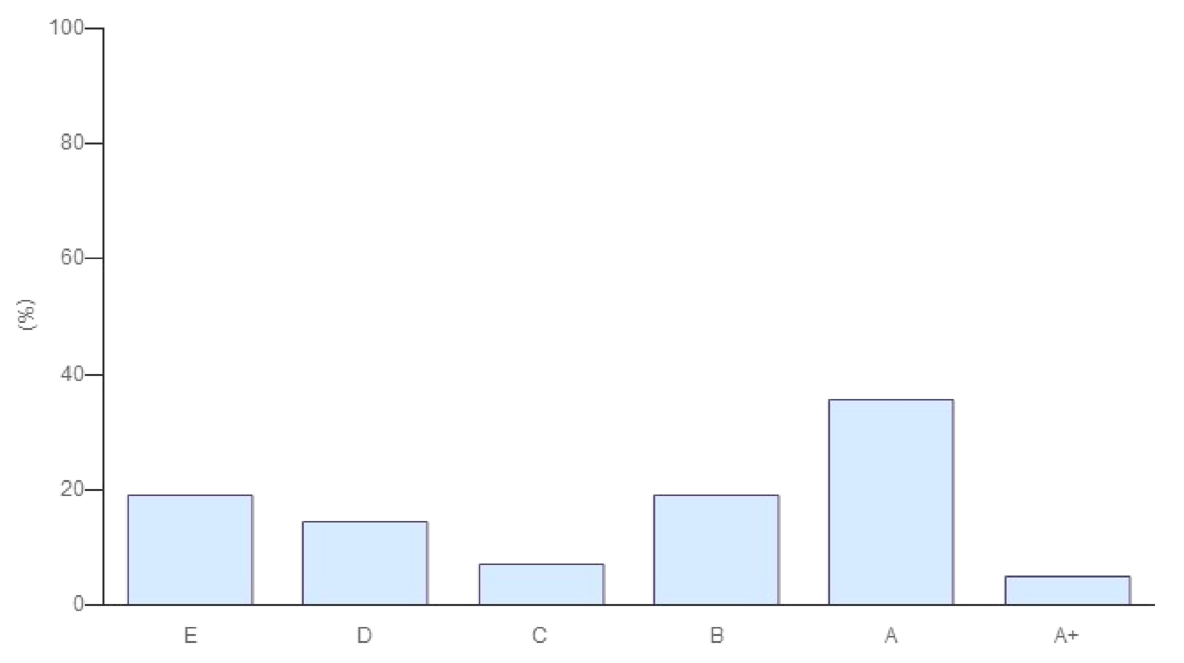
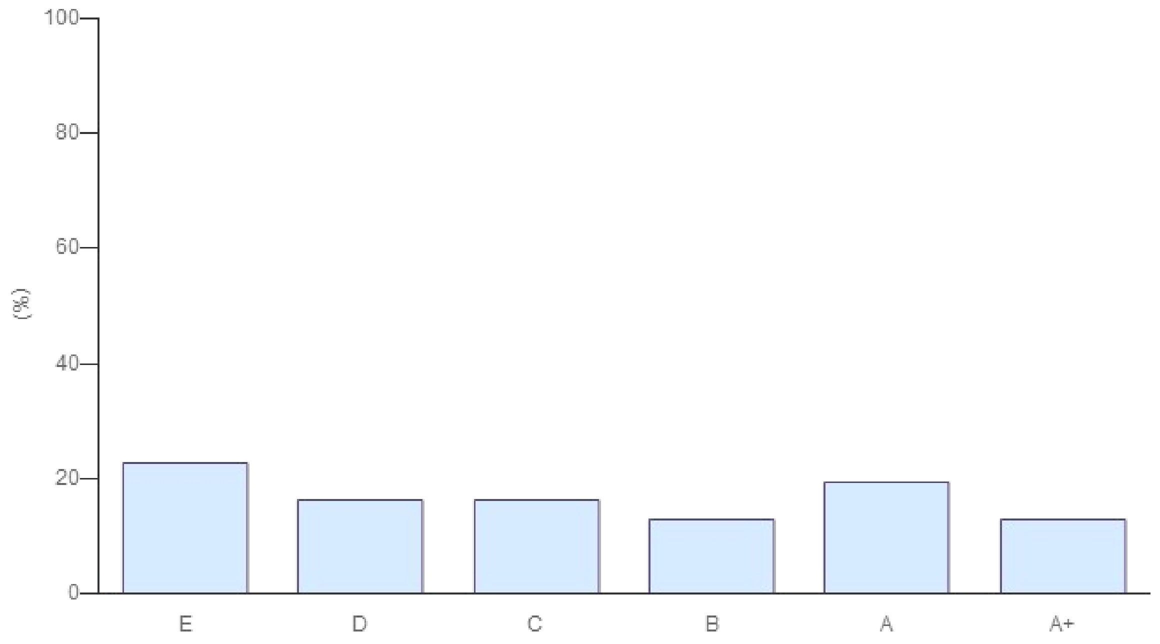


COMPARISON WITH PEERS

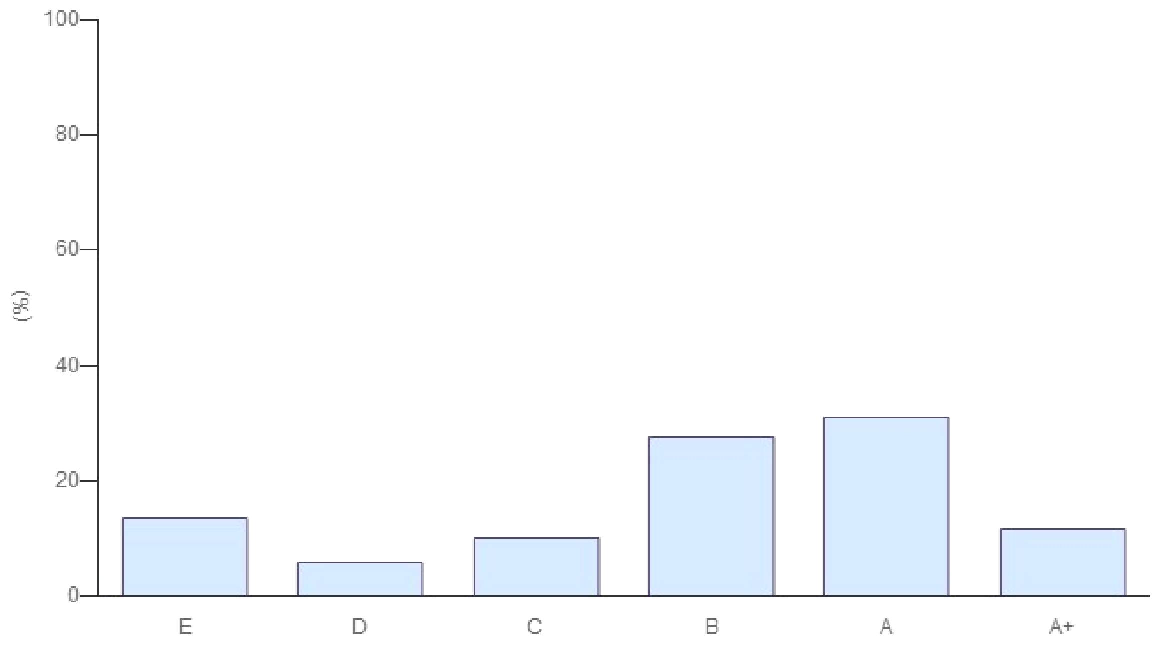
Your Indirect - Listed Equity module score has been compared to relevant peer groups in a series of distribution charts below.

Module	INDIRECT - LISTED EQUITY
Band	A

Signed PRI: 2015 (31)



Region: Europe (206)



Indirect - Property

Indicator Scorecard

Module	**Indirect - Property**
Total Score	33 ★ (out of a maximum 39 ★ from 13 indicators including the following additionally assessed indicators: SAM 05.2b, SAM 05.4, SAM 07.3, SAM 08.2)
Band	A

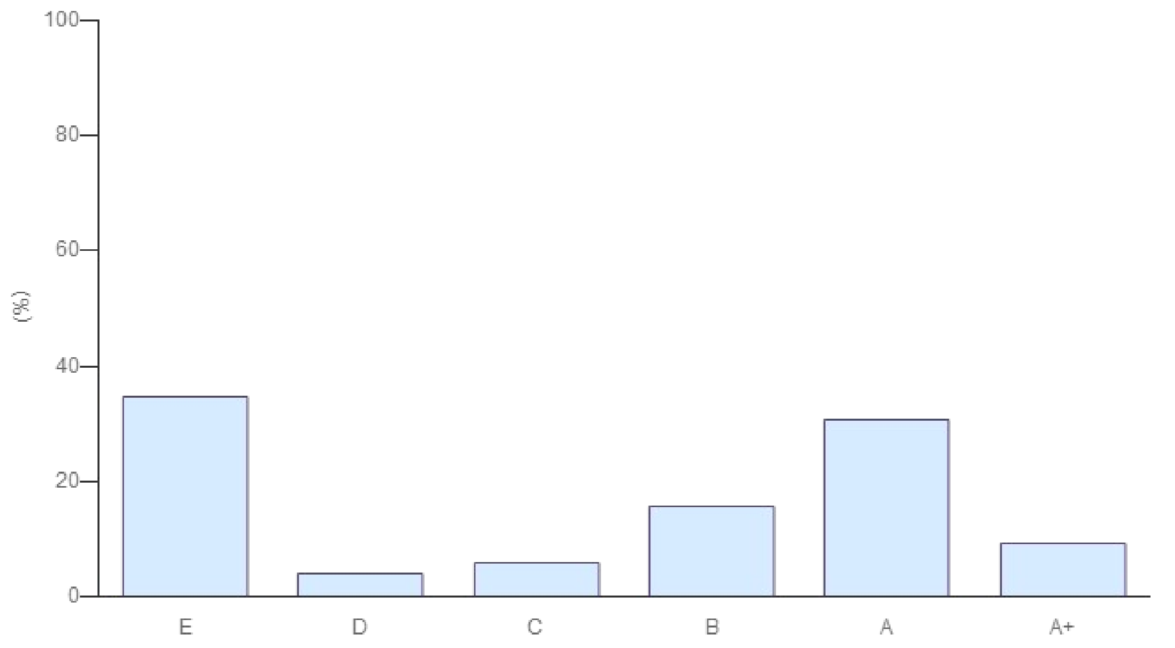
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
Overview	SAM 01.3	CORE	Selection, appointment and review of investment consultants	★★☆ (34)	N/A	—
Overview	SAM 01.5	CORE	Monitoring fiduciary managers	★★★ (30)	★★★	—
Selection	SAM 05.1	CORE	Selection - RI in documentation	★★☆ (173)	★★★	—
Selection	SAM 05.2a	CORE	Selection - Strategy	★★★ (173)	★★★	—
Selection	SAM 05.2b	ADDITIONAL	Selection - ESG people/oversight	★☆☆ (173)	★★★	—
Selection	SAM 05.2c	CORE	Selection - Portfolio construction/valuation	★☆☆ (173)	★☆☆	—
Selection	SAM 05.3	CORE	Selection processes - General	★★★ (173)	★★★	—
Selection	SAM 05.4	ADDITIONAL	Selection processes - RI considerations	☆☆☆ (173)	★★★	—
Appointment	SAM 07.1	CORE	Appointment - General	★★☆ (173)	★★☆	—
Appointment	SAM 07.2	CORE	Appointment - Objectives & Controls	☆☆☆ (173)	★★★	—
Appointment	SAM 07.3	ADDITIONAL	Appointment - Reporting capacity	☆☆☆ (173)	★★★	—
Appointment	SAM 07.4	ADDITIONAL	Appointment - Incentives & Controls	★★☆ (173)	★☆☆	—
Monitoring	SAM 08.1	CORE	Monitoring - General	★★☆ (173)	★☆☆	—
Monitoring	SAM 08.2	ADDITIONAL	Monitoring - Measuring progress	☆☆☆ (173)	★★★	—
Outputs and Outcomes	SAM 12	ADDITIONAL	Examples of ESG factors	☆☆☆ (173)	★★★	—
Communication	SAM 13	CORE	Disclosure of RI considerations	★☆☆ (173)	★★☆	—

COMPARISON WITH PEERS

Your Indirect - Property module score has been compared to relevant peer groups in a series of distribution charts below.

Module	INDIRECT - PROPERTY
Band	A

All Respondents (173)

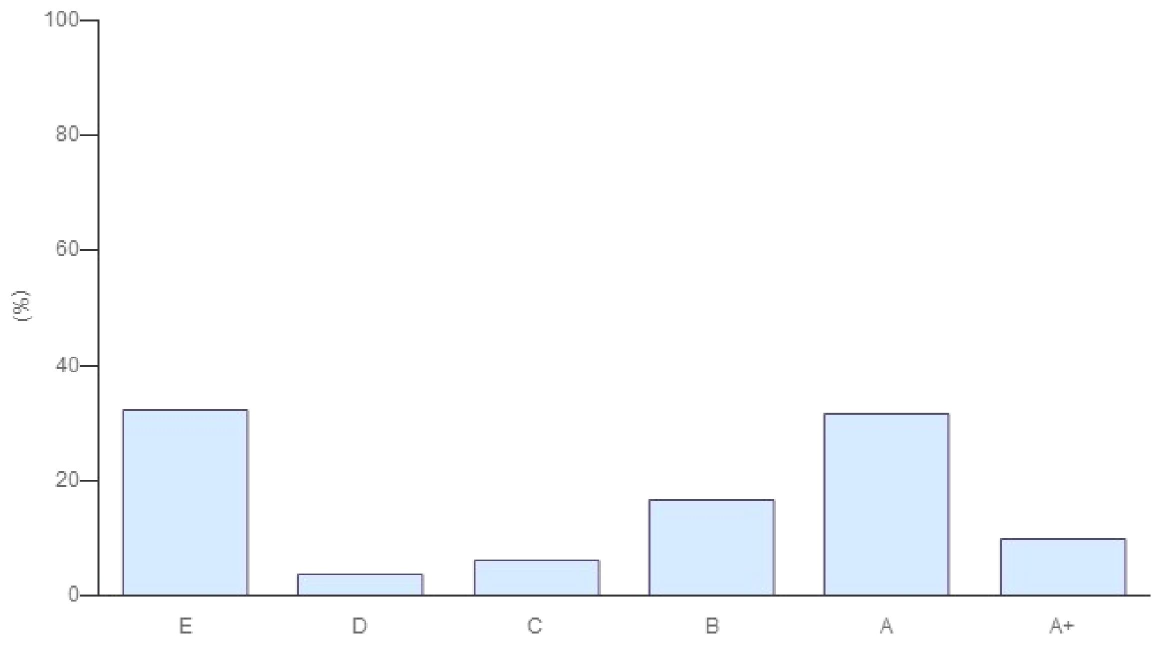


COMPARISON WITH PEERS

Your Indirect - Property module score has been compared to relevant peer groups in a series of distribution charts below.

Module	INDIRECT - PROPERTY
Band	A

Category: Asset Owner (133)



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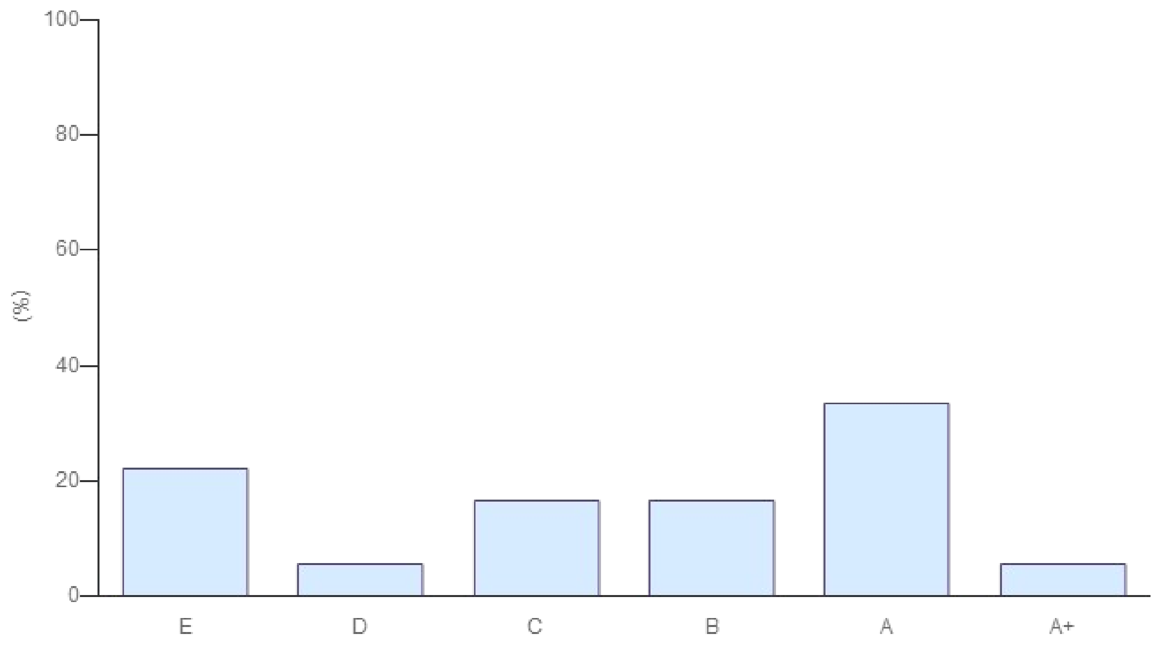
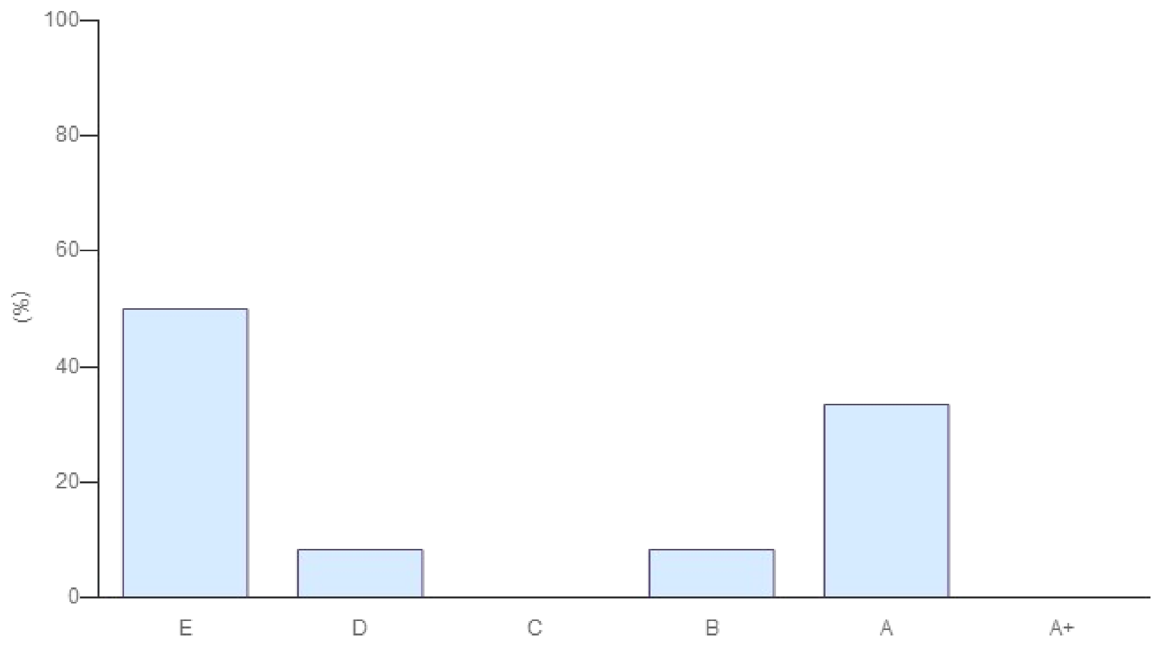


