

Haringey Council

Agenda item:

Pensions Committee

On 4 December 2007

Report Title: **LAPFF membership**

Forward Plan reference number: Not applicable

Report of: Chief Financial Officer

Wards(s) affected: **All**

Report for: **Non-Key Decision**

1. Purpose

1.1 This report considers whether we should join LAPFF.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. Recommendation

3.1 That we consider joining LAPFF.

Report Authorised by: Gerald Almeroth – Chief Financial Officer

Contact Officer:

John Hardy, Head of Finance-Budgeting, Projects & Treasury (tel no: 020 8489 3726)

4. Chief Financial Officer comments

4.1 The financial implications section of the report sets out the financial position.

5. Head of Legal Services Comments

5.1 The Head of Legal Services has been consulted on the content of this report and comments that membership of LAPFF, given its composition and purpose, is a reasonable decision for the Committee to make and one which is within its powers.

6. Local Government (Access to Information) Act 1985

6.1 Report to Pensions Committee on 25 October 2007 on Responsible Investment.

7. Strategic Implications

7.1 Regarding responsible investment we aim to reflect latest thinking on this matter and having due regard to our fiduciary duty.

8. Financial Implications

8.1 The Chief Financial Officer advises that membership of LAPFF fits in as part of the approach agreed at Pensions Committee on 25 October 2007.

8.2 The annual cost of becoming a member of LAPFF is £8,460 for one year or £8,250 per annum if agree to join for three years and will be charged to the Pension Fund if approved. The cost of membership is considered to be reasonable and would be prudent to incur for the management of the pension fund.

9. Equalities Implications

9.1 None.

10. Consultation

10.1 Not applicable.

11. Background

11.1 Pensions Committee considered a report on Responsible Investment at their meeting on 25 October 2007. It was agreed that we consider joining LAPFF once they have given a presentation to the Committee. The presentation by Keith Bray from LAPFF was considered earlier on this agenda.

- 11.2 I attach in the Appendix the part of the paper presented by our external advisors, Hymans Robertson, to the last meeting concerning LAPFF, which advised that the Committee needed to consider whether membership of LAPFF might go some way towards redressing the shortfall on engagement activity.
- 11.3 Main benefits of joining LAPFF are as follows and this fits in as part of the approach agreed at Pensions Committee on 25 October 2007.
- Has 44 Local Authorities as members including 12 London Boroughs and therefore can exert some influence to promote Corporate Social Responsibility and high standards of corporate governance;
 - Facilitates commissioning of research and policy analysis of issues more effectively than individual authorities;
 - Forum for consultation on shareholder initiatives;
 - Forum for exchanging information and discussion about investment issues;
 - Forum to consider issues of common interest. e.g. overseas property investment.
 - Improves compliance with Myners principle number 6 regarding activism.

12 Use of Appendices

Extract of report from Hymans Robertson regarding LAPFF.

HYMANS ROBERTSON LLP

5 LOCAL AUTHORITY PENSION FUND FORUM

The Local Authority Pension Fund Forum [LAPFF] was established in 1990 to promote the investment interests of local authority pension funds and to maximise their influence as shareholders, whilst promoting corporate social responsibility and higher standards of corporate governance amongst the companies in which they invest.

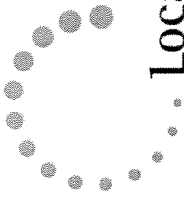
The Forum meets quarterly and provides an opportunity for discussion and debate on a broad range of investment issues concerned with shareholder responsibilities. However, membership of the Forum does not impede a fund's ability to act unilaterally where it is considered to be in its best interests.

Meeting Agendas are constructed by members of the Forum, which has an Executive Committee comprised of elected member representatives of Forum members, a (Honorary) Secretary and Treasurer and its own part-time Forum Officer – Keith Bray, a former County Treasurer. Meetings are serviced by PIRC Ltd, an independent research and advisory consultancy that provides services to institutional investors on corporate governance and corporate social responsibility.

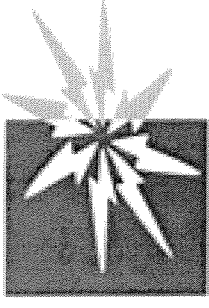
The Forum has over 40 LGPS members (see table) whose pension fund assets total about £70 billion.

LGPS Fund Type	Number of Funds
County Councils	15
London Boroughs	12
Former Metropolitan County Funds	7
Passenger Transport Authority Funds	2
Scottish Funds	2
Welsh Funds	4
Northern Irish Funds	1

The Forum does undertake some limited engagement activity on governance and SRI issues; however, the level of activity is significantly lower than that provided by the overlay providers described above. We suggest that it probably will not serve as a substitute for them. However, the Fund should give consideration as to whether joining LAPFF would assist it in discharging its socially responsible investment responsibilities and the best way to do that would be to arrange for a presentation from LAPFF at a future meeting. We understand the fee to join LAPFF would be relatively modest.



