

Report to the Lancashire Local Pension Board
Meeting to be held on Tuesday, 28 January 2025

Report of the Director of Finance and Commerce

Responsible Investment Task and Finish Group - Policy Review
(Appendix 'A' refers)

Part II	Corporate Priorities: Thinking Differently
Electoral Division(s): N/A	
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Summary

Purpose of the Report

The Pension Fund Committee has undertaken a review of the Fund's Responsible Investment (RI) Policy through a Task and Finish Group. A draft of the updated policy is attached at Appendix 'A'.

Consultation with the Local Pension Board is necessary to ensure that the views of the Fund members and employers, which the Pension Board represents, are considered as part of this review. The Terms of Reference of the Pension Board state that the Board are to review the key governance and administration related policy documents for the Fund to ensure they are fit for purpose.

Recommendation

The Local Pension Board is asked to consider and comment on the draft Lancashire County Pension Fund RI Policy as attached at Appendix 'A'.

Background

1. The current RI Policy was approved by Pension Fund Committee in November 2021 and can be viewed on the Fund's website:
<https://lancashirecountypensionfund.org.uk/media/1104/lcpf-responsible-investment-policy.pdf>
2. The Policy defines the commitment of the Fund to responsible investment and details the approach that the Fund aims to follow in integrating Environment, Social and Governance (ESG) issues into investment.



3. Reviewing the Policy is critical to ensuring its continued effectiveness, relevance and alignment with investment objectives, regulations, and stakeholder expectations.

Process

4. At the meeting on 13 September 2024 the Pension Fund Committee established a Task and Finish Group comprising the following members:
 - County Councillor - A Schofield (Chair)
 - County Councillor - J Couperthwaite
 - County Councillor - J Fillis
 - County Councillor - G Dowding
 - Co-Opted Member - Ms J Eastham
5. The Task and Finish Group is supported by Officers, the Fund's Independent Investment Advisers and Executives from Local Pensions Partnership Investments Limited.
6. The scope agreed by the PFC was as follows:
 - a) To review the current LCPF RI Policy and ensure it best reflects the values and beliefs of the Fund, whilst being mindful of Lancashire County Council's duties as an Administering Authority under the LGPS Regulations and any developments over the past 3 years.
 - b) To undertake activity to support the LCPF in progressing with preparation for implementation of Taskforce on Climate-related Financial Disclosures (TCFD) requirements.
7. This report focuses on part a) of the scope above.

Key Considerations and Updates

8. To date the Task and Finish Group have met on 4 occasions.
9. At the first meeting the Group received an update on RI developments over the last three years to assist in understanding the RI landscape, ensuring appropriate decisions can be made when updating the policy. The Group was also introduced to an industry standard practice framework developed by the Principles of Responsible Investments (PRI) – 'Developing and Updating a Responsible Investment Policy Framework'.
10. At the following meeting the Group was presented with a gap analysis against the PRI Framework which focused on the actions to undertake 'before writing' and 'what to include' in the policy. The gap analysis identified small gaps in the current RI policy which would be considered as part of the review.



11. Officers proposed to streamline the Key ESG priorities from 7 down to 5 and the Group undertook a survey to confirm their priorities. The options for the priorities were based on the examples outlined in the current policy. The Group agreed to the following priorities:

Environmental	Social	Governance
Climate Change	Local Investment	Corporate Governance
Depletion of Natural Resources	Affordable Housing	

12. In addition to the updated priorities, the group agreed to replace 'values' with the beliefs found within the Fund's Investment Strategy Statement. The Head of Fund had analysed the approaches of a number of other Funds, and the consensus was that "beliefs" is used universally, as opposed to "values". This created alignment with the Fund's Investment Strategy Statement as beliefs are captured within the Investment Strategy which can be accessed by clicking [here](#).

RI Policy

13. During the review process, a number of drafts of the RI policy are produced. Due to timing constraints, the latest version considered by the group is detailed in paragraph 14 and the Board is asked to consider and comment on this version.

14. Appendix 'A' to this report includes comprehensive updates to the RI policy following agreements from the group. This is the version that was considered at the meeting of the group in December 2024. The amendments are colour coded in the draft version at Appendix 'A' as follows:

- Yellow – New content added to the RI Policy
- Red – Deletions within the RI Policy
- Green – Commentary on the rationale for the changes

15. This version of the RI Policy was discussed at the third meeting the Group and feedback was provided to Officers. At the time of writing this report officers are incorporating this feedback into a further version of the draft RI Policy to be considered by the Group on 21 January 2025. Below is a list of updates which will be incorporated in the updated draft.

- Reference to role of the Local Pension Board.
- Updated priorities
 - i. Group considered removal of Human Rights from first draft and opted to retain it as a priority in addition to the 5 priorities in the table above.
 - ii. incorporation of Tax Strategy within Corporate Governance.
 - iii. Rewording context under some of the priorities.
- Minor typographical and consistency points throughout



A copy of the latest version of the draft RI Policy will be shared with the Board once it is available.

Next Steps

16. Following the group on 21 January 2025 a copy of the revised RI Policy will be shared with members of the Pension Board, highlighting the amendments from the version attached at Appendix 'A'.
17. Feedback from the Local Pension Board will be considered, and any substantial amendments will be referred back to the Task and Finish Group for consideration.
18. The final version of the revised RI Policy will then be presented to the Pension Fund Committee in March 2025 for consideration and approval.
19. Once approved the revised policy will be sent to the designers to develop into a final version and will be uploaded to the Funds website.

Options and Proposals

20. The Local Pension Board assists the Council in its role as Administering Authority in the good governance of the Fund by ensuring compliance with legislation and statutory guidance.
21. The Local Pension Board represent the views of the scheme employers and members. Feedback from the Local Pension Board ensures that the RI Policy reflects the values, priorities, and concerns of these stakeholders.
22. The Local Pension Board is asked to review and feedback on the draft RI policy attached to this report at Appendix 'A'.

Consultations

23. Responsible Investment Task and Finish Group
Independent Investment Advisers
Local Pensions Partnership Investments Limited

Context and Implications

Legal (including Human Rights)

24. LGPS Funds are subject to a range of regulations that govern RI practices. Under the LGPS (Management and Investment of Funds) Regulations 2016, administering authorities are required to set out their approach to ESG considerations and stewardship in their Investment Strategy Statement.
25. The Pension Schemes Act 2021 reinforced the importance of addressing climate change risks.



26. Non-compliance with the LGPS (Management and Investment of Funds) Regulations 2016 could lead to regulatory intervention, financial penalties, and reputational damage, along with increased scrutiny by regulators and stakeholders.

Financial

27. As set out under legal implications non-compliance with relevant regulations could lead to financial penalties.

Equality and Diversity

28. There are no equality and diversity issues in this report.

Risk Management

29. 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.

30. 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 oversight and lack of independence.

31. RI practices underpin the fulfilment of the Fund's fiduciary responsibilities to Fund beneficiaries and are implemented in practice through the advisory and investment management services provided by Local Pensions Partnership Investments Limited.

Appendices

Appendix	Title
Appendix 'A'	Draft Responsible Investment Policy

List of Background Papers

Paper	Date	Contact/Tel
Principles for Responsible Investment – Developing and Updating a Responsible Investment Policy	October 2023	Junaid Laly/01772 532767

Part II Reason

N/A