COMPARISON WITH PEERS

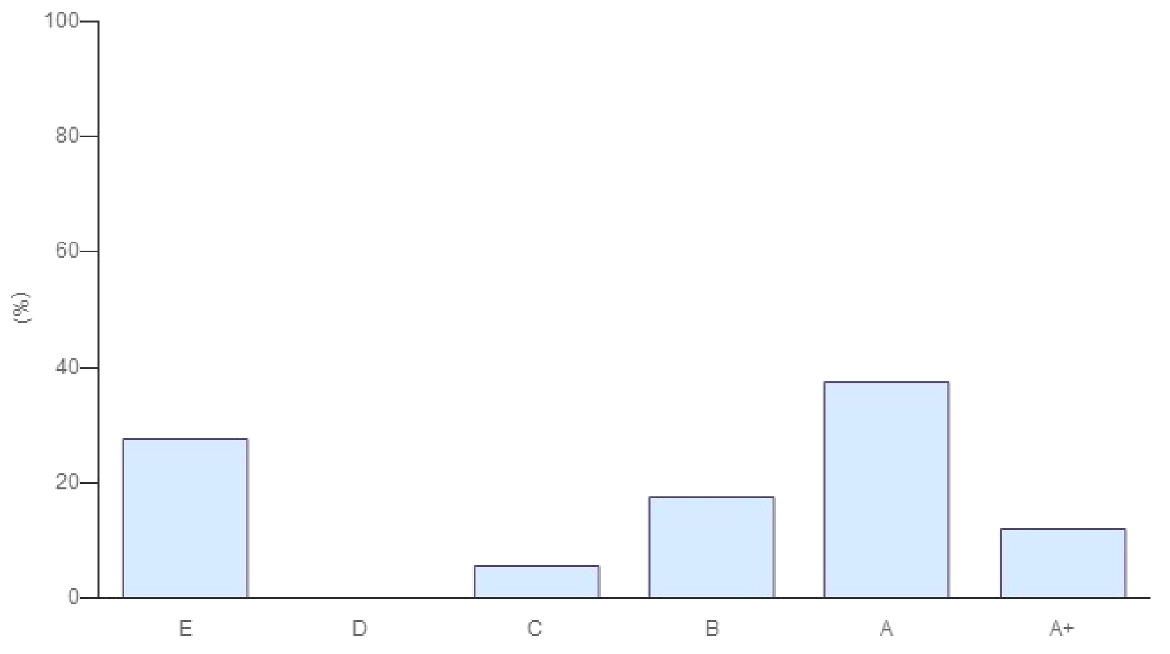
Your Indirect - Property module score has been compared to relevant peer groups in a series of distribution charts below.

Module	INDIRECT - PROPERTY
Band	A

Signed PRI: 2015 (12)



Region: Europe (91)



DIRECT - LISTED EQUITY - INCORPORATION

MODULE OVERVIEW

The table below provides an overview of your Listed Equity Incorporation Band as well as your scores for Screening and/or Integration strategies. You receive a single score for this module, which is based on your main incorporation strategy, calculated using your reported information in indicator LEI 03. Both the Screening and Integration scores, if applicable, are presented in more detail in the following pages. Thematic approaches are not scored.

Module Band	A
Score based on	Integration
Screening	NA
Integration	A
Thematic	Not Scored

OVERVIEW OF INCORPORATION STRATEGIES (LEI 03)

ESG INCORPORATION STRATEGY	PERCENTAGE OF ACTIVE LISTED EQUITY TO WHICH THE STRATEGY IS APPLIED (%)
Screening alone	0 %
Thematic alone	0 %
Integration alone	100 %
Screening + integration strategies	0 %
Thematic + integration strategies	0 %
Screening + thematic strategies	0 %
All three strategies combined	0 %
No incorporation strategies applied	0 %

Direct - LISTED EQUITY - INTEGRATION

Indicator Scorecard

This module looks at how your organisation integrates ESG issues into investment decision making for your internally managed listed equity holdings. If your organisation did not respond to an applicable indicator, you will see a score of ☆☆☆

Module	LISTED EQUITY - INCORPORATION
Incorporation Strategy	INTEGRATION
Total Score	15 ★ (out of a maximum 18 ★ from 6 indicators including the following additionally assessed indicators: LEI 04, LEI 05)
Band	A

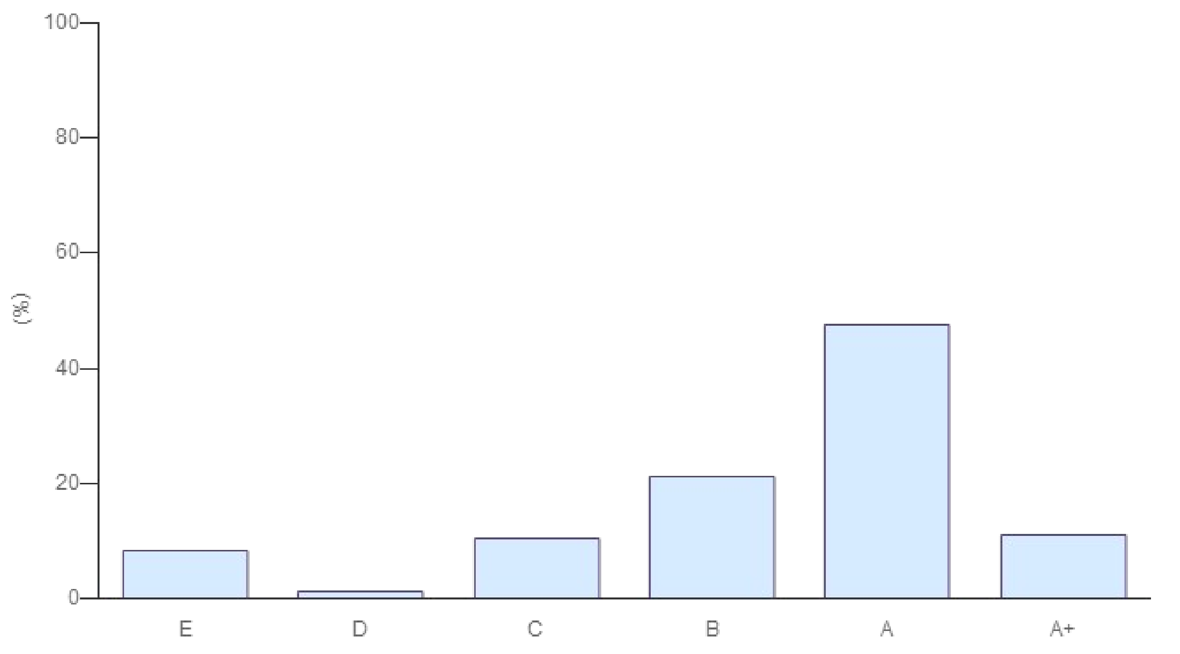
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
IMPLEMENTATION PROCESSES	LEI 04	ADDITIONAL	Type of ESG information used in investment decision	★★★ (510)	★★★	—
	LEI 05	ADDITIONAL	Information from engagement and/or voting used in investment decision-making	★★★ (510)	★★★	—
IMPLEMENTATION: INTEGRATION	LEI 10	CORE	Review ESG issues while researching companies/sectors	★★★ (510)	★★★	—
	LEI 11	ADDITIONAL	Processes to ensure integration is based on robust analysis	★★★ (510)	★★★	—
	LEI 12	CORE	Aspects of analysis ESG information is integrated into	★★☆ (510)	★★☆	—
OUTPUTS AND OUTCOMES	LEI 15	ADDITIONAL	Measurement of financial and ESG outcomes of ESG incorporation	☆☆☆ (510)	☆☆☆	—
COMMUNICATION	LEI 17a	CORE	Disclosure of approach to public	★★☆ (510)	★★☆	—
	LEI 17b	CORE	Disclosure of approach to clients/beneficiaries	★★☆ (510)	★★☆	—

COMPARISON WITH PEERS

Your Direct - Listed Equity - Integration module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - INTEGRATION
Band	A

All Respondents (510)

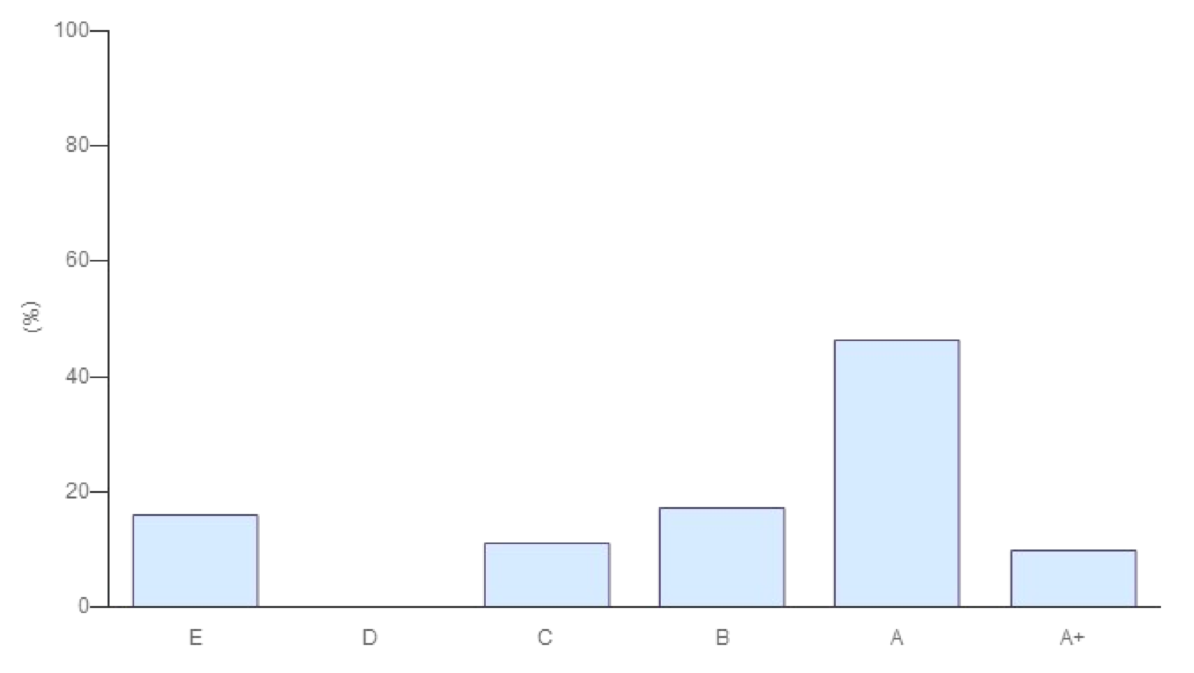


COMPARISON WITH PEERS

Your Direct - Listed Equity - Integration module score has been compared to relevant peer groups in a series of distribution charts below.

Module	**DIRECT - LISTED EQUITY - INTEGRATION**
Band	**A**

Category: Asset Owner (82)



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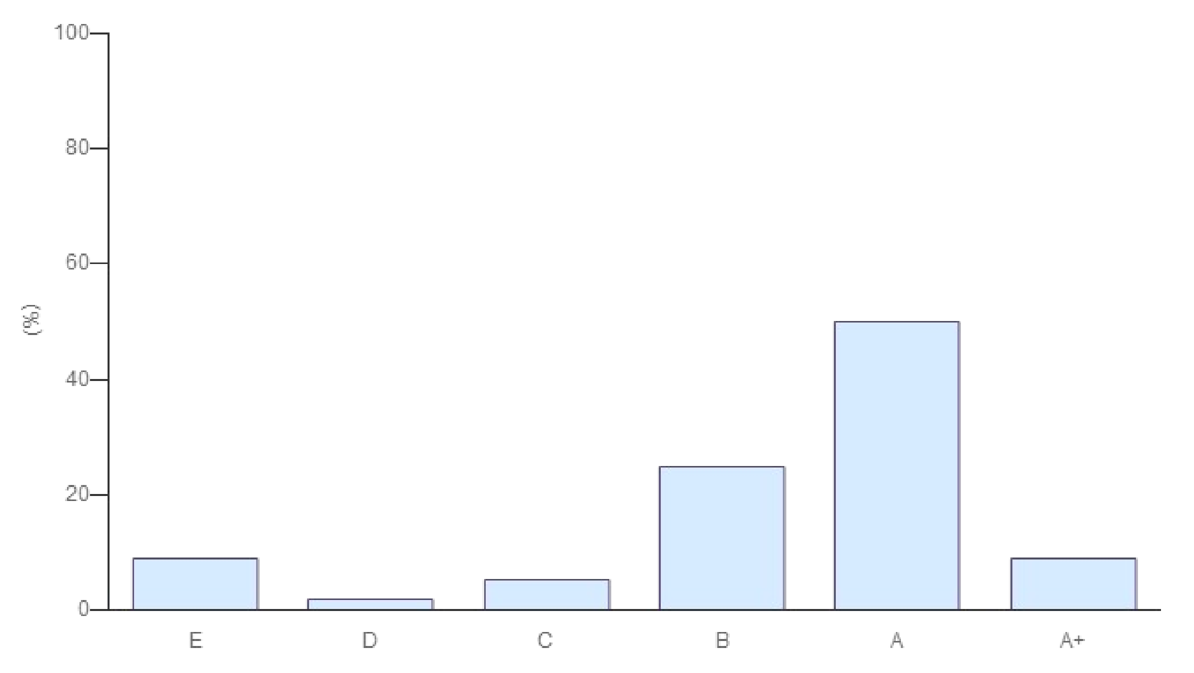
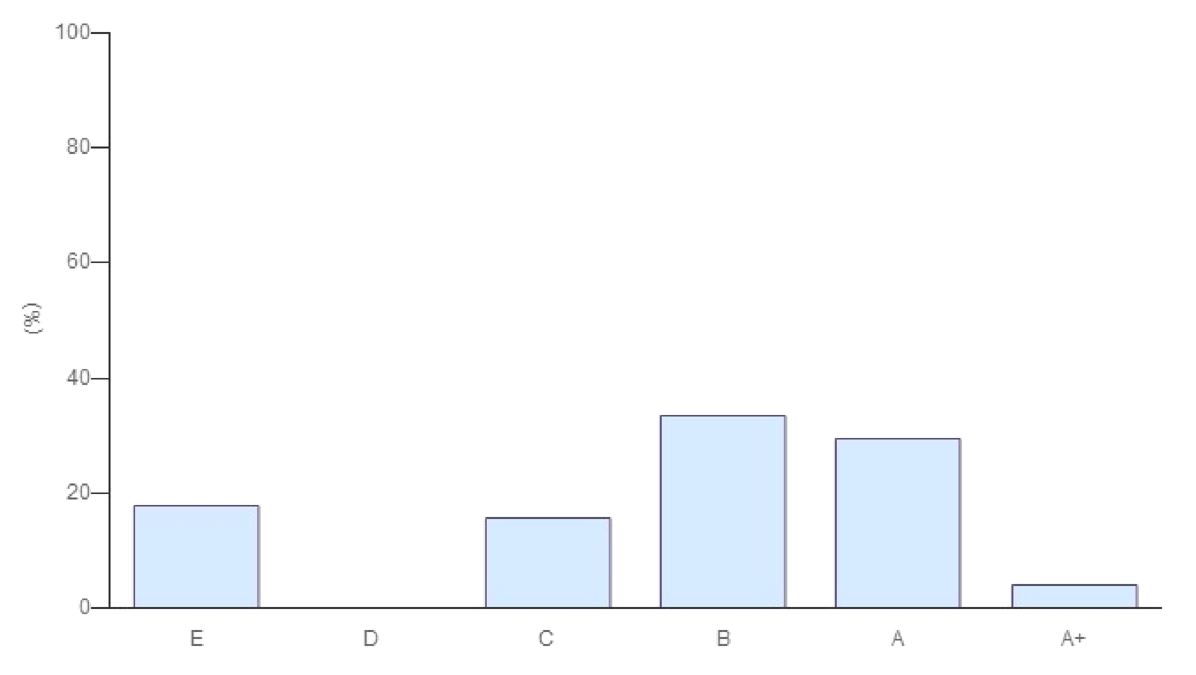


COMPARISON WITH PEERS

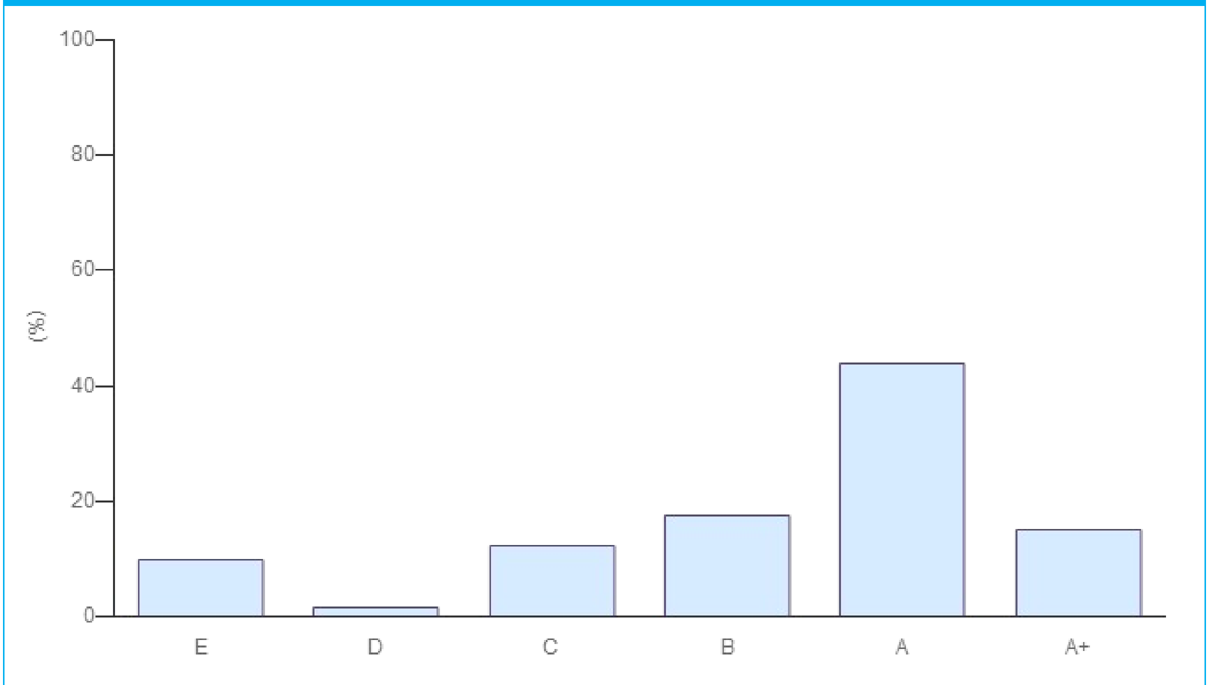
Your Direct - Listed Equity - Integration module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - INTEGRATION
Band	A

Signed PRI: 2015 (51)



Region: Europe (253)



DIRECT - LISTED EQUITY - ACTIVE OWNERSHIP

MODULE OVERVIEW

The table below provides an overview of your Listed Equity Active Ownership Band. This is based on your score for engagement and (proxy) voting.

