

	Brent Pension Fund Sub-Committee 19 February 2025
	Report from the Corporate Director of Finance and Resources
LAPFF Engagement Report	
Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt:	Open
List of Appendices:	One - LAPFF Engagement Report Q3 2024
Background Papers:	N/A
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1.0 Executive Summary

- 1.1 This report is for noting and presents members with an update on engagement activity undertaken by LAPFF (the Local Authority Pension Fund Forum) on behalf of the Fund. The Fund's commitment with LAPFF and its work demonstrates its commitment to Responsible Investment and engagement to achieve its objectives.

2.0 Recommendation(s)

- 2.1 The Committee is recommended to note this report.

3.0 Detail

3.1 Contribution to Borough Plan Priorities & Strategic Context

- 3.2 The work of the Pension Fund is critical in ensuring that it undertakes statutory functions on behalf of the Local Government Pension Scheme and complying with legislation and best practice. Efficient and effective performance and service delivery of the Pension Fund underpins all Borough Plan priorities.

4.0 Background to LAPFF

- 4.1 LAPFF (the Local Authority Pension Fund Forum) has 87 members, 7 pools and combined assets exceeding £350bn. With investments widespread in many sectors, LAPFF's aim is to act together with the majority of the UK's local authority pension funds and pool companies to promote the highest standards of corporate governance in order to protect the long-term value of local authority pension funds.
- 4.2 Leading the way on issues such as campaigns against excessive executive pay, environmental and human rights campaign, reliable accounting and a just transition to a net zero economy, the Forum engages directly with company chairs and boards to affect change at investee companies. LAPFF engages with companies and its stakeholders, such as employees and local communities, to understand their views on a company's behaviour and risks. Some issues extend beyond the behaviour of individual companies to the way markets function. The engagement is member led and on behalf of the Brent Pension Fund and other local authorities, LAPFF are able to challenge regulators and deliver reforms that advance corporate responsibility and responsible investment.
- 4.3 In October 2019, the Pension Fund Sub-committee approved Brent Pension Fund's membership into LAPFF. Members of the Pension Sub-committee are welcome to attend meetings of the Forum. As a member of LAPFF, Brent Pension Fund are entitled to contribute to and participate in the work plan organised by the Forum around issues of common concern.
- 4.4 Collaboration with other investors has the potential to strengthening the voice of Pension Funds, influence major companies on key ESG issues and help drive real-world change. Examples of the work carried out by LAPFF are provided below and in previous engagement reports to the committee. Individual funds, like Brent, engaging with companies on their own are unlikely to much of an impact and the Fund would require significant resources to do so effectively. Therefore, membership of collaboration groups such as LAPFF is considered to be more efficient whilst also likely to have greater impact.

5.0 Engagements Conducted by LAPFF

- 5.1 The LAPFF policy on confidentiality requires that all company correspondence (letters and meeting notes) remain confidential; however, LAPFF produce a

Quarterly Engagement report to give an overview of the work undertaken. A summary of key engagement work has been provided in this report. The full report is attached in Appendix 1 (for Q3 2024) and highlights the achievements during relevant period.

Zero Hour Contracts

- 5.2 LAPFF has initiated a series of engagements focused on the use and potential elimination of zero-hours contracts (ZHCs) in the UK. The Forum is seeking to engage with companies that utilize ZHCs as part of their core operations to understand the potential impacts of a ban on business operations, and any steps being taken to mitigate a ban and/or associated risks. There are estimated to be around 1 million workers on ZHC's in the UK. Women and people from ethnic minority backgrounds are more likely to be employed under this type of contract, and the very large majority of workers on them are in non-supervisory roles.
- 5.3 During Q3 LAPFF received written responses from both Compass Group and Hollywood Bowl. Mitie Group agreed to a meeting with LAPFF vice Chair John Gray. Frasers Group refused LAPFF's invitation to engage and did not provide its position as it relates to Zero Hour Contracts. In response to the question of exposure, Compass Group stated its use of ZHCs is limited to only specific areas, such as hospitality and sporting events, where flexibility is beneficial to operations. The company further elaborated that its flexible working policy ensures that employees on ZHCs can request fixed-hour contracts, and all ZHC employees have full employment contracts with the same terms and benefits as the broader workforce. The company believes its approach aligns with best practices and would not be impacted by the Labour party's proposed changes.
- 5.4 LAPFF's policy is that, on balance, there is no clear evidence that business models based on zero-hour contracts and precarious work outperform business models with different and more inclusive human capital strategies. In that context, LAPFF will continue to monitor developments relating to Employment Rights Bill and continue to engage investee companies regarding their exposure to the practice.