Local Authority
Pension Fund
Forum



Haringey Council

Corporate Governance & Corporate Social Responsibility

The Role of the LAPFF

A presentation to
Haringey Pension Fund
Keith Bray, Forum Officer, LAPFF
4 December 2007

Background

- The aim - improving shareholder value
 - Scandals
 - Changing public opinion

Corporate Governance

What is it?

“The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, while shareholders’ role in governance is to appoint the directors and auditors and to satisfy themselves that a proper governance structure is in place.” **Cadbury (1992)**

“Corporate governance can be defined *narrowly* as the relationship of a company with its shareholders or more broadly, as its relationship to society” (Financial Times)

* **NB** This illustrates the link between corporate governance and corporate social responsibility (CSR)

Some milestones

- 1992 Cadbury
- 1995 Greenbury
- 1998 Hampel – leading to ‘The combined Code’
- 2003 Higgs – the role of the non- executive director
- 2003 Smith – the role of the auditor

And of course

- 2002 Myners – Principles for institutional investment decision making

and that means us (LGPS)

**As part - own these companies we need to act like owners to maximise
our returns and protect our investments**

The Myners Principles

<ol style="list-style-type: none">1. Effective decision-making2. Clear objectives3. Focus on asset allocation4. Expert advice5. Explicit mandates	<ol style="list-style-type: none">6. Activism7. Appropriate benchmarks8. Performance measurement9. Transparency10. Regular reporting
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Shareholder Activism

- Myners - Principle 6

Trustees should ensure they have an explicit strategy on Activism elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.

- CIPFA Guidance states:

Authorities may wish to seek alliances with a group of local authority pension funds, to utilise the benefits of collective size where there is common interest to influence companies on issues relating to corporate governance.

LAPFF – What we are about

The Forum:

- Optimises LA pension funds' influence as shareholders to promote Corporate Social Responsibility and high standards of Corporate Governance
- Facilitates commissioning of research and policy analysis of issues more effectively than individual members
- Provides a forum for consultation on shareholder initiatives
- Provides a forum for information exchange and discussion about investment issues
- Provides a forum to consider issues of common interest to all pension fund administrators and trustees (e.g. Freedom of Information Act)

LAPFF – our structure

MEETINGS

- 4 or 5 Business Meetings a year
- Annual General Meeting
- Decisions at meetings reached by consensus
- Each member Fund has one vote at meetings
- Annual Conference
- Forum Executive

CONTRACTS

- PIRC contracted to supply research, advice and assistance to
LAPFF
- Forum Officer - marketing, publicity, development.

LAPFF - Membership

Currently 44 Local Authority pension funds

- 14 English Counties
- 13 London Authorities
- 8 English/ Metropolitan/Unitary Authorities
- The Northern Ireland Fund (NILGOSC)
- 2 Scottish Authorities
- 4 Welsh Authorities
- 2 Passenger Transport Authorities

- £80 billion in value
- **Membership open to all LGPS pension funds**
- Representation at Forum meetings determined by each individual fund

LAPFF — Members as at 1 November 2007

Aberdeen City Council	LB Hillingdon	Rhondda Cynon Taf
Avon Pension Fund	LB Hounslow	Shropshire CC
Clwyd Pension Fund	LB Islington	Somerset CC
Dyfed Pension Fund	LB Lewisham	South Yorkshire Pension Fund
Devon CC	LB Newham	South Yorkshire PTE Pension Fund
Derbyshire CC	LB Southwark	Teeside Pension Fund
Dorset County Pension Fund	LB Tower Hamlets	Tyne and Wear Pension Fund
Greater Gwent Fund	Lincolnshire CC	Warwickshire Pension Fund
Greater Manchester Pension Fund	Lothian Pension Fund	West Midlands Pension Fund
Lancashire County Fund	LPFA	West Midlands PTA Pension Fund
LB Brent	Merseyside Pension Fund	West Yorkshire Pension Fund
LB Camden	NILGOSC	Wiltshire CC
LB Croydon	Norfolk Pension Fund	Worcestershire CC
LB Hackney	Northamptonshire CC	
LB Harrow	North Yorkshire CC	
	Nottinghamshire CC	

The elected member's role

- Each member fund has one vote at meetings
(but decisions are usually by consensus)
- Some funds send elected members, some send officers, some send both.
- LAPFF encourages elected member participation but it is for each fund to determine its own approach to membership

Areas of concern

- Boardroom structures
- Directors' pay
- Environmental issues
- Supply chain labour standards
- Appointment of and role of auditors

Boardroom structures

- Separation of Chair of Board from Chief Executive
- Independence of non- executive directors
- Senior independent director
- Recruitment and appointment of directors
- Induction and professional development
- Institute of Directors –
LAPFF support for IoD Chartered Director qualification