If applicable, you will see a separate score for engagements run internally, collaboratively and through service providers. Your engagement score is based on your main engagement approach, calculated using your reported information in indicator LEA 11. Your main approach is based on the combination of the quantity and comprehensiveness of engagements and your role/involvement. The Engagement score is not dependent on how you conduct your engagements and the top score can be achieved regardless of who conducts the engagements. For more information please see the assessment methodology and detailed methodology.

The scores for each applicable engagement approach are presented in more detail in the following pages.

Active Ownership Band	**C**
Engagement Band	**C**
Score based on:	Individual, Collaborative & Service Provider
Individual Engagement Band	**C**
Collaborative Engagement Band	**C**
Service Provider Engagement Band	**C**
(Proxy) Voting Band	**NA**

DIRECT - LISTED EQUITY - INDIVIDUAL ENGAGEMENTS

Indicator Scorecard

This section looks at how your organisation carries out engagements individually through internal staff. If your organisation did not respond to an applicable indicator, you will see a score of ☆☆☆

Section	LISTED EQUITY - INDIVIDUAL ENGAGEMENTS
Type of Engagement	INDIVIDUAL/INTERNAL STAFF ENGAGEMENTS
Total Score	7 ★ (out of a maximum 27 ★ from 9 indicators including the following additionally assessed indicators: LEA 12, LEA 09)
Band	C

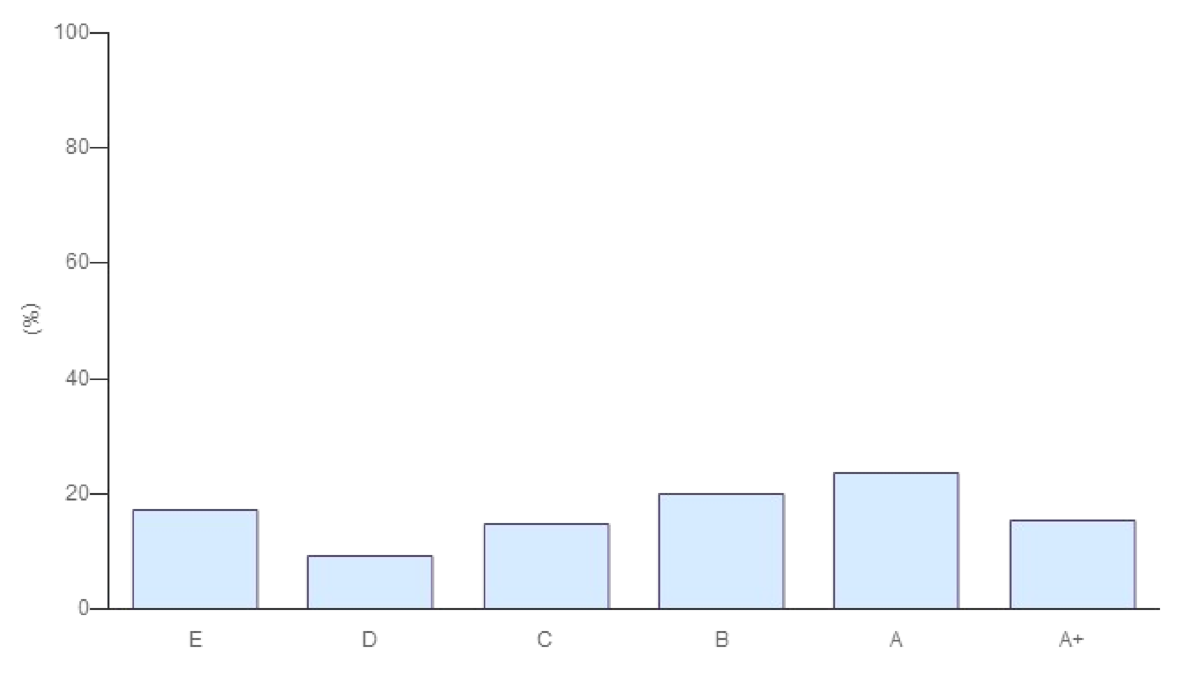
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
OVERVIEW	LEA 01	CORE	Description of approach to engagement	★★☆ (633)	☆☆☆	—
INTERNAL PROCESSES	LEA 03	CORE	Process for dentifying and prioritising engagement activities	★★★ (633)	☆☆☆	—
	LEA 04	CORE	Objectives for engagement activities	★★☆ (633)	★★☆	—
GENERAL PROCESSES	LEA 09	ADDITIONAL	Share insights from engagements with internal/external managers	★★☆ (633)	★★☆	—
OUTPUTS AND OUTCOMES	LEA 11a	CORE	Number of companies engaged with, intensity of engagement and effort	★★★ (633)	☆☆☆	—
	LEA 11b	ADDITIONAL		☆☆☆ (633)	☆☆☆	—
	LEI 11c	ADDITIONAL		☆☆☆ (633)	☆☆☆	—
	LEI 12	ADDITIONAL	Engagement methods	★★☆ (633)	★★★	—
	LEI 13	ADDITIONAL	Engagements on E, S and/or G issues	☆☆☆ (633)	☆☆☆	—
COMMUNICATION	LEI 16a	CORE	Disclosure of approach to public	☆☆☆ (633)	☆☆☆	—
	LEI 16b	CORE	Disclosure of approach to clients/beneficiarie	★★☆ (633)	☆☆☆	—

COMPARISON WITH PEERS

Your Direct - Listed Equity - Individual Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - INDIVIDUAL ENGAGEMENTS
Band	C

All Respondents (633)

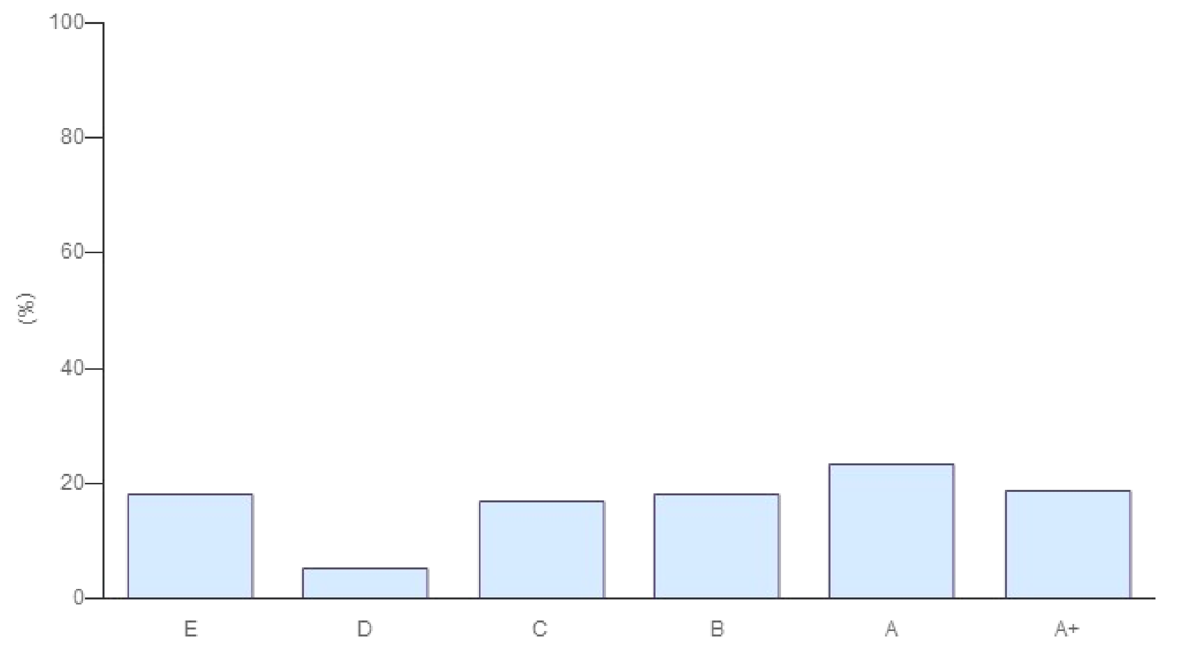


COMPARISON WITH PEERS

Your Direct - Listed Equity - Individual Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - INDIVIDUAL ENGAGEMENTS
Band	C

Category: Asset Owner (155)



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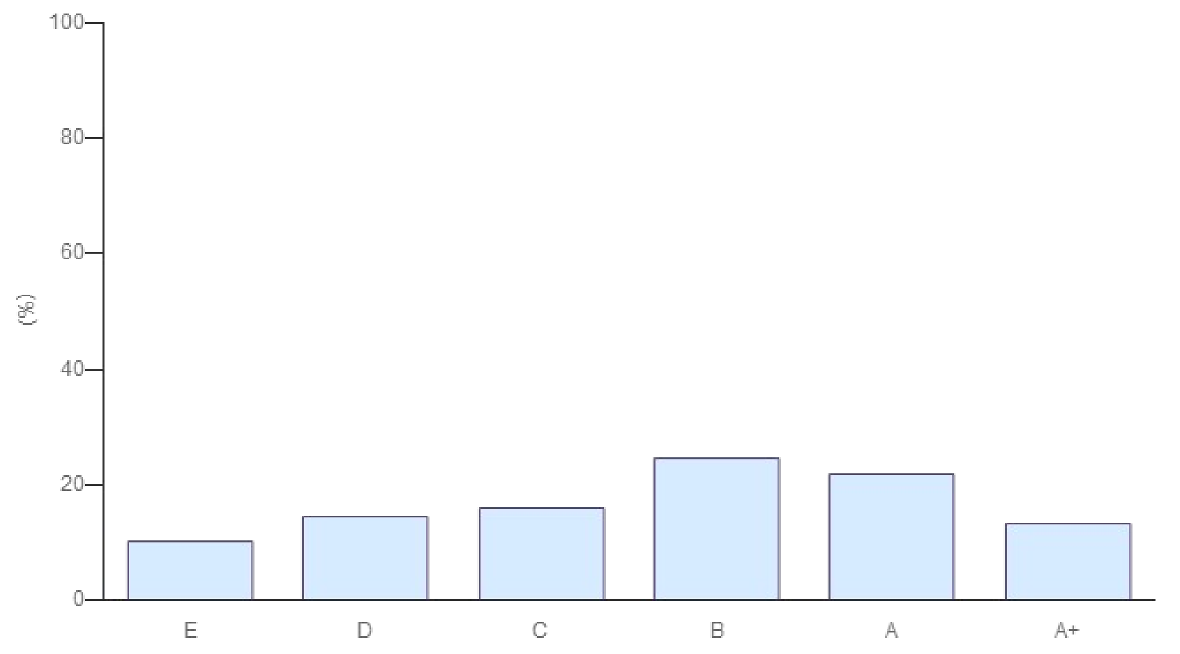
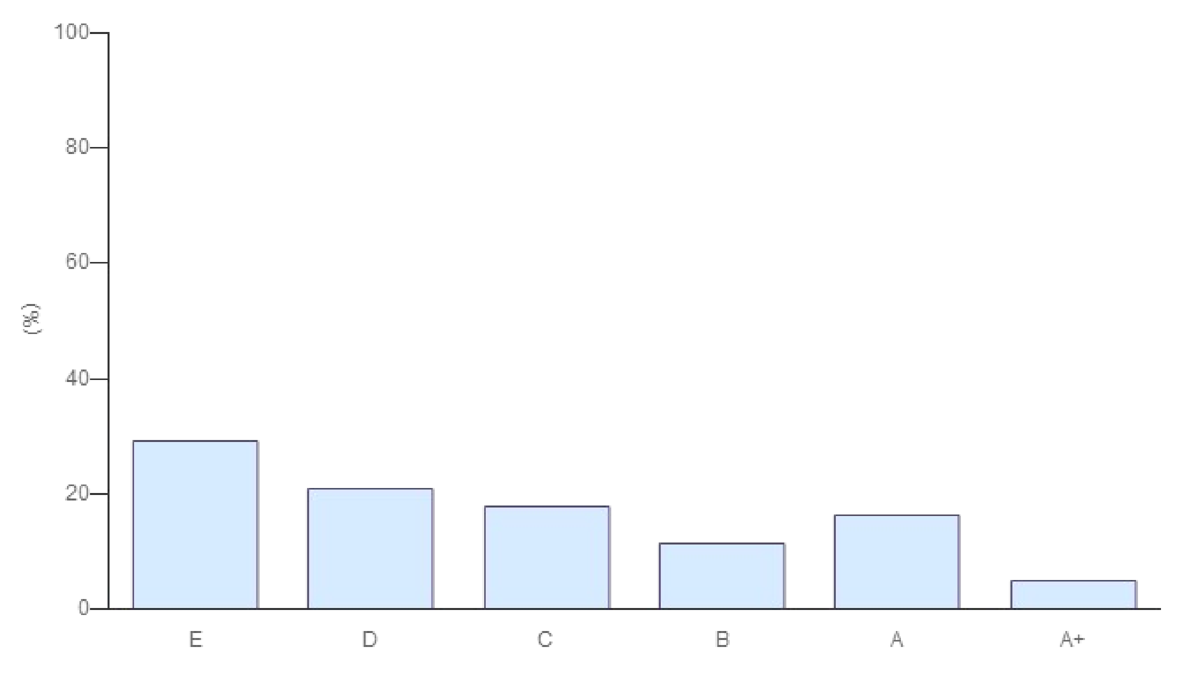


COMPARISON WITH PEERS

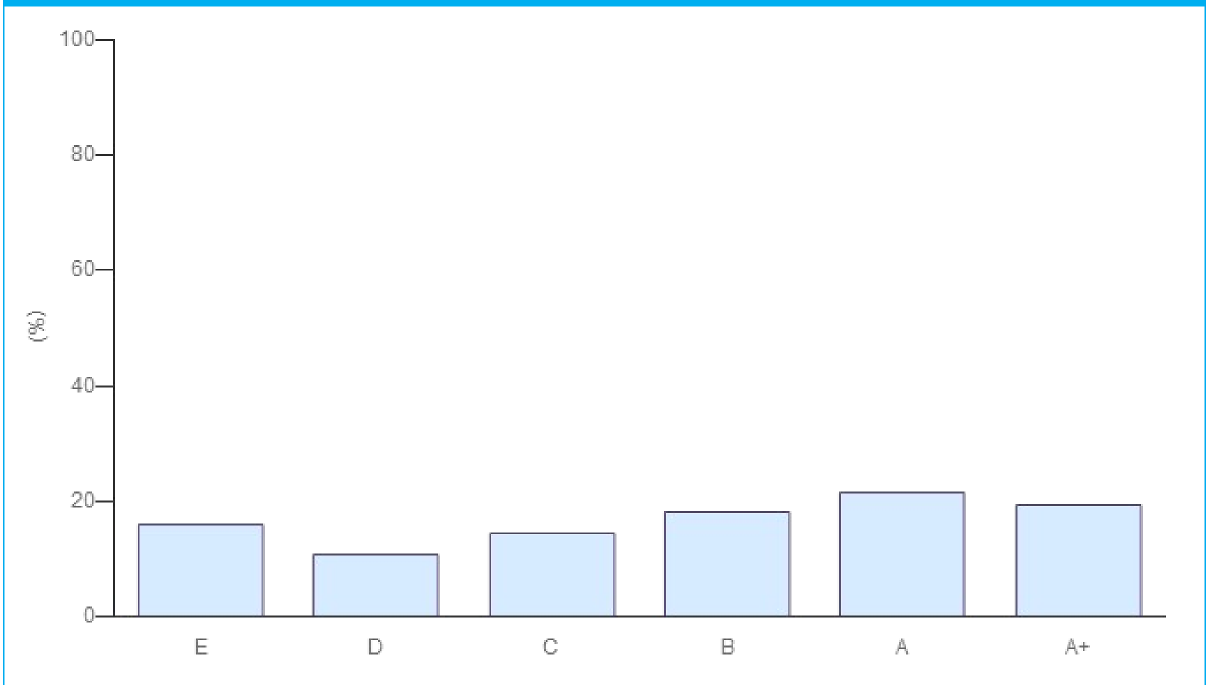
Your Direct - Listed Equity - Individual Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	**DIRECT - LISTED EQUITY - INDIVIDUAL ENGAGEMENTS**
Band	**C**

Signed PRI: 2015 (62)



Region: Europe (320)



Direct - LISTED EQUITY - COLLABORATIVE ENGAGEMENTS

Indicator Scorecard

This section looks at how your organisation carries out engagements via collaborations. If your organisation did not respond to an applicable indicator, you will see a score of ☆☆☆