Water stewardship

- 5.5 Since 2022, LAPFF has engaged with water utility companies to address ongoing concerns about the pollution of rivers and coastal areas caused by storm overflows through Combined Sewer Overflows (CSOs). CSOs act as relief valves during periods of heavy rainfall, preventing sewage from backing up into homes by releasing excess stormwater and wastewater into the environment. Through its engagements, LAPFF aims to ensure that water utilities companies are making progress in reducing overflow incidents while ensuring that upcoming five-year business plans are cost efficient and include both environmental and social commitments.
- 5.6 This year's engagements reflect on data from 2023, a year that saw an increase in overflow incidents due to significantly wetter weather in the UK. In the quarter

LAPFF met the chair of Severn Trent Water (STW). STW is one of the largest water utility companies in the UK, serving over 4.5 million households and businesses across the Midlands and parts of Wales. This was the third meeting that LAPFF has had with Severn Trent's chair and the Forum welcomed the ongoing dialogue with the company on the issue.

- 5.7 To meet the expected increase in capital expenditure to address, amongst other things, pollution from storm overflows water companies are seeking to increase water prices. STW plans were well received by Ofwat even if the regulator reduced the company's proposed price increase. Despite significant sector challenges, they remain committed to meeting their sewer overflow targets.
- 5.8 Despite progress being made, water companies continue to have some way to go to reduce overflows and reduce the regulatory and reputational risks they face on the issue. LAPFF will therefore continue to engage with water utility companies with the focus on ensuring progress towards their targets and that the additional investment is being used cost-efficiently. LAPFF will also be following the regulator's final determinations.

BP & Shell

- 5.9 During continued engagement with Shell and BP, LAPFF's approach has remained to test oil and gas companies beyond claims of decarbonisation based on existing business models to challenge the viability of the current business. This expectation, based on LAPFF policy, is that the demand for hydrocarbons will 1) reduce in aggregate terms; and 2) that demand will be met by lowest cost producers. BP has been regarded as at the better end of the sector in recognising climate change as an issue but faces the same competitive and structural pressures above from what is a disruptive transition due to disruptive alternative technologies.
- 5.10 With regard to BP, LAPFF has noted some rowing back from their 2023 carbon reduction targets. Although BP has made some commitment to investment in renewables, and is stating the supply of power for electric vehicles is a growth area, it does appear that the company has substantial threats to its business model regarding the scope of no-carbon products that would fully replace the scale of the fossil fuel business, and that expectation of more cash returns to shareholders should be more clearly set out.
- 5.11 A meeting with the Shell Chair is pending. LAPFF continues to challenge whether Carbon Capture and Storage can be made to work as a line of business, given that the costs involved make it a last resort if cheaper substitute energy sources are not possible.

Airlines

- 5.12 Airlines account for approximately 2% of global CO₂ emissions. A paper on the decarbonisation of aviation is being produced for the LAPFF membership. Ahead of this, LAPFF met in September 2024 with Ryanair.

5.13 The meeting was encouraging and reinforced our research. There were no areas for disagreement or potential disagreement. 99% of Ryanair's emissions are from the fuel. The Ryanair team were knowledgeable on the methods and options for decarbonisation with a lot of detailed information on savings and targets and UK and EU requirements and targets. Ryanair has a target of 12% use of Sustainable Aviation Fuel (SAF) by 2030, which compares to a UK Government target of 10% and EU target of 5%. That is in addition to emissions reduction from newer aircraft and engines, which are more fuel efficient.

5.14 It is envisaged that hydrogen-based fuels won't be around until after 2050 as that requires a redesigning of aircraft, given that although having much less mass per unit of energy, there is the problem that hydrogen requires much larger volume than kerosine which are larger than the wing space which is where fuel currently resides. LAPFF is planning to engage with other airlines and with Shell and BP, which are significant aircraft fuel suppliers.

6.0 Stakeholder and ward member consultation and engagement

6.1 There are no direct considerations arising out of this report.

7.0 Financial Considerations

7.1 There are no direct financial considerations arising out of this report.

8.0 Legal Considerations

8.1 There are no legal considerations arising out of this report.

9.0 Equality, Diversity & Inclusion (EDI) Considerations

9.1 There are no equality considerations arising out of this report.

10.0 Climate Change and Environmental Considerations

10.1 The Brent Pension Fund is committed to being a responsible investor, which involves engaging with and encouraging companies to take positive action on environmental, social and governance (ESG) issues.

11.0 Human Resources/Property Considerations (if appropriate)

11.1 There are no HR or property considerations arising out this report.

12.0 Communication Considerations

12.1 There are no communication considerations arising out of this report.

Report sign off:

Minesh Patel

Corporate Director of Finance and Resources