Directors' Pay

- Supportive of high rewards for success
- Opposed to 'Fat cat' pay deals rewarding poor performance (LAPFF alerts)
- Opposed to excessive rewards which are disproportionate to performance
- Transparency

Environmental issues

- Greenhouse gas emissions (Kyoto protocol & DEFRA requirements)
- Mineral exploration
- Waste dumping
- Signatory to UN Principles of Responsible Investment (PRI)

A ministerial quote

Elliot Morley

Minister for the environment

- "Good environmental standards should never be seen as a burden on companies; indeed, they are good for sustainability, profitability and efficiency.
- "I congratulate LAPFF for playing an important role in furthering these aims. Recently I met with representatives from the Forum and was pleased to hear the positive responses they received in assessing the FTSE 100's level of greenhouse gas emissions reporting.
- "I therefore look forward to seeing the LAPFF continuing to increase company awareness on the importance of reporting their greenhouse gas emissions." (September 2004)

Supply chain labour standards

- Fundamental aspect of corporate social responsibility
- Reputational risks
- Implications for share holder value

Appointment of and role of auditors

- Risk of conflict of interest from other relationships with company
- Ratio of fees for consultancy work and audit fees
- Independence of audit committees

LAPFF Alerts .

Our aims

- Monitor FTSE company proposals for board structures, directors' pay, shareholder rights, separation of audit and non-audit work and environmental issues, particularly greenhouse gas emissions, and facilitate a company engagement response to those planning to implement, or actually carrying out, unreasonable policies in these areas.
- Co-ordinate discussions with other investor bodies and facilitate engagement on key issues of concern.

Approaches to shareholder activism

- Leave it to fund managers
- Use a consultant
- Do it yourself
- Collaboration

Approaches to activism

- Engagement preferable to confrontation
- Effectiveness of 'screening' questionable
- Collaboration improves effectiveness immeasurably

Collaboration

- Responsible Investors Network (RIN)
- International collaboration – CERES –
- US state pension funds
- Universities' Superannuation Scheme –
(USS)
- Association of British Insurers (ABI)
- Institutional Investors Group on Climate
Change – (IIGCC)

The Department for Communities and Local Government' view (DCLG) (formerly ODPM)

- Supportive of activism and of LAPFF as an organisation
- The Local Government Minister spoke at our 2006 conference
- Terry Crossley, Deputy Director, DCLG has been a keen supporter of LAPFF for many years and was a speaker at this year's conference

Meeting of LAPFF with HM Treasury – 25 April 2005 Review of progress with Myners

- “I must say I found the description of your activities extremely impressive”
 - Email from Peter Green - 25 April 2005
 - Head of Capital markets and Governance
 - HM Treasury
- LAPFF Hon Treasurer, Brian Bailey, subsequently invited to join Treasury working group set up to review progress with application of Myners Principles
- The Director and Head of Enterprise and Growth Unit at Treasury addressed LAPFF meeting in July 2005

Benefits of LAPFF membership

Improved effectiveness

- 44 member funds
- Assets of £80 billion
- Strength in numbers
- Improved information flow/intelligence about Corporate governance/CSR issues
- More scope for collaboration
- Co-ordination of campaigns

Benefits of LAPFF membership

Value for money

- Research costs spread over 44 Forum member funds
- Saves officer time and cost in researching issues
- Forum for discussion of **any** related local government pension fund issues e.g. Freedom of Information Act; currency management; overseas property investment
- Excellent opportunities for both trustees and officers to engage in networking with colleagues from all parts of UK and all types of authority (networking initiative)
- Modest annual subscription - £8460 pa (or £8250 pa for 3 year membership)

Where are we now?

- Beginning to make a difference
- Public support is growing
- Governmental support
- Constant media interest
- Much more to do – only beginning to scratch the surface

The future?

- More collaboration
- International co-operation/co-ordination
e.g. the PRI
- More Regulation?

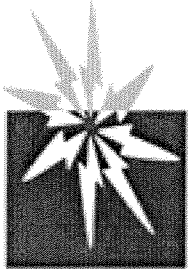
Future Developments at LAPFF - Increasing membership and greater influence

- Membership has grown by 83% since 2003
- Growth in membership expected to continue
- Growing influence with other institutional investor groups and with Central Government
- Higher profile and greater influence with corporate sector (investee companies)

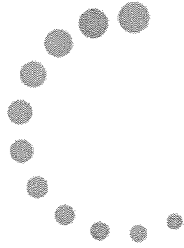
Summing Up

LAPFF provides
a customised, cost-effective vehicle for
LA pension funds
to improve compliance with
Myers Principle 6 – Activism

Acting together - achieving more



Haringey Council



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You know it makes sense!