Section	LISTED EQUITY - COLLABORATIVE ENGAGEMENTS
Type of Engagement	COLLABORATIVE ENGAGEMENTS
Total Score	7 ★ (out of a maximum 27 ★ from 9 indicators including the following additionally assessed indicators: LEA 12, LEA 09)
Band	C

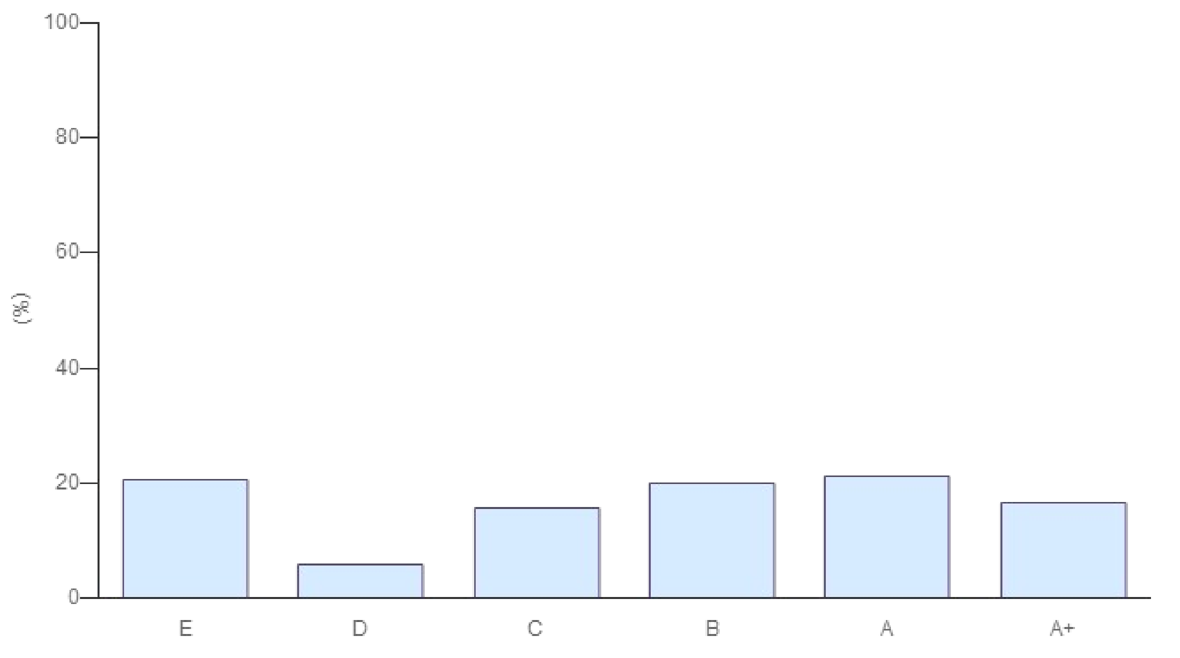
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
OVERVIEW	LEA 01	CORE	Description of approach to engagement	★★☆ (513)	☆☆☆	—
COLLABORATIVE PROCESSES	LEA 05	CORE	Process for identifying and prioritising engagement activities	★★★ (513)	☆☆☆	—
	LEA 06	CORE	Objectives for engagement activities	★★☆ (513)	★★☆	—
GENERAL PROCESSES	LEA 09	ADDITIONAL	Share insights from engagements with internal/external managers	★★☆ (513)	★★☆	—
OUTPUTS AND OUTCOMES	LEA 11a	CORE	Number of companies engaged with, intensity of engagement and effort	★★★ (513)	☆☆☆	—
	LEA 11b	ADDITIONAL		☆☆☆ (513)	☆☆☆	—
	LEA 11c	ADDITIONAL		☆☆☆ (513)	☆☆☆	—
	LEA 12	ADDITIONAL	Engagement methods	★★☆ (513)	★★★	—
	LEA 13	ADDITIONAL	Engagements on E, S and/or G issues	☆☆☆ (513)	☆☆☆	—
COMMUNICATION	LEA 16a	CORE	Disclosure of approach to public	☆☆☆ (513)	☆☆☆	—
	LEA 16b	CORE	Disclosure of approach to clients/beneficiaries	★★☆ (513)	☆☆☆	—

COMPARISON WITH PEERS

Your Direct - Listed Equity - Collaborative Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - COLLABORATIVE ENGAGEMENTS
Band	C

All Respondents (513)

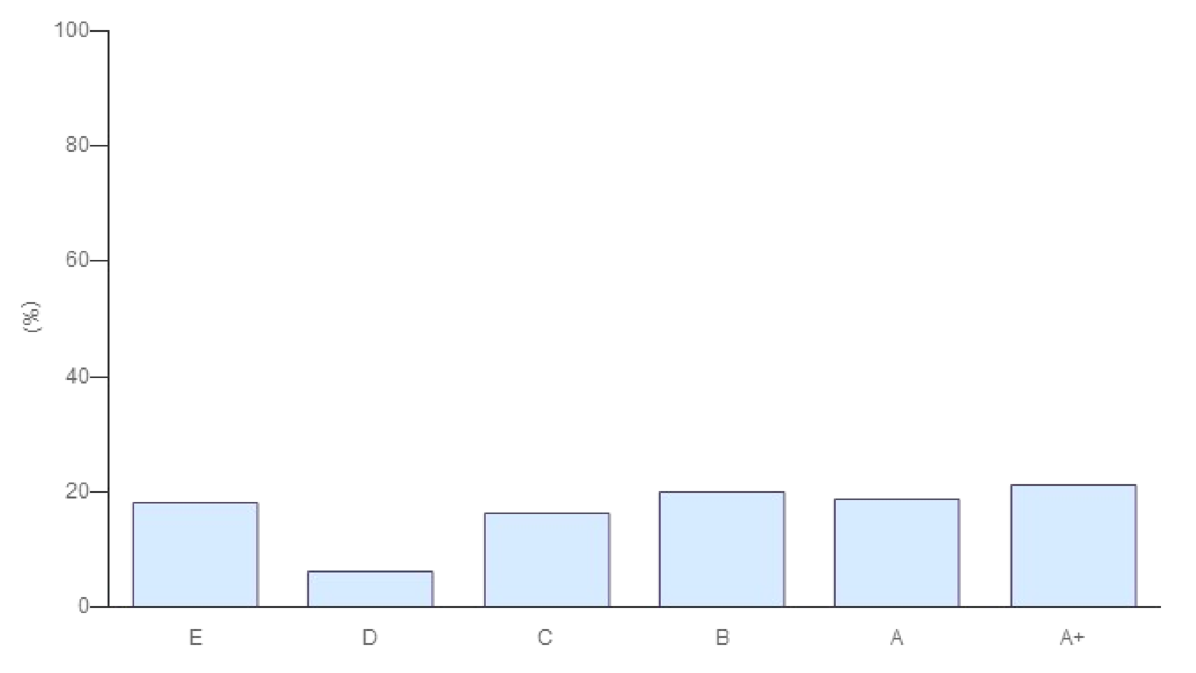


COMPARISON WITH PEERS

Your Direct - Listed Equity - Collaborative Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - COLLABORATIVE ENGAGEMENTS
Band	C

Category: Asset Owner (161)



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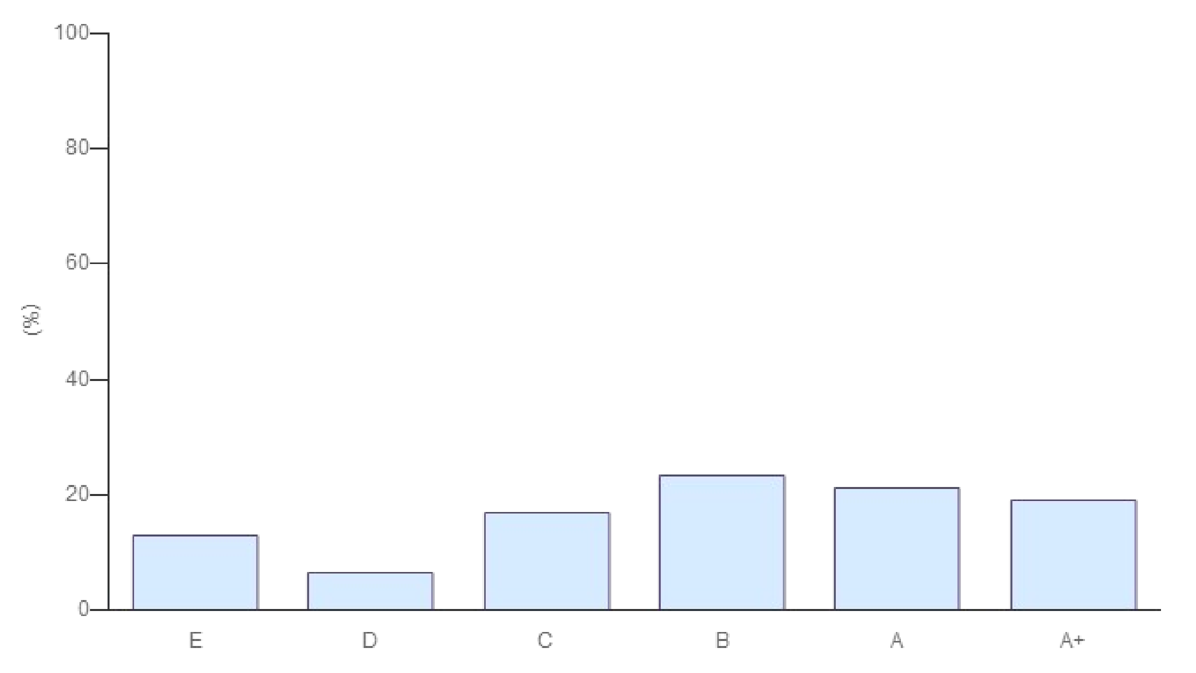
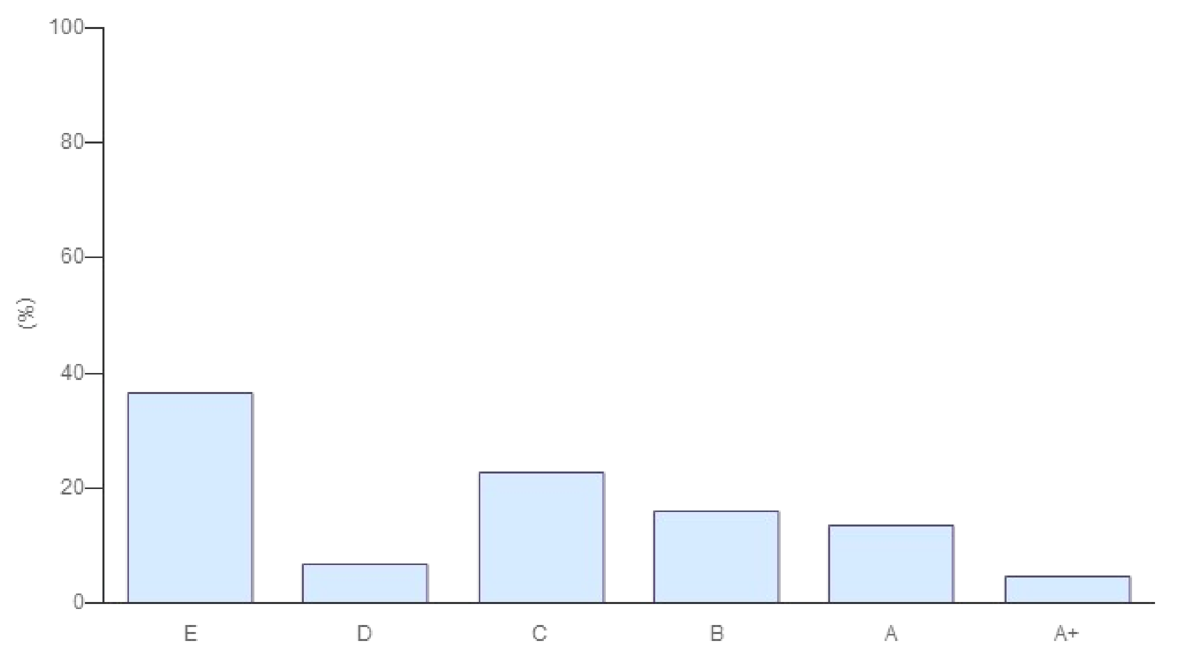


COMPARISON WITH PEERS

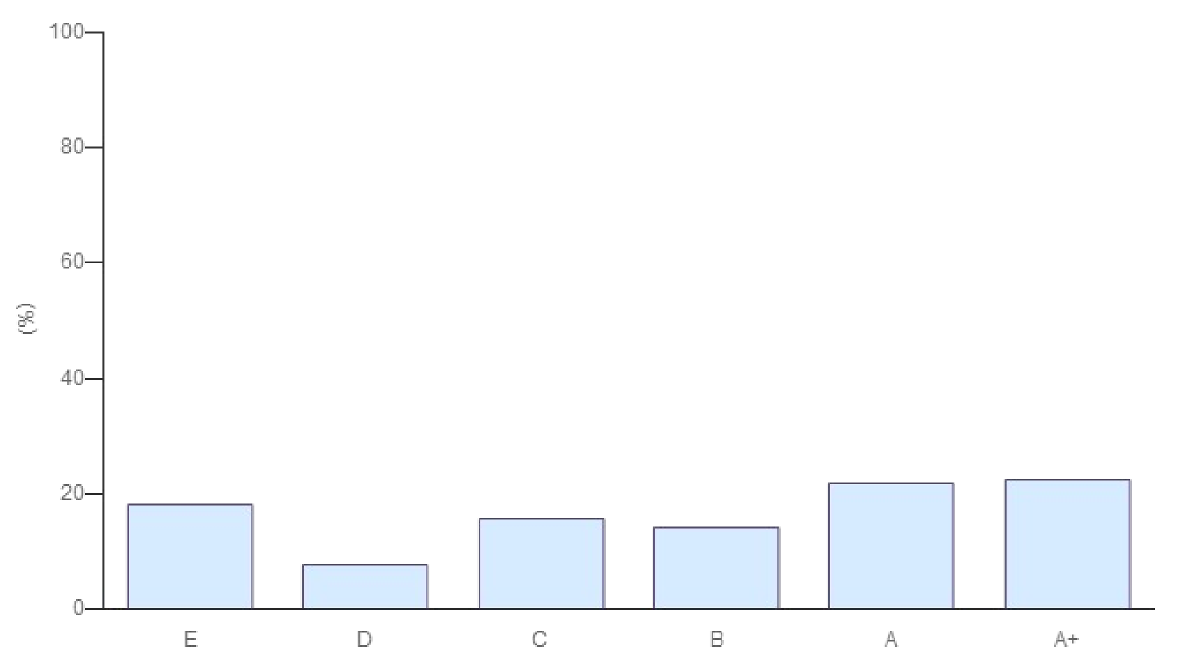
Your Direct - Listed Equity - Collaborative Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	**DIRECT - LISTED EQUITY - COLLABORATIVE ENGAGEMENTS**
Band	**C**

Signed PRI: 2015 (44)



Region: Europe (274)



Direct - LISTED EQUITY - SERVICE PROVIDER ENGAGEMENTS

Indicator Scorecard

This section looks at engagement activities undertaken on your behalf by service providers. If your organisation did not respond to an applicable indicator, you will see a score of ☆☆☆

Section	**LISTED EQUITY - SERVICE PROVIDER ENGAGEMENTS**
Type of Engagement	SERVICE PROVIDER ENGAGEMENTS
Total Score	7 ★ (out of a maximum 27 ★ from 9 indicators including the following additionally assessed indicators: LEA 12, LEA 09)
Band	C

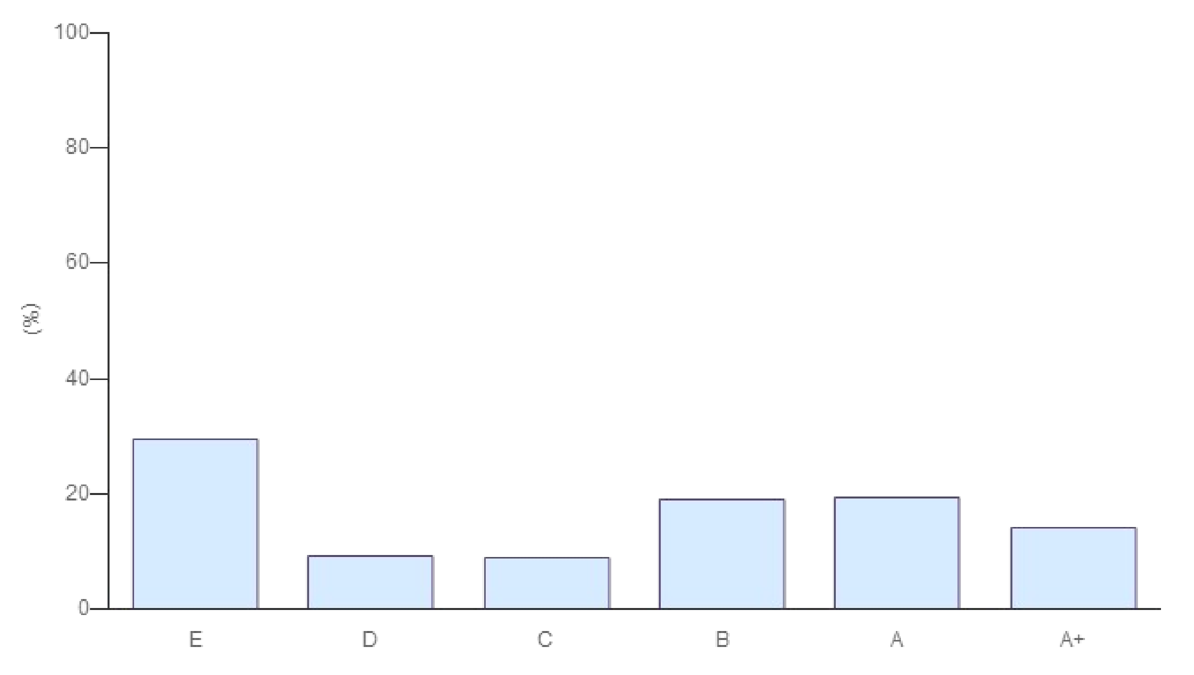
SECTION	INDICATOR			MEDIAN PEER SCORE (# PEERS)	YOUR SCORE	
	NUMBER	TYPE	TOPIC			
OVERVIEW	LEA 01	CORE	Description of approach to engagement	★★☆ (351)	☆☆☆	—
SERVICE PROVIDER PROCESSES	LEA 07	CORE	Role in engagement process	★☆☆ (351)	★☆☆	—
	LEA 08	CORE	Monitor / discuss service provider information	★★☆ (351)	★☆☆	—
GENERAL PROCESSES	LEA 09	ADDITIONAL	Share insights from engagements with internal/external managers	★★☆ (351)	★★☆	—
OUTPUTS AND OUTCOMES	LEA 11a	CORE	Number of companies engaged with, intensity of engagement and effort	★☆☆ (351)	☆☆☆	—
	LEA 11b	ADDITIONAL		☆☆☆ (351)	☆☆☆	—
	LEA 11c	ADDITIONAL		☆☆☆ (351)	☆☆☆	—
	LEA 12	ADDITIONAL	Engagement methods	★☆☆ (351)	★★★	—
	LEA 13	ADDITIONAL	Engagements on E, S and/or G issues	☆☆☆ (351)	☆☆☆	—
COMMUNICATION	LEA 16a	CORE	Disclosure of approach to public	☆☆☆ (351)	☆☆☆	—
	LEA 16b	CORE	Disclosure of approach to clients/beneficiaries	☆☆☆ (351)	☆☆☆	—

COMPARISON WITH PEERS

Your Direct - Listed Equity - Service Provider Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - SERVICE PROVIDER ENGAGEMENTS
Band	C

All Respondents (351)

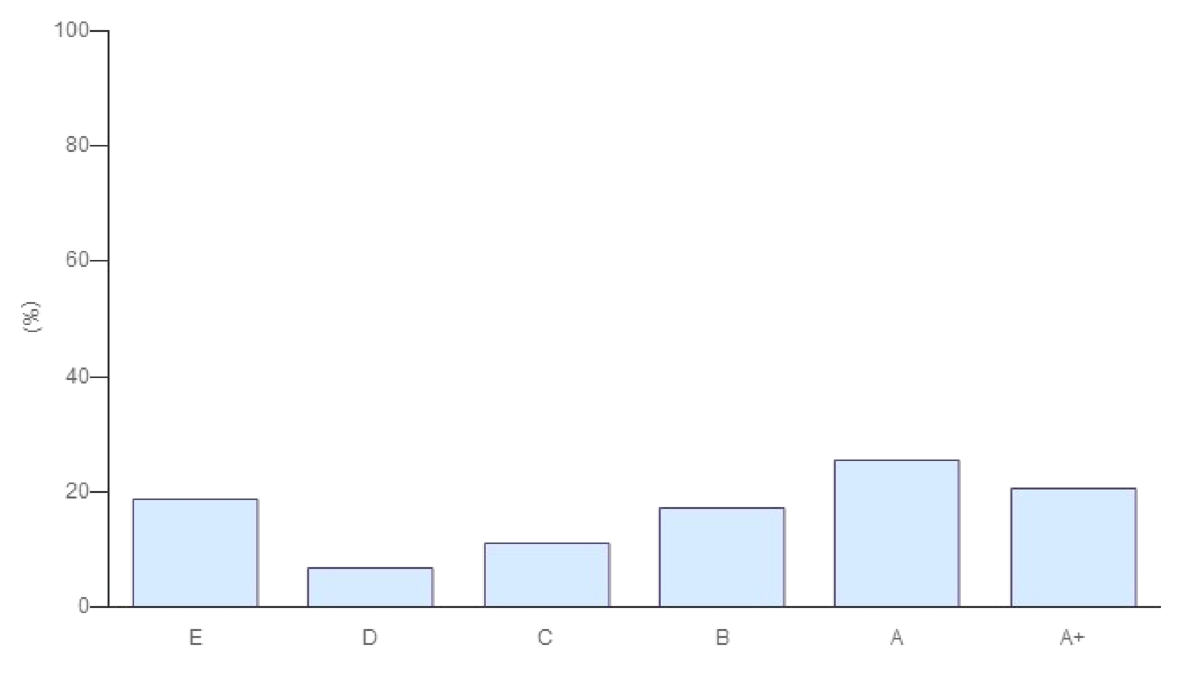


COMPARISON WITH PEERS

Your Direct - Listed Equity - Service Provider Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - SERVICE PROVIDER ENGAGEMENTS
Band	C

Category: Asset Owner (145)



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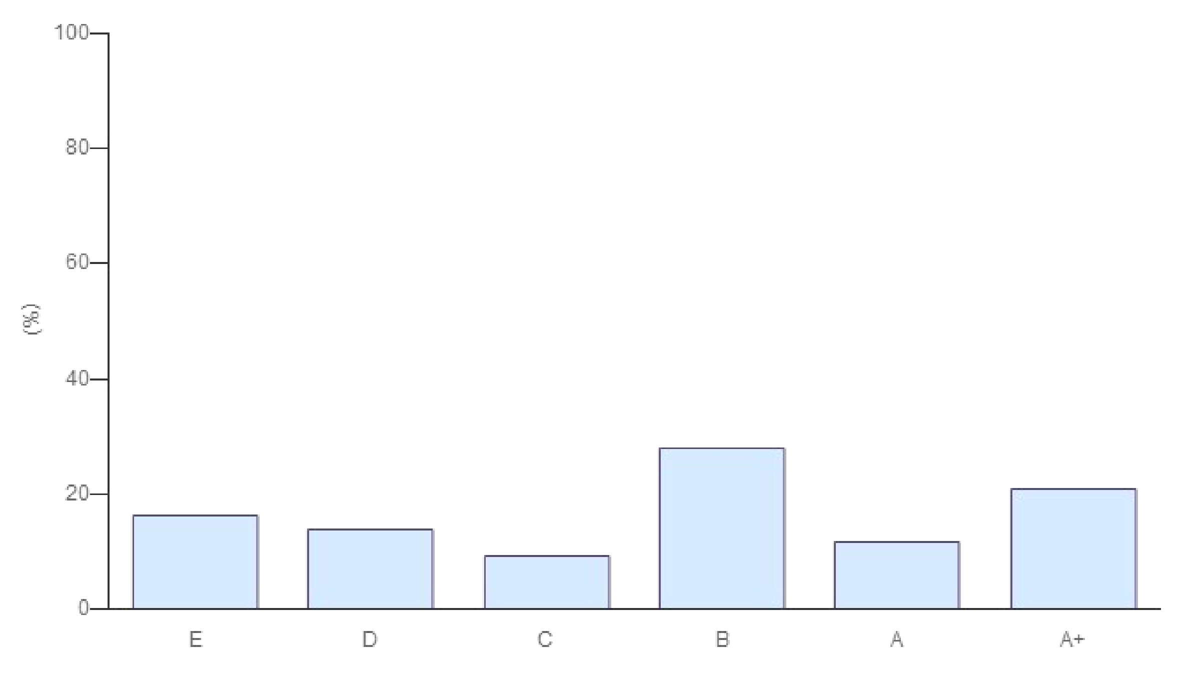
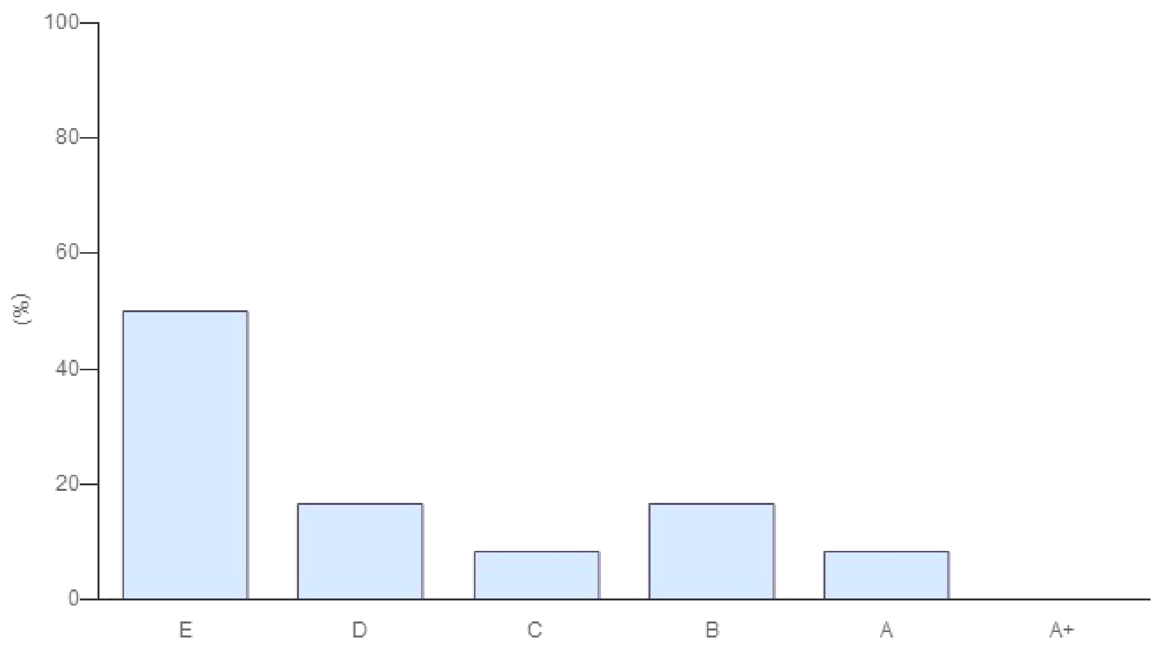


COMPARISON WITH PEERS

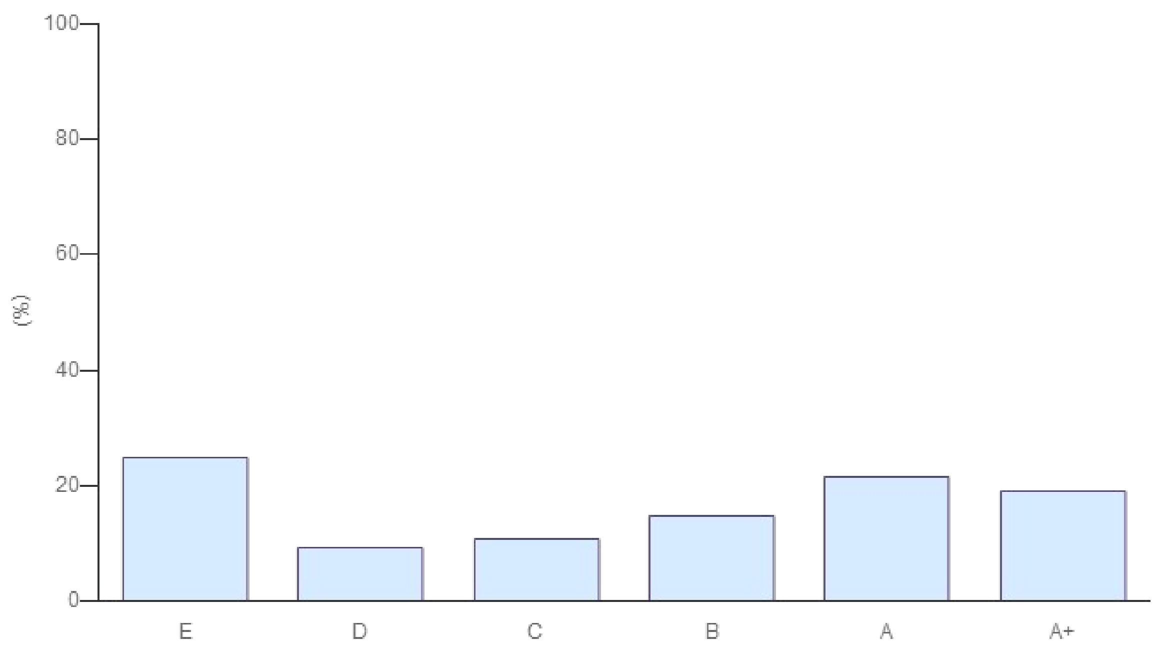
Your Direct - Listed Equity - Service Provider Engagements module score has been compared to relevant peer groups in a series of distribution charts below.

Module	DIRECT - LISTED EQUITY - SERVICE PROVIDER ENGAGEMENTS
Band	C

Signed PRI: 2015 (36)



Region: Europe (196)



Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected: None;

Update from the Responsible Investment Working Group

Contact for further information: Mike Neville, Tel: (01772) 533431, Senior Democratic Services Officer, Legal and Democratic Services, mike.neville@lancashire.gov.uk

Executive Summary

An update on activity at meetings of the Responsible Investment Working Group on the 20th September and 8th November 2017.

Recommendation

The Committee is asked to note the discussions to date at the Working Group, as set out in the report, which will inform a report with specific recommendations on responsible investment that will be presented to the Committee in March 2018 for consideration and approval.

Background and Advice

On the 30th June 2017 the Committee agreed to establish a Working Group of four members (County Councillor K Ellard, County Councillor S Clarke, County Councillor G Dowding and Councillor R Whittle) with Terms of Reference to be determined by the Chair to explore how to further support responsible investment.

Working Group – 20th September 2017

At the first meeting the Chair of the Working Group, County Councillor Ellard, reported that the Terms of Reference had been agreed as follows:

1. To review whether the current arrangements in relation to Responsible Investment reflect the duties of the Lancashire County Council as an administering authority (the function having been delegated to the Pension Fund Committee) under the LGPS regulations;

2. To identify any gaps in the Lancashire County Pension Fund Responsible Investment approach relative to the regulations or any permissible powers that the Pension Fund Committee may wish to explore;

3. To review current Responsible Investment Reporting to the Pension Fund Committee and make any required recommendations for amendments;

Lancashire County Council

4. To evaluate the possibility of developing a 'dashboard' style report with possible targets/outcomes to summarise LPP's activity and performance in relation to Responsible Investment.

Abbi Leech, the Head of Fund, Mukhtar Master, Governance and Risk Officer and Frances Deakin, Responsible Investment Manager from LPP also attended the meeting to advise the Group.

It was reported that the current position on responsible investment had been developed by a similar Working Group which made recommendations to the Committee in November 2014 and which had subsequently informed the current Investment Strategy Statement (ISS). The Working Group agreed to review the existing ISS to ensure it was compliant with all relevant regulations/guidance and reflected the agreed approach of the Committee as a signatory to the principles of responsible investment.

When considering ways in which the LCPF could improve its position in relation to responsible investment the Group agreed that the current informal approach needed to be strengthened/clarified and agreed the following actions:

a) To consider the approach of other Funds (such as the LPFA and the Environment Agency) in order to identify any examples of best practice which may be adopted in relation to the LCPF.

b) To inform the Investment Panel of the Groups comments on responsible investment in order to inform the review of asset allocations within the LCPF portfolio.

c) That arrangements be made for a meeting with representatives of the LPFA to discuss responsible investment and identify areas where the two authorities can align their policies to strengthen the Partnership and assist with pooling in the future.

d) To consult the Lancashire Local Pension Board on any recommendations of the Working Group before they are presented to the Committee.

The Working Group also discussed in detail the current LCPF approach to responsible investment in a number of areas of activity and agreed:

- That a proposed policy on Voting Globally, which specified Climate Change, the Pay differential and Employee practices as priorities, be drafted for consideration.

- To note the engagement of the Chair, County Councillor Pope, and Mr Master, the Funds Governance and Risk Officer with the Local Authority Pension Fund Forum (LAPFF).

- That representatives from the Fund should seek to become involved with LAPFF sub groups on climate change and other organisations, such as the Institutional Investor Group on Climate Change and the CDP (formerly known as the Climate Disclosure Project).

- That the Risk Register for the LCPF be updated to include a statement identifying that measures are in place to ensure that advice/action can be taken regarding responsible investment in the event that the current Responsible Investment Manager was unavailable.

- That the current arrangements with LPP regarding shareholder litigation be reviewed in order to expand the opportunities for the Fund to encourage corporate management to behave responsibly/honestly.

- That the Working Group be provided with information regarding the Investment Panel review of asset allocations within the Fund's portfolio and consider identifying specific percentages within each allocation in connection with renewable energy and affordable social housing

- To review the Fund's position on divestment in consultation with the LPFA Board and consider whether the Fund should divest any existing investments in the future.

When considering how information on responsible investment should be reported to the Pension Fund Committee the Working Group acknowledged that the format of reports had not changed following the formation of LPP and agreed that more concise information should be presented in future. It was agreed that use of a 'Dashboard' style report, which would include the following, should be explored and a draft version presented to a future meeting of the Committee for consideration

a) A breakdown on infrastructure.
b) The split between local/global real estate
c) Individual pie charts for each portfolio.

The Working Group also noted that the current Investment Strategy Statement would need to be reviewed before the end of June 2018 and agreed that any revised version should include a clear statement on responsible investment with specific impact sectors identified.

Working Group - 8th November 2017

At the second meeting the Working Group was joined by Sir Merrick Cockell, Chairman of the LPFA Board, Skip McMullen, Deputy Chairman of the LPFA Board, Mike Allen, Managing Director of LPFA and County Councillor E Pope, Chair of the Pension Fund Committee.

The Working Group and representatives from LPFA discussed the development of a collaborative approach to responsible investment which included the following points:

- Attention had primarily been focussed on the establishment of the Local Pensions Partnership (LPP) in order to secure savings in terms of administration and to satisfy the fiduciary duty of each Fund to secure a good return on investments. Now that LPP was operational it was acknowledged that there was an opportunity to explore additional benefits which could be achieved by both Funds working closer together and establishing a single policy with regard to responsible investment.

- Having a single policy on responsible investment would also assist LPPI in making decisions about future investments and give a clear message to other Funds which may seek to join the Partnership in the future.

- It was recognised that both Funds already had low carbon investments and had adopted similar positions in that they were signatories to the principles of responsible investment and the UK Stewardship Code.

- As the Pension Board for each Fund represented both beneficiaries and employers it should be consulted on any recommendations regarding a shared policy on responsible investment.

- Members should be kept informed of any developments regarding responsible investment via the media and the Annual Report.

- The current publicity regarding offshore investments was also discussed and it was suggested that LPPI be requested to provide both Funds with information in order that a clear explanation can be given should questions arise about any such investments which the Partnership manage.

Following the discussion the Working Group agreed:

1. That the LCPF and LPFA should work towards adopting a single approach and policy for responsible investment.

2. That the Head of Fund and the Managing Director of LPFA have further discussions outside of the meeting to;

    a) compare existing policies and identify areas of common ground in order to inform the draft policy specified at 1 above.

    b) develop a more detailed Investment Strategy Statement which includes reference to specific priorities.

3. That the Pension Fund Committee and LPFA Board be kept informed of developments and presented with a draft responsible investment policy and revised Investment Strategy Statement in due course for consideration and approval.

During the discussions it was also suggested that arrangements be made for an event in 2018 where representatives from specific external organisations would be invited to discuss their long term plans and likely future trends with a view to challenging the agreed LPP approach to responsible investment and inform future policy decisions on sustainable investment. The Working Group agreed that such an event should be explored further and recommended to the Committee for consideration in due course.

Arrangements have also been made for the Working Group to meet again on the 12th December 2017 to agree final recommendations which will presented to the Pension Fund Committee on 23rd March 2018.

Consultations

The Investment Panel/Pension Fund Committee in December 2017 and the Pension Board in January 2018 will receive updates on the activity of the Working Group and have an opportunity to comment.

Implications:

This item has the following implications, as indicated:

Risk management

It is good practice to review LCPFs stewardship and responsible investment approach based on current guidance and regulations.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Dates	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected: (All Divisions);

Lancashire County Pension Fund Risk Register
(Appendices 'A' and 'B' refer)

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Executive Summary

The risk register was updated and presented to the Pension Fund Committee at its meeting on 30th June 2017.

Since that meeting the register has been reviewed by County Council officers in consultation with colleagues from the Local Pensions Partnership (LPP), and has also been reviewed by the Pension Board. The risk register will continue to be reviewed and updated on a 6 monthly basis.

Recommendation

The Committee are asked to note the updated Risk Register, together with the LCPF Risk Summary document as set out in the attached Appendix 'A' and Appendix 'B' respectively.

Background and Advice

Risk management is the practice of identifying, analysing and controlling, in the most effective manner, all threats to the achievement of the strategic objectives and operational activities of the organisation. Risk management does not necessarily avoid or eliminate the risk, however, mitigating actions can reduce the likelihood and impact of the risks.

The risk register attached as **Appendix 'A'** covers the following areas:

- Investment & Funding Risk;
- Member Risk;
- Operational Risk;
- Transition Risk.

Lancashire County Council

The impact and likelihood has then been scored on a scale of one to four (one being low risk, four being high risk) in order to assess whether the overall risk level is low, medium or high. The risk owners then assessed whether there are any mitigating factors in place which could reduce the level of risk and the risk score was adjusted accordingly. The Head of Fund, together with the Governance & Risk Officer, have worked with LPP to review the current Pension Fund risk register. A copy of the updated risk register is attached in **Appendix 'A'** which incorporates the following changes:

- Based on the mitigating controls, the risk ratings for O3 (Risk Management) and T5 (External Drivers) were reduced;
- The risk rating for O7 (Data Protection & Cyber Security) was increased, taking the risk to a high risk. Despite increased resources for Information Governance at LPP, it was deemed that transitional IT arrangements and the relatively short deadline for the implementation of the new GDPR regulation, warranted the increase;
- The risk rating for I5 (Cash-Flow Management) has remained the same at a rating of medium (4). The Investment Panel with the support of LPP have reviewed the Investment Strategy with specific measures to mitigate this risk.

The current 'high' risks are as follows:

- Investment & Funding Risk – I2, and I3;
- Member Risk – none;
- Operational Risk – O2, O4 and O7;
- Transition Risk – T1, T2, T3, T4 and T5

As can be seen summarised in **Appendix 'B':**

- The two 'Transition' risks T1 and T2 remain the highest risks for the fund;
- Only one risk has increased in its rating – the 'Operational ' risk O7;
- The two risks – 'Operational' O3 and 'Transition' T5 have reduced since the last review in June;
- Finally, the 'Transition' group of risks remain the highest risk as compared to the other three groups.

The Risk Register will continue to be reviewed on a regular basis.

Consultations

Consultation took place with LPP and with the Lancashire County Pension Board.

Implications:

This item has the following implications, as indicated:

Risk management

The Lancashire Local Pension Board provide scrutiny and support to the Pension Fund Committee, in relation to their responsibility to ensure there is effective risk management over the Pension Fund's operations.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

Risk Assessment

In order to ensure identified risks can be consistently assessed, a common set of risk assessment criteria has been developed. Using this criteria, the following was determined for each individual risk:

- Gross risk: The likelihood and impact of the risk materialising without any mitigating controls being applied; and
- Residual risk: The likelihood and impact of the risk materialising with mitigating controls being applied.

Risks are evaluated on a scale of 1 to 4 with the highest value being the most likely to occur/ most severe impact. The risk assessment criteria developed with the Head of Fund is presented below:

				LIKELIHOOD OF RISK OCCURRING			
				1	2	3	4
				in 20 years /5%	1 in 5 years /20%	1 in 2 years /50%	1 in 1 years / 95– 100%
FINANCIAL IMPACT		**Financial impact**	**Qualitative impact**	Unlikely could occur once in 20 years	Possible could occur once in 5 years	Likely could occur in next 24 months	Happening Happening already or highly likely
	4	>£150m	□ Critical impact on operational performance (>10% of membership affected recovery time > 1 year); □ Critical breach in laws and regulations that could result in material fines or consequences; □ Critical impact on the reputation of the Fund which could threaten its future viability, adverse national media coverage; □ Affect such that it undermines the ability to achieve key Fund goals and objectives (survival).	4	8	12	16
	3	£75m - £150m	□ Significant impact on operational performance (5 – 9% of membership affected/ recovery time 8 – 12 months); □ Significant breach in laws and regulations resulting in significant fines and consequences; □ Significant impact on the reputation or Fund (some national media coverage); □ Potential to have high impact on Fund goal and objectives.	3	6	9	12
	2	£5m – £75m	□ Moderate impact on operational performance (1 – 4% of membership affected/ recovery time 3 – 7 months); □ Moderate breach in laws and regulations resulting in fines and consequences; □ Moderate impact on the reputation or brand of the organisation (some media coverage); □ Potential to have moderate impact on Fund goal and objectives.	2	4	6	8
	1	<£5m	□ Minor impact on operational performance (<1% of membership affected/ recovery time <3 months); □ Minor breach in laws and regulations with limited consequences; □ Minor impact on the reputation of the organisation; □ Comparatively less impact on Fund goal and objectives.	1	2	3	4

Appendix A

Risk register

Risk Ref	Risk Title	Risk Description	Risk Drivers	Owner	Inherent Risk: Impact	Inherent Risk: Likelihood	Inherent Risk: Inherent Rating	Controls*	Residual Risk: Impact	Residual Risk: Likelihood	Residual Risk: Residual Rating	Risk actions: Action Details	Risk actions: Owner	Risk actions: Target Date
INVESTMENT & FUNDING RISK														
I1	Investment Strategy	Inappropriate investment strategy leading to volatility and underperformance. A decline in the market value of investments relative to liabilities or an increase in the Fund's risk profile could have a negative impact on the value of the fund, particularly where the assets to liabilities profile is mismatched, leading to underfunding.	• The investment strategy is not appropriate to meet the Fund's funding requirements. • Investment strategy does not change to reflect changes in circumstances, leading to a reduction in funding level or missed opportunities to enhance or protect the funding level. • Falling share prices and values of illiquid assets, therefore decreasing in the assets held by the fund.	Head of Fund	4	2	H	• The Investment Advisors undertake a full review of the Fund's investment strategy following each triennial funding valuation to ensure investment strategy remains appropriate for the Fund's objectives. Advisors are also involved in any agreed ad hoc review between valuations. • LCC Pension Committee review and approve Investment Strategy. • Quarterly performance reporting against strategy performed by the Investment Panel and results reported to the Pension Committee. • LPPL advise on strategy with LCC engaging external contractors / advice to validate / assess advice.	4	1	M	• The Investment Strategy has been reviewed and will be presented to the Dec Committee. • LPP have advised the Investment Panel accordingly on the strategy.	Investment Panel/Head of Fund	Mar 2018
			• Poor / inappropriate investment advice received from LPPL. Investment beliefs and preferences of individuals in LPPL might conflict with what is in the pure best interests of the Scheme. • Poor / inappropriate investment advice received from external investment advisors.	Head of Fund	4	2	H	• LPPL advise on strategy with LCC engaging external contractors / advice to validate / assess advice. • Decisions are made in consultation with External Advisors who attend specific Investment Panel and Pension Committee meetings during the year and are consulted as required to advise on investment strategy decisions.	4	1	M	The Investment Panel were advised accordingly by LPP regarding the strategy at the meeting in June.	Investment Panel/Head of Fund	Mar 2018
I2	Construct, Implement and Perform	The portfolio fails to deliver the required return within risk tolerances / the translation of the strategy into the investment portfolio is sub-optimal / failure of the investment support infrastructure resulting in inefficient implementation or losses.	• Failure to achieve target returns over the mid term i.e. 5 years. • Incorrect assumptions about expected returns, volatilities and correlations. • Model specifications are incorrect, input data is inaccurate, outputs are misinterpreted. • Failure to establish risk parameters for each component of the portfolio and for the total portfolio e.g. VAR, FX hedging and derivatives.	Head of Fund	4	2	H	• LPPL attendance at Investment Panel provides a view of activity. > LPPL is in the process of establishing investment risk monitoring roles in-house. • LPP continue to build capability within both the investment and investment risk teams; ○ A Head of Investment Strategy has been appointed with responsibility for the overall strategy. A team of analysts focus on specific asset classes who input into the overall IS team output as required; ○ Strategic asset allocations are established by agreement and performance is monitored and reported by regularly; ○ Models are subject to 4 eyes review and proposals are reviewed by LPPI's investment committee; ○ LPPI's risk management is governed by a Risk Committee which includes independent members with relevant industry experience. Risk from the asset portfolio are measured using industry standards systems (Ortec,	4	2	H	• The Investment Panel have met with LPP to discuss risk monitoring and reporting.	Investment Panel/Head of Fund	Mar 2018

					Inherent Risk				Residual Risk			Risk actions		
								Bloomberg). A portfolio management system is being considered in order to provide comprehensive STP.						
			• External mandates are not aligned to the Fund's return and risk requirements. • Decisions are not implemented accurately, efficiently and in line with appropriate authorities. • Investment performance is poor, not reported in a timely manner and / or frequently monitored. • Investment manager SLA's are not in place and/or are not frequently monitored. • Cost reduction achieved from utilising internal investment managers offset by poor internal investment manager performance.	Head of Fund	4	3	H	• Quarterly performance reporting against strategy performed by the Investment Panel and results reported to the Pension Committee.	4	2	H	Quarterly reporting on cost reduction v's performance will be reported to Pension Fund Committee.	Head of Fund	Mar 2018
I3	Custody of Fund assets	Failure to ensure the security and safe custody of Fund assets leading to a loss of assets and / or income and breach of the Pensions Act.	• The Fund's assets are not adequately safeguarded, with due record-keeping and accurate income and taxation processing; and • Inadequate records and reporting of investment positions, transactions and returns.	Head of Fund	4	3	H	• Contractual protection via Custody agreement. • Assets are held in separate named LCC client account. • Monthly LCC reconciliation of Fund assets with those reported by Northern Trust.	4	2	H	Review of Fund's custody arrangements to be undertaken taking into account LPP's arrangements with its custodian and depositary.	Head of Fund	Mar 2018
I4	Actuarial Valuation and Monitoring of Funding	Asset / liability mismatch leads to insufficient assets to fund liabilities resulting in increased deficit and inability to make benefit payments, meaning cash injections required from employers.	• Models used in the actuarial valuation process, including liability projections and calculations, are incorrect or misinterpreted resulting in poor funding decisions (e.g. poor cash flow data being shared). • Inappropriate assumptions or methodology used in the valuation process leading to inconsistent long term objectives. • Increases in commodity prices push up the level of inflation - Inflation increases pension payments but assets do not grow at required level. • A significant allocation in a particular type of asset will lead to an over exposure in that area and therefore vulnerability to significant changes (increasing the funding gap).	Head of Fund	4	3	H	• Assumptions used are market consistent and take into account Fund specifics, such as investment strategy and Fund mortality experience. • An overall level of prudence is built into the assumptions to reduce the risk of adverse experience. • The Pension Fund Committee monitors the funding level on a quarterly basis allowing the Committee to understand if the funding level is reducing. • Funding advice and modelling is delegated to professionals specialising in LGPS scheme actuarial services (Mercer).	4	1	M	LPP to undertake further work on funding level and cash flow analysis as part of the work on Investment Strategy advice.	Investment Panel	Mar 2018
I5	Cash-Flow Management	Insufficient funds to meet payments from the Fund: Benefits are not paid on time.	• Inadequate liquidity due to type of investments resulting in the inability to meet payments as they fall due and / or a need to liquidate assets at an unfavourable point of time; and • Poor cash management results in the inability to meet payments as they fall due, un-invested cash balances, or overdrafts, implying loss of income or unnecessary costs being incurred.	Head of Fund	2	2	M	• The Fund portfolio includes liquid and tradeable assets in order to ensure a shortfall would be covered. • Rental income received by the Fund covers the shortfall in contributions received allowing payroll to be met on a monthly basis; • Investment Panel with support from LPP have reviewed the Investment Strategy against the next 5 years cash requirements for the Fund.	2	2	M	LPP to undertake further work on funding level and cash flow analysis as part of the work on Investment Strategy advice. The Investment Panel will make recommendations to Pension Fund Committee to revise the Investment Strategy asset allocations to ensure there is enough liquidity in the portfolio.	Investment Panel	Dec 2017

					Inherent Risk				Residual Risk			Risk actions		
I6	Admitted Bodies Arrangements	The Admitted body is unable to make good any shortfall of their share of the overall deficit requiring LCC to make additional contributions on their behalf.	• Admitted bodies are unable to pay cessation debt on exit leading to an unfunded shortfall that will be required to be covered by LCC and/or other admitted bodies.	Head of Fund	2	2	M	• LPPL monitor employer's risk profiles with reference to the size of their liability. • The Pension Fund Committee review the covenant on an annual basis; • LPP Employer Risk Team are assessing the financial strength of all scheme employers participating in the Lancashire Fund; • The implementation of a robust new 'Admission & Termination Policy'.	2	1	L	A covenant review is being carried out. The draft 'Admission & Termination Policy' is currently out for consultation with employers. The final policy will be recommended to Pension Fund committee in March for an April implementation.	Head of Fund	Mar 2018
MEMBER RISK														
M1	Benefit Payments	Pensions payments and lump sums are incorrectly processed.	• Administrator SLA's are not in place and/or performance is not reported or frequently monitored. • Misapplication of the Fund's rules leads to incorrect or untimely benefit calculations or payments. • System changes at the administrators leading to inaccurate benefit payments. • Pensions are paid late or not at all, causing distress to members or reputational impact to the Fund.	Head of Fund	2	2	M	• Administrator reporting against SLA reviewed on a quarterly basis. • Complaints process monitored by the Head of Fund. • Documented processes and procedures in place with supervisor review performed for each benefit calculations. • Timeliness of monthly payroll monitored. • The Local Pension Board (LPB) provide scrutiny of breaches, complaints, KPIs, and assurance statements provided by LPPL and auditors.	2	1	L	• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going
M2	Member Comms	Fund and individual communications are inadequate, inappropriate or not made in a timely manner.	• Fund and individual communications are inadequate, inappropriate or not made in a timely manner leading to members making badly informed decisions/lose out on potential benefits resulting in legal claims being made against the Trustee.	Head of Fund	2	2	M	• Formal monitoring of member complaints and appeals process. • Administrator reporting against SLA reviewed on a quarterly basis. • LPB has a role and expertise reviewing and making recommendations to improve communications.	2	1	L	• Review of SLA's with LPP to ensure they are measuring the right indicators	Head of Fund	On going
M3	Data quality	Member experience negatively impacted through inconsistent and/or inappropriate approaches in treatment and management of member data.	• Data is not maintained, leading to incorrect or no benefits being paid.	Head of Fund	2	2	M	• LPPL member data quality checking procedures in place. • Administrator reporting against SLA reviewed on a quarterly basis. • LPB provide scrutiny of KPIs and assurance statements from LPPL.	2	1	L	• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going
M4	Contributions	Inaccurate / untimely contribution payments	• Contributions are calculated incorrectly or not paid over within the statutory deadline.	Head of Fund	2	2	M	• Administrator reporting against SLA reviewed on a quarterly basis. • Contribution reconciliations are performed by LCC. Reasonableness checks are performed by LPPL.	2	1	L	• Review of SLA's with LPP to ensure they are measuring the right indicators.	Head of Fund	On going

OPERATIONAL RISK

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					Inherent Risk				Residual Risk			Risk actions		
O1	LCPF Committees and Fund Governance	Fund governance arrangements are inappropriate / ineffective, leading to: • opportunities being missed; • risks not being managed; • ineffective or inefficient decision making; • increased reputational risk; and • Inability to adequately challenge LPPL.	• The Pension Fund Committee and its sub-committees do not have the appropriate skills, knowledge and experience (both technical and board related skills) and support to discharge oversight responsibilities. • The Pension Fund Committee, sub-committees and the Executive structure is inappropriate, and do not have clear and aligned roles, responsibilities and delegated authorities, leading to ineffective or inefficient decision making or lack of oversight. • Fund objectives are unclear, not understood or not fully bought into resulting in: ○ opportunities being missed; ○ risks not being managed; and ○ ineffective or inefficient decision making.	Head of Fund	3	4	H	• Monthly Committee training is delivered to Committee members and officers. • Induction process in place for new Committee members. • Committee composition comprises a range of relevant skills and experience including officer membership to provide ongoing support and technical expertise. • Where required, external technical expertise is drawn upon via Committee attendance by external advisors (e.g. Investment advisors). • Committee Terms of Reference are in place to clearly communicate Committee responsibilities. • Committees operate a conflicts of interest policy and process. • The delegation of authorities and authority levels has been documented and approved by the Pension Committee. • The Head of Fund and the Pension Committee agree the annual business plan including Fund objectives. An update on the plan is presented at each Committee meeting and is monitored on a monthly basis by the Head of Fund. • LPB scrutiny of governance structure of LCPF should be mitigating factor	3	2	M	• New Strategic plan for the Fund to be produced and presented at Dec committee meeting.	Head of Fund	Dec 2017
O2	Reliance on key persons and expertise	Failure to maintain an adequately resourced operation to support the execution of the Fund's objectives.	• Skills and knowledge of LCC officers are lost with only a limited market from which to seek their replacement. • Skills and knowledge within LPPL are lost with only a limited market from which to seek their replacement. • A lack of Councillor continuity impacting composition and effectiveness of the Pension Committee; • Unavailability of LPP's Responsible Investment Manager.	Head of Fund	3	3	H	• Committee composition comprises a range of relevant skills and experience including officer membership to provide ongoing support, continuity and technical expertise. • LPB scrutiny of PFC decisions should be mitigating factor; • LCPF send representatives to the LAPFF business meeting; • LCPF officer now overseeing work on RI.	3	3	H	• Induction training for new committee members has taken place. • Monthly workshops will be delivered. • Increased resource in Officer Team to ensure succession planning. • LCPF have recruited a new officer to support internal capacity.	Head of Fund	Ongoing
O3	Risk Management	Risk Management arrangements within the Fund are inappropriate / ineffective resulting in risks being missed or not appropriately managed.	• Inappropriate oversight and monitoring impacts on the effective management of risks, ineffective or inefficient decision making and missed opportunities. • The risk appetite of the Fund is not articulated, understood and embedded across the Fund. • Risk management information and assurance mechanisms are inaccurate, incomplete, untimely or not actioned.	Head of Fund	3	3	H	• Risk identification and assessment exercise completed in Q4 2016. Assurance requirements for key risks identified as part of this process with subsequent action plans being developed. This process will help build the foundation of the Fund's risk management framework.; • Recruitment of a new Governance and Risk Officer; • Risk Management training for Members & Board delivered; • Regular meeting with LPP Corporate Risk Specialist. • LPB scrutiny of risk register and risk management processes as well as PFC decision-making should be mitigating factor	3	2	M	• New Governance and risk officer appointed. • A risk framework will be developed and reported to committee in December.	Head of Fund	Ongoing
O4	Compliance	Compliance breaches (i.e. Fund rules, legislation, regulation) which may result in	• Failure to identify sufficiently early and mitigate applicable regulatory changes. • Fund fails to comply with corporate governance guidance (e.g. Stewardship	Head of Fund	3	3	H	• A comprehensive breaches policy and guidance/procedures is in place. This document sets out the policy and procedures to	3	3	H	• Internal audit plan to include a review of governance	Head of Fund	Ongoing

					Inherent Risk				Residual Risk			Risk actions		
		reputational or financial impact to the Fund or its members.	Code) incurring reputational damage. • LPPL and its approved persons fail to observe applicable FCA regulations and fail to maintain their authorised status leading to financial loss for the shareholders. • Breach of the LPPL Shareholder agreement (e.g. failure to meet as a Board and breach of ABC laws) leading to financial loss and reputational damage. • MiFID II regulations come into effect from the 3rd Jan 2018. Although compliance with the EU directive sits with LPP, non-compliance and subsequent implications with the FCA could impact LCPF reputation.					be followed by certain persons involved with the Lancashire County Pension Fund, the Local Government Pension Scheme managed and administered by Lancashire County Council, in relation to reporting breaches of the law to the Pensions Regulator. • The Head of Fund performs a review of the Myners Principles with the Committee and Board on periodic basis. This review is considered within the annual governance statement. • The Fund has published its annual update on how it has implemented the Code. The assessment is reviewed by the Committee and the Board. • The Head of Fund, Committee and Board, on an annual basis, assess, review and publish the Fund's Governance Compliance Statement.; • LPP - Work currently underway to ensure compliance to the new MiFID II requirements; • LPP's dedicated Compliance function conducts regulatory horizon scanning for early detection of applicable regulatory changes; • LPP's dedicated Compliance function conducts a compliance monitoring programme which assesses LPPs performance of its FCA regulated functions. The results reported to LLP I's Risk Committee and Board. Initial and on-going regulatory training and awareness covers the obligations of both the firm and the individual; • LPP's policies are monitored and performance against policies reported internally by the responsible departments, by the Operations Risk Specialist, by Compliance and subject to review by Internal Audit. • LPB scrutinise both regular compliance documents and statutory statements.				arrangement. • Governance review of LPP structure will be started in July 2017; • A review of the Fund's governance is to be carried out once the LCC Management Restructure is completed.		
O5	Cost Management	Unnecessary costs incurred and budget variances realised.	• LCC does not run effectively: Inefficient use of advisors, third parties or inefficient controls use up resources which should be used to meet benefits.	Head of Fund	1	3	L	• The Head of Fund (using external support as required) monitors performance of the Fund against the business plan and budget on a monthly basis.	1	2	L	• Regular budget monitoring on the fund and LPP budget to be reported to committee on a quarterly basis.	Head of Fund	Ongoing
O6	Business and IT Continuity	IT systems, business processes or business infrastructures fail (across the Fund) or are inadequate.	• IT systems, business processes or business infrastructures fail (across the Fund) or are inadequate resulting in financial loss, missed opportunities or failure to pay benefits.	Head of Fund	3	2	M	• LCC has in place a business continuity plan which includes LCPF fund staff and their internal operations. • The fund's IT platform is part of the LCC's BTLS network. All LPP systems are to be transferred to a platform hosted by LPP from Nov 17; • LPP has a business continuity plan in place which is designed to provide a backup location and architecture to allow for business processes to continue to operate in the event of a failure event.	3	2	M	• LPP internal audit plan includes a review of IT arrangement and transition plan. • Outcome of this work to be reported to committee.	Head of Fund	Ongoing

					Inherent Risk				Residual Risk			Risk actions		
O7	Data Protection and cyber security	Failure to hold personal data securely (data transfer, data retention and back up).	• Failure to ensure the confidentiality / security, integrity and availability of membership data, potentially impacting members and/or the reputation of the Fund. • Compliance with the EU General Data Protection rules (GDPR) which will come into force on 25th May 2018	Head of Fund	3	3	H	• Data protection agreements are in place with third parties. • LCC has in place a data protection policy. • IT systems are configured with firewall and antivirus solutions.; • LPP and LCC are working to implement the requirements of GDPR by 25th May 2018.; • LPP are in the process of acquiring the ISO27001 accreditation (Information Security; • LPP are running an internal project to identify our data footprint and define a roadmap for GDPR compliance • LPP has appointed an Information Governance Officer to ensure compliance; • All LCC and LPP staff have received relevant Information Governance training; • LPB provide scrutiny of data protection arrangements. • Agreement between LCC and LPP is being reviewed with regards to GDPR.	3	3 (INCREASE FROM 2)	H	• LPP internal audit plan includes a review of IT arrangements. • Outcome of this work to be reported to committee.	Head of Fund	Ongoing
O8	Fraud Risk	Inadequate Financial Controls / loss of funds through fraud.	• Key Financial Processes not documented; absence of formal reconciliation regime; absence of adequate controls.	Head of Fund	2	2	M	• Assets are held by independent custodian which is responsible for protecting and safeguarding Fund assets. • The delegation of authorities and authority levels, which promotes segregation of duties, has been documented and approved by the Pension Committee. • The fund has a separate bank account which is operated by LCC and audited on an annual basis. Payment authorisation controls are in place to prevent any losses due to fraud.	1	1	L	• Internal audit work includes a review of financial controls.	Head of Fund	Ongoing

TRANSITION RISK

					Inherent Risk				Residual Risk			Risk actions		
T1	Decision Making	Inappropriate or untimely decision making as a result of lack of transparency between LCC and LPPL.	• Non conformity with Shareholder agreement and Matters Reserved. • Lack of relationship management. • Lack of assurance and oversight reporting from LPPL to LCC. • Non conformity with delegated authorities. • Absence of sufficient representation of LCC within LPPL. • Absence of review and challenge and oversight of LPPL.	Head of Fund	4	4	H	• Shareholder agreement and Matters Reserved in place. Decisions are made in line with this agreement. • Legal agreements between LPPL companies are in place and monitored by LCC Officers. • The delegation of authorities and authority levels has been documented and approved by the Pension Fund Committee and Full Council. • A formal governance structure has been established which enforces decision making and approval at the right levels. • LCC representation on the LPPL Board via the Non-Executive Director, providing transparency at Board meetings. • LPPL Non-Executive Director approval required for LPPL Board decisions to take effect. • LCC Head of Fund holds pre-board meetings to discuss matters with NED, increasing transparency. • LPPL attend the Investment Panel to present updates / recommendations / proposals for ratification. • LPB provide review and challenge, which is mitigating factor	4	3	H	• Internal audit plan to include a review of governance arrangements	Head of Fund	On going
T2	Change Management	Ongoing programme of change is not managed preventing project delivery, avoidable delays or excessive costs.	• Change is not fully reflected in processes and controls such that something falls between the cracks. • Interdependencies and resource conflicts between projects are not managed effectively. • Project fails to deliver to scope, time and budget. Benefits are not realised. • Key resources become unavailable.	Head of Fund	3	3	H	• LPP have a detailed business transition plan which incorporates transition of investment, administration and ICT systems. LPP's internal auditors (Deloitte) are reviewing and reporting on these plans. The Head of Fund and Head of Internal Audit review the outcome of the LPP internal audit work and will report to Pension Fund committee and the Local Pension Board as appropriate. • An initial cost benefit analysis of the setup of LPPL has been produced. Monitoring mechanisms are to be established. • LPB are providing independent scrutiny and challenge to the change management.	3	3	H	• Quarterly reporting on administration transition to be presented to committee. • Quarterly monitoring of Pension fund and LPP budget to be presented to committee. • Regular reporting on the investment transition plan will be presented to committee.	Head of Fund	On going
T3	Investment Transition	Investment transition is poorly managed resulting in: error; unexpected cost; tax implications; ineffective decision making; and loss of FCA license.	• Change in legal ownership resulting in significant transactional taxes being incurred in certain territories. • Significant transactional costs arising from selling and repurchasing Fund assets. • Inaccurate allocation of units within sub funds leading to inaccurate reporting and financial loss to the Fund. • Transition managers fail to deliver on their agreements and maintain appropriate level of service leading to financial loss. • Lack of information to give clarity of transitional impact to the Pension Committee. • The Fund could have a disproportionately higher transactional cost (bid-offer) if there is little overlap between current investment managers and the chosen sub fund investment managers. • Significant market movements whilst investment consolidation is ongoing and	Head of Fund	3	3	H	• Asset transition work streams consider tax risk specific to each asset class. Professional tax advice is sought; • Transition managers are selected and engaged using contracts which document agreed tolerances for friction costs; • Unit allocations are calculated by the Transfer Agent and reviewed internally and are reviewed by the depositary bank; • Transition manager agreements outline minimum service levels and recourse that LPPI has in event they are not maintained;	3	3	H	• Public equity transition complete and details reported to March committee. • Details on other asset transitions will be reported when complete. • Credit transition completed in September 2017 and will be reported to December committee.	Head of Fund	March 2018

					Inherent Risk				Residual Risk			Risk actions		
			• the funds are out of the market, leading to significant repurchase costs. • LPPL fails to establish suitable sub funds on transition leading to poor investment performance.											
T4	Admin transition	Ineffective transition of administration responsibilities and processes leads to poor member experience.	• The LPPL Administration team does not retain appropriate resource to manage the transition of services and does not maintain performance as a result, leading to poor member experience. • Administrator performance is not reported in a timely manner and frequently monitored. Administrator SLA's are not in place and/or are not frequently monitored, leading to poor member experience. • System changes at the administrators leading to inaccurate benefit payments and misapplication of Fund rules.	Head of Fund	4	3	H	• A detailed transition plan for the LPPL Administration function is being implemented in Apr 18; • The LPPL Administration team has retained LCC staff who are experienced in their roles. All LPP staff receive training on scheme rules; • Systems changes are planned, and undergo testing before release; • Quarterly Administration reporting is reviewed by the Head of Fund who monitors administration performance against defined service level agreements and key performance indicators. No issues in performance levels have yet been identified as a result of transition. • LPB are providing independent scrutiny and challenge to the change management.	4	2	H	• Quarterly reporting on administration transition to be presented to committee.	Head of Fund	March 2018
T5	External Drivers	Changes in government thinking, personnel / key stakeholders significantly alter the requirements of pooling, increasing cost.	• Pool no longer needed and funds abandoned missing the benefits from a level of collective investment and sunk costs. • Merger of funds is put back on the table due to pooling target not being met (£25bn). • Dilution of shareholder power due to on-boarding of additional funds leading to loss of control over the Partnership. • Conflicting interests of shareholders leading to slow and ineffective decision making.	Head of Fund	4	4	H	• Active engagement with other funds to consider possibility of pooling (e.g. Berkshire to enter into the Partnership). • Shareholder agreement and Matters Reserved in place. Decisions are made in line with this agreement. • Close collaboration amongst funds. Clear governance established with Cross pool meetings to share understanding. • Legal advice provided. • Monitoring of LPPL service performance (investment and administration) to detect degradation in service as a result of increasing demands from multiple funds.	4	3 (REDUCED FROM 4)	H	• Continue to engage with other potential partners. • Legal advice to be sought for any changes to shareholder agreement and reserved matters. .	Head of Fund	Ongoing

LCPF Risk Summary December 2017

Group	Reference	Risk Title	Jun-17			Dec-17				
			Impact	Likelihood	Rating	Impact	Likelihood	Rating	Variance	Movement
Investment & Funding	I1(i)	Investment Strategy	4	1	4	4	1	4	0	
	I1(ii)		4	1	4	4	1	4	0	
	I2(i)	Construct, Implement and Perform	4	2	8	4	2	8	0	
	I2(ii)		4	2	8	4	2	8	0	
	I3	Custody of Fund assets	4	2	8	4	2	8	0	
	I4	Actuarial Valuation and Monitoring of Funding	4	1	4	4	1	4	0	
	I5	Cash-Flow Management	2	2	4	2	2	4	0	
	I6	Admitted Bodies Arrangements	2	1	2	2	1	2	0	
Member	M1	Benefit Payments	2	1	2	2	1	2	0	
	M2	Member Communications	2	1	2	2	1	2	0	
	M3	Data quality	2	1	2	2	1	2	0	
	M4	Contributions	2	1	2	2	1	2	0	
Operational	O1	LCPF Committees and Fund Governance	3	2	6	3	2	6	0	
	O2	Reliance on key persons and expertise	3	3	9	3	3	9	0	
	O3	Risk Management	3	3	9	3	2	6	-3	Decrease
	O4	Compliance	3	3	9	3	3	9	0	
	O5	Cost Management	1	2	2	1	2	2	0	
	O6	Business and IT Continuity	3	2	6	3	2	6	0	
	O7	Data Protection and cyber security	3	2	6	3	3	9	3	Increase
	O8	Fraud Risk	1	1	1	1	1	1	0	
Transition	T1	Decision Making	4	3	12	4	3	12	0	
	T2	Change Management	3	3	9	3	3	9	0	
	T3	Investment Transition	3	3	9	3	3	9	0	
	T4	Admin transition	4	2	8	4	2	8	0	
	T5	External Drivers	4	4	16	4	3	12	-4	Decrease

Top 2 Highest Risk			**Rating**
1	T1	Decision Making	12
2	T2	External Drivers	12
Risk Increasing			
1	O7	Data Protection and cyber security	9
Risk Decreasing			
1	O3	Risk Management	6
2	T5	External Drivers	12

Appendix B

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected:
(All Divisions);

Lancashire County Pension Fund - Voluntary Scheme Pays
(Appendix A refers)

Contact for further information: Abigail Leech, 01772 530808, Head of Fund,
abigail.leech@lancashire.gov.uk

Executive Summary

HM Revenue and Customs impose controls on the amount of pension savings members of the LGPS can make without having to pay additional tax. One of these controls is known as the Annual Allowance. Where that allowance is breached then, in prescribed circumstances, the member has a mandatory right to ask the fund to pay that tax charge in return to having a reduction applied to their pension once that comes into payment, in a process known as 'scheme pays'.

This report informs the committee of the availability of "Voluntary Scheme Pays" which effectively gives the fund the discretion to extend the current criteria under which the member can ask the fund to pay a tax charge where the annual allowance is breached.

Recommendation

The Pension Fund committee is asked to:

Approve the use of Voluntary Scheme Pays in the following circumstances:

1. Where a member's pension savings are subject to the tapered annual allowance and the tax breach relates only to Lancashire County Pension Fund benefits rather than as a result of growth in multiple pension schemes.

2. Where a member, as a result of administrative difficulties beyond their control, misses the ‘mandatory Scheme pays’ deadline (e.g. where the member was not provided with the necessary information on time).

3. Any other cases which are not covered under the mandatory requirements for 'scheme pays' or covered under the 'voluntary scheme pays' criteria identified in (1) and (2) above where it can be demonstrated that exceptional circumstances apply, approval is delegated to the Head of Fund.

Lancashire County Council

Background and Advice

Where a member exceeds the annual allowance (plus any unused annual allowance carry forward from the previous 3 years), the member is liable to pay a tax charge.

Where certain conditions are met, the member can require the scheme to pay the charge on their behalf to HMRC in return for a permanent reduction to their pension benefits. This is known as 'mandatory scheme pays'.

Where those conditions are not met, the member would have to pay the charge directly to HMRC. However it has been established that pension schemes have the legal power to voluntarily pay the charge on the member's behalf in return for a permanent reduction to their pension benefits, known as "'voluntary scheme pays".

Although the Local Government Pension Scheme Regulations are silent on the matter of ‘voluntary Scheme pays’, the Local Government Pension Committee (LGPC), having taken legal advice, believe that an administering authority can determine whether or not to accept a "voluntary scheme pays" request. The committee's response is set out below:

The LGPC Secretariat has obtained legal advice from Eversheds to the effect that English administering authorities which are local authorities have a general power of competence under the Localism Act 2011 and so it is arguable they are thus able to agree to a ‘voluntary Scheme pays’ request. There is no express prohibition on them doing so and it can be argued that, given there would be a corresponding reduction to the member’s pension benefits, agreeing to a ‘voluntary Scheme pays’ request would be a reasonable exercise of the general power of competence (particularly in respect of members subject to a sizeable annual allowance tax charge as a result of the tapered annual allowance who may not be able to access the ‘mandatory Scheme pays’ option or where the ‘mandatory Scheme pays’ option would only cover a small proportion of their annual allowance tax charge.

From tax year 2016/17, the annual allowance is reduced for high earners, known as the 'tapered annual allowance'. This can have the effect of potentially reducing a member's standard annual allowance from £40,000 to £10,000. However, the government have not amended the mandatory scheme pays rules. The effect is that members will not be able to request mandatory scheme pays for the part of the tax charge that relates to the excess between the tapered annual allowance and the normal annual allowance.

Specifically as it currently stands, Scheme members who breach the tapered annual allowance have only the following options

- Pay the whole of the tax charge directly to HMRC
- Opt for Mandatory Scheme Pays option for the breach over the standard annual allowance and pay the rest directly to HMRC

As such if a member's annual allowance had been reduced to £10,000, they would have to pay a potentially significant tax charge directly to HMRC on the amount between £40,000 and their tapered allowance, i.e. tax on potentially £30,000.

The Voluntary Scheme Pays option can be utilised to the benefit of Pension Fund members in such circumstance by enabling the tax charge on the £30,000 tapered annual allowance to be paid by the Pension Fund and recouped on a cost neutral basis to the Fund by actuarially reducing future benefits.

As such the committee is asked to accept the recommendation outlining the circumstances under which voluntary scheme pays will be offered to scheme members.

For further background a factsheet providing more details on the annual allowance and the application of scheme pays' options is contained within appendix 1.

Consultations

n/a

Implications:

This item has the following implications, as indicated:

Financial

Guidance on the calculation of the reduction in pension benefits following a Scheme Pays election has been issued by the Secretary of State for Communities and Local Government in conjunction with the Government Actuaries Department (GAD) in order to ensure the Scheme Pays offset is cost neutral to the scheme.

Risk management

All calculations relating to the application of scheme pays are subject to prescribed statutory actuarial guidance and associated legislation, as such adhering to this minimises the risk to the Fund.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

LGPS factsheet

Pensions Taxation - Annual Allowance

HM Revenue and Customs impose two controls on the amount of pension savings you can make without having to pay extra tax. These controls are known as the Annual Allowance and Lifetime Allowance. This is in addition to any income tax you pay on your pension once it is in payment.

This factsheet looks at the Annual Allowance which is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge.

For information on the lifetime allowance please refer to the factsheet on our website.

What is the Annual Allowance?

The Annual Allowance (AA) is the amount by which the value of your pension benefits may increase in any one year without you having to pay a tax charge. This is in addition to any income tax you pay on your pension once it is in payment.

If the value of your pension savings in any one year (including pension savings outside of the LGPS) are in excess of the annual allowance, the excess will be taxed as income.

The Government reduced the AA from £255,000 to £50,000 from 6 April 2011 and then reduced it again to £40,000 from 6 April 2014. Further changes to the annual allowance have been made for higher earners from 6 April 2016, which resulted in special transitional rules for the 2015/16 tax year. These changes are covered in more detail later in this factsheet.

Annual Allowance limit:

Pension Input Period	Annual Allowance
1 April 2011 to 31 March 2012	£50,000
1 April 2012 to 31 March 2013	£50,000
1 April 2013 to 31 March 2014	£50,000
1 April 2014 to 31 March 2015	£40,000
1 April 2015 to 5 April 2016	£80,000 (transitional rules apply)
6 April 2016 to 5 April 2017	£40,000 (unless tapering applies)
6 April 2017 to 5 April 2018	£40,000 (unless tapering applies)

Am I likely to be affected by the Annual Allowance?

Most people will not be affected by the AA tax charge because the value of their pension saving will not increase in a year by more than £40,000, or, if it does they are likely to have unused allowance from previous years that can be carried forward.

You are most likely to be affected if:

- you have a lot of scheme membership and you receive a significant pay increase, and/or;
- you pay a high level of additional contributions, and/or;

- you are a higher earner, and/or;
- you transfer pension rights into the LGPS from a previous public sector pension scheme[1] under the preferential club transfer rules and your salary (full time equivalent) upon joining the LGPS is somewhat higher than the salary you earned when you left the previous scheme, and/or;
- you combine a previous LGPS pension benefit that was built up in the final salary section of the LGPS with your current pension account and your salary (full time equivalent) has increased significantly since leaving and re-joining the scheme, and/or;
- you have accessed flexible benefits on or after 6 April 2015

We will inform you if your LGPS pension savings exceed the standard AA in any year by no later than 6 October of the following year.

The 50/50 section of the LGPS

If you wish to slow down your pension build up to avoid or mitigate an AA tax charge the 50/50 section of the LGPS allows you to pay half your normal contributions and build up half your normal pension, whilst still retaining full life and ill health cover. Visit the LGPS member website for more information on this option.

Before considering any action to reduce your tax liabilities you should always seek independent financial advice from an FCA registered adviser. For help in choosing an independent financial adviser visit the money advice website.

How is the Annual Allowance calculated?

The increase in the value of your pension savings in the LGPS in a year is calculated by working out the value of your benefits immediately before the start of the 'pension input period', increasing the value by inflation and then comparing it with the value of your benefits at the end of the 'pension input period'.

The 'pension input period' (PIP) is the period over which your pension growth is measured. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Prior to the 2016/17 tax year the PIP for the LGPS was 1 April to 31 March, except for the year 2015/16 when special transitional rules apply.

In the LGPS the value of your pension benefits is calculated by multiplying the amount of your annual pension by 16 and adding any lump sum you are automatically entitled to from the pension scheme plus any AVCs you or your employer has paid during the year.

If the difference in the value of pension benefits at the end of the PIP and the value of your pension benefits immediately before the start of PIP (adjusted for inflation), is more than the AA then you may be liable to pay a tax charge.

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[1] A public service pension scheme includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, or teachers, or health service workers, or fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

It is important to note that the assessment for the AA covers any pension benefits you may have where you have been an active member during the year, not just benefits in the LGPS. For example, if the increase in the value of your LGPS benefits was calculated as £30,000 in 2014/15 when the AA was £40,000, but you also had an increase in the value of other pension benefits of £15,000 in the same year, that would mean you had a total increase in pension benefits of £45,000. If you did not have any carry forward (see below for more information), you would be liable for a tax charge for the amount you exceeded the AA by, even though at face value you did not breach the AA in either scheme.

Carry forward

You would only be subject to an AA tax charge if the value of your total pension savings for a year increase by more than the AA for that year.

However, a three year carry forward rule allows you to carry forward unused AA from the previous three years. This means that even if the value of your pension savings increase by more than the AA in a year you may not be liable to the AA tax charge.

For example, if the value of your pension savings in 2014/15 increased by £50,000 (i.e. by £10,000 more than the AA) but in the three previous years had increased by £25,000, £28,000 and £30,000, then the amount by which each of these previous years fell short of the AA for those three years would more than offset the £10,000 excess pension saving in the current year. There would be no AA tax charge to pay in this case.

To carry forward unused AA from an earlier year you must have been a member of a tax registered pension scheme in that year.

Changes to Annual Allowance

The Finance (No 2) Act 2015 introduced two important changes to the AA with effect from 6 April 2016.

1. An annual allowance taper for high earners from 6 April 2016
2. To adjust the 'pension input period' during 2015/16 so that it becomes aligned with the tax year from 6 April 2016

1. Tapered Annual Allowance for higher earners

From the tax year 2016/17 the AA is tapered for members who have a 'Threshold Income' in excess of £110,000, and 'Adjusted Income' in excess of £150,000. For every £2 that your Adjusted Income exceeds £150,000, your AA is tapered down by £1 (to a minimum of £10,000).

	Definition	**Limit**
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs deducted under the net pay arrangement)	£110,000
Adjusted Income	Broadly your threshold income plus pensions savings built up over the tax year	£150,000

Threshold income includes all sources of income that are taxable e.g. property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc.

Please note, you are not allowed to deduct from taxable income any amount of employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2015.

How does the taper work?

From 6 April 2016, the taper reduces the AA by £1 for £2 of adjusted income received over £150,000, until a minimum AA of £10,000 is reached. This means that from 6 April 2016 the AA for high earners is as follows:

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

Examples

Cerys		
Gross Salary 2016/17	£120,000	
Less employee pension contributions	£13,680	11.4%
Threshold Income 2016/17	£106,320	Below £110,000 so the AA will not be tapered and remains at £40,000
Pensions saving in the year	£19,500	**Less than £40,000 so no tax charge**
Sanjay		
Gross salary 2016/17	£130,000	
Less employee pension contributions	£14,820	11.4%
Plus taxable income from property	£30,000	
Threshold Income 2016/17	£145,180	
Plus pensions saving in the year	£30,000	
Adjusted Income 2016/17	£175,180	Greater than £150,000 so AA will be tapered
Tapered AA	£27,410*	
In excess of AA	£2,590	Pension saving of £30,000 less tapered AA
AA tax charge at marginal rate (assumed to be 40%)	**£1,036**	£2,590 x 40%

*Taper = £175,180 - £150,000 = £25,180 / 2 = £12,590. Standard AA £40,000 less £12,590 = £27,410

Please note, the examples above make no allowance for any carry forward.

2. Aligning the 'Pension Input Period' with the tax year

The 'pension input period' (PIP) is the period over which your pension growth is measured. Up until 2014/15 the PIP in the LGPS ran from 1 April to 31 March. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Special transitional arrangements apply for 2015/16 meaning that there are 2 PIPs in 2015/16, as set out below:

Pre-alignment tax year: 1 April 2015 to 8 July 2015 - the revised AA during this period is £80,000

Post-alignment tax year: 9 July 2015 to 5 April 2016 - the AA for this period is the amount of the £80,000 not used up from the pre-alignment tax year (subject to a maximum of £40,000) together with any carry forward available from the three previous years.

If you have flexibly accessed any benefits in a money purchase pension arrangement on or after 6 April 2015 (see below) you should contact us for information about how the pre and post alignment tax years will work as it will be different to the above.

Annual Allowance 'Flexible Benefit' access

If you have any benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015 then the Money Purchase Annual Allowance (MPAA) rules may apply. However, the MPAA will only apply if your total contributions to a money purchase arrangement in a Pension Input Period exceed the MPAA.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6 April 2015, and your subsequent contributions to a money purchase scheme exceed the MPAA your defined benefit pension (LGPS) savings will be tested against the alternative AA and you will pay a tax charge in respect of your money purchase saving in excess of the MPAA.

Tax Year	MPAA	Alternative annual allowance if MPAA is exceeded
2016/17	£10,000	£30,000
2017/18	£4,000	£36,000

Special transitional rules applied for the tax year 2015/16 – contact us for more information, if applicable.

If you access flexible benefits you will be provided with a flexible access statement; you should provide us with a copy of this statement.

Flexible access means taking a cash amount over the tax-free lump sum from a flexi-access drawdown account, taking an uncrystallised funds pension lump sum (UFPLS), purchasing a flexible annuity, taking a scheme pension from a defined contribution scheme with fewer than 12 pensioner members or taking a stand-alone lump sum if you have primary but not enhanced protection[2].

How would I pay an Annual Allowance tax charge?

If you exceed the AA in any year you are responsible for reporting this to HMRC on your self-assessment tax return.

You may find HMRC's helpsheet - HS345 useful when completing your return. The helpsheet can be downloaded from - https://www.gov.uk/government/publications/pensions-tax-charges-on-any-excess-over-the-lifetime-allowance-annual-allowance-special-annual-allowance-and-on-unauthorised-payments-hs345-self

We are obliged to notify you if your LGPS benefits (plus the amount of any Additional Voluntary Contributions (AVCs) you may have paid) exceed the standard AA, or if we believe you have exceeded the MPAA, in a year. We must inform you by no later than 6 October of the following tax year. However, we are not obliged to inform you if you exceed the tapered annual allowance. Additionally, you may ask us for an AA statement even where you do not exceed the AA, which you may need to do if you have savings across multiple schemes.

If you have an AA tax charge that is more than £2,000 and your pension savings in the LGPS alone have increased in the year by more than the standard AA you may be able to opt for the LGPS to pay some or all of the tax charge on your behalf. The tax charge would then be recovered from your pension benefits. This option is known as 'scheme pays'.

If you want the LGPS to pay some or all of an AA tax charge on your behalf, you must notify[3] us no later than 31 July in the year following the end of the year to which the AA charge relates. However, if you are retiring (and draw all of your benefits from the LGPS) and you want the LGPS to pay some or all of the tax charge on your behalf from your benefits, you must tell us before you become entitled to those benefits.

The relevant fund, at their discretion, may also agree to pay some or all of an annual allowance charge on your behalf in other circumstances e.g. where your pension savings are not in excess of the standard AA but are in excess of the tapered or money purchase AA, or where part of the charge relates to pension savings outside of the LGPS. This option is known as 'voluntary scheme pays'. Contact us for more information. **Please note that where the fund pays the charge on a voluntary basis after the relevant self-assessment deadline, you will become liable to pay interest (which the fund would not pay). You should therefore act without delay if you are considering asking for voluntary scheme pays.**

For more information about this option (including how we would calculate the reduction to your benefits), please see the guidance from the Government Actuary's Department, which you can find on our website.

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[2] A stand-alone lump sum is a lump sum relating to pre 6 April 2006 where the whole amount can be taken as a lump sum without a connected pension.

[3] Before you make any election, you may wish to contact us first for a quotation of the reduction we would in return apply to your benefits. To do this you will need to provide us with the tax charge you wish the quotation to be based upon.

Please note that we are **also** required to tell HMRC that you have exceeded the annual allowance.

Am I affected?

If you think you are affected by the AA more information is available on the Government's website - https://www.gov.uk/tax-on-your-private-pension/annual-allowance. If you are unsure if you will be affected by the AA use the AA quick check tool on the LGPS member website.

This factsheet provides an overview of the AA rules at April 2017. It should not be treated as a complete and authoritative statement of the law. The rules governing AA can be complex and are subject to change; if you are unsure how to proceed you are advised to obtain independent financial advice. For help in choosing an independent financial advisor visit the money advice website.

More information

If you have any questions about your LGPS membership or benefits, please contact:

Your Pension Service
Tel: 0300 123 6717
Email: AskPensions@localpensionspartnership.org.uk
Website: www.yourpensionservice.org.uk

Disclaimer

The information contained within this factsheet is based on our understanding of the relevant legislation. Nothing in this factsheet can override any legislation, and any such legislation will prevail. Your Pension Service will not assume any responsibility whatsoever for any director consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in this factsheet.

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected: (All Divisions);

Implementation of the Markets in Financial Instruments Derivative (MiFID II)
(Appendix 'A' refers)

Contact for further information: Abigail Leech, 01772 530808, Head of Fund, abigail.leech@lancashire.gov.uk

Executive Summary

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018.

Recommendation

The Pension Fund committee is asked to:

1. Note the potential impact on the investment strategy of becoming a retail client with effect from 3rd January 2018.

2. Agree to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.

3. In electing for professional client status, the committee acknowledge and agree to forgo the protections available to retail clients attached as Appendix A.

4. Agree to approve delegated responsibility to Abigail Leech, Head of Fund for the purposes of finalising the applications and determining the basis of the application as either full or single service.

Background and Advice

Context

Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non-MiFID and MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

Lancashire County Council

Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority as a 'per se professional client' or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.

The FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

Potential impact

A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.

Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

Election for professional client status

MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.

The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

The new tests recognise the status of LGPS administering authorities as providing a ‘pass’ for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual.

The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take ‘appropriate action’ which could include a termination of the relationship at a significant financial risk to the authority.

The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats. This process has been adopted by LCPF in seeking elective professional status.

Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority’s investment advisor was terminated.

LGPS pools

LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred. Due to the short timescales the Head of Fund has requested that LPPI start to engage with other counterparties.

Consultations

Local Pension Partnership

Implications:

This item has the following implications, as indicated:

Risk management

Risks are as set out in the report.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Highlights	2017	Mukhtar Master/532013
UK LA Opt-up process flowchart	2017	Mukhtar Master/532013
LA Letter for Client Status Re-Categorisation	2017	Mukhtar Master/532013
Questionnaire for LA Completion	2017	Mukhtar Master/532013

Reason for inclusion in Part II, if appropriate
N/A

Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected:
None;

Feedback from members of the Committee on pension related training, conferences and events.

Contact for further information: Mike Neville (01772) 533431 Senior Democratic Services Officer, Legal and Democratic Services mike.neville@lancashire.gov.uk

Executive Summary

This report updates the Committee on pension related training, conferences and events attended by individual members of the Committee since the last meeting and gives them an opportunity to provide feedback.

Recommendation

The Committee is asked to note the report and any feedback presented at the meeting.

Background and Advice

At the meeting on the 29th January 2016 the Committee approved a refreshed training plan for members of the Committee. As with the previous plan, the purpose of the refreshed plan was to ensure best practice within the Fund and to comply with the Public Service Pensions Act 2013. Members and officers are also required to undertake training to satisfy the obligations placed upon them by the:

- Myners Principles (as detailed in the Statement of Investment Principles);
- Pensions Regulations and the Pensions Regulator;
- Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Public Sector Pensions Finance Knowledge and Skills; and the
- Local Government Pension Scheme (LGPS) Governance Compliance Statement.

The training plan requires Committee Members to provide verbal feedback at the subsequent Committee to cover:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and

Lancashire County Council

- Recommendations of any subject matters at the event in relation to which training would be beneficial to Committee Members.

The following training, conferences and events have been attended by members of the Committee since the last meeting:

20th September 2017 - Workshop on LPP Strategic Budget & Accts at County Hall, Preston attended by County Councillors E Pope, J Burrows, S Clarke, A Riggott, A Schofield, K Ellard, J Fillis, J Mein and G Dowding. Co-opted members attending – P Crewe, Councillor D Borrow, Councillor M Smith and Councillor R Whittle.

27th September 2017 - CIPFA Introduction to the LGPS, Northern Trust Offices, Canary Wharf, London attended by County Councillors J Burrows, S Clarke and J Mein.

11th October 2017 - Local Government Pension Investment Forum at the Hilton Tower Bridge Hotel in London, attended by County Councillors E Pope, J Mein and Councillor R Whittle.

18th/20th October 2017 - PLSA Annual Conference and Exhibition, Manchester – attended by County Councillors E Pope, K Ellard and T Martin.

2nd November 2017 – Workshop on the revised Investment Strategy at County Hall, Preston attended by County Councillors E Pope, J Burrows, A Riggott, K Ellard, J Mein, T Martin and G Dowding. Co-opted members attending – P Crewe and Councillor D Borrow.

Members of the Committee are requested to provide feedback on the above at the meeting.

Consultations
N/A

Implications:

This item has the following implications, as indicated:

Risk management

Without the required knowledge and skills, those charged with governance and decision-making in relation to the Pension Fund may be ill-equipped to make informed decisions regarding the direction and operation of the Fund.

Financial

The cost of attendance, together with travel and subsistence costs, were met by the Pension Fund and approved by the Head of Fund in accordance with the Scheme of Delegation.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Attendance at Conferences and Events approved by the Head of Fund under the Scheme of Delegation to Heads of Service	September, October and November 2017	Mike Neville (01772) 533431

Reason for inclusion in Part II, if appropriate
N/A

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(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

Document is Restricted

Appendix A

(NOT FOR PUBLICATION: By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972. It is considered that all the circumstances of the case the public interest in maintaining the exemption outweighs the public interest in disclosing the information)

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Appendix B

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