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Response to the Home Office Transparency in Supply Chains Consultation

Submission by LGPS Central Limited

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LGPS Central is a group of Local Government Pension Scheme funds based in the Midlands area, which is combining its assets, worth £45 billion collectively, into a single pool. LGPS Central is made up of Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands Pension Fund, Worcestershire and West Midlands Integrated Travel Authority pension funds. The aim of the Pool is to use the combined buying power of its Partner Funds to reduce costs, improve investment returns, widen the range of available asset classes for investment and ensure good governance, all for the benefit of local government pensioners, employees and employers.

LGPS Central is committed to Responsible Investment (RI). The Pool believes that RI, including the integration of environmental, social and governance issues, is not only the right thing to do but that it supports long-term returns. LGPS Central has made RI a core part of its investment process in every asset class, in every investment mandate it holds and in its dialogue with investee companies and other stakeholders.

As a long-term, global investor we would like to see high standards of business conduct across themes including human and labour rights. We encourage elimination and combatting of modern slavery in investee companies generally. Weak labour rights in technology supply chains are of particular concern to us as we are engaging technology and disruptive industries as one of our current Stewardship Themes.

We fully endorse the Rathbone Brothers PCL and CCLA Investment Management response to the Home Office Transparency in Supply Chains Consultation, and their view of the underlying economic and financial risks that we as investors hold in cases where companies are not eliminating or working towards elimination of modern slavery and human trafficking risks. For convenience, we are reproducing the key views expressed by Rathbones and CCLA below. Note that we have submitted our own responses to questions 11 – 14. These are largely aligned with those of Rathbones and CCLA but in some cases tailored to LGPS Central's specific circumstances as an entity that represents a group of public pension schemes.

It is our collective belief that business only stands to benefit from enhanced engagement with the risks of human rights abuses in their supply chains. We note that human trafficking and modern slavery has

a significant economic impact globally, and that individual companies may suffer irreparable brand and reputational damage should their operations be found to be linked to human trafficking and modern slavery. Rathbone Brothers PLC and CCLA Investment Management supported the inclusion of TISC (Transparency in Supply Chains) in the Modern Slavery Act as a means to encourage all business in the UK to engage with the risks – for the good of their investors and customers, but also to protect potential victims.

Our key views can be summarised as follows:

While the Act was ground-breaking when it was introduced, low levels of compliance and poor-quality reporting in companies' modern slavery and trafficking statements have been well documented. We believe the Government should take immediate steps to strengthen section 54 of the Modern Slavery Act; specifically:

- ***Mandating companies to report on the six areas currently suggested in the Act.*** *The resulting, more consistent and granular information will help investors assess company risk more effectively.*
- ***Improving reporting on the efficacy of company actions.*** *With few exceptions we remain unconvinced that action taken by companies to date is improving the lives of vulnerable people within their supply chains. We want to see more companies reporting instances of modern slavery that they have proactively discovered in their supply chain along with how they have remedied (or prevented) the situation. We believe that this is best practice and that the Government can help to promote this through changes to the legislation and in guidance given to companies.*
- ***Extending the mandatory reporting requirement to the public sector,*** *which is just as susceptible to modern slavery as the private sector and has influence with major supply chain partners in the private sector.*
- ***Providing greater clarity*** *as to which organisations are covered by the mandatory reporting requirements in both the private and public sector.*

We also recognise that Transparency in the Supply Chain is only one mechanism for combatting modern slavery and human trafficking. For this reason, we would encourage Government to also explore the introduction of provisions related to mandatory human rights due diligence more broadly.

Consultation Question Responses

Section 1: Content of Statement

1a) Are you an organisation which currently publishes a statement? [Y/N] If so, which of the following areas do you currently report on.

N

1b) How many individuals, for how many days, were involved in collecting the information included on your statement?

N/A

1c) If you were to report on all of the 6 areas set out above, how many individuals do you think would be needed over how many days to collect the information required for the statement?

N/A

2) Would mandating the areas that statements must cover encourage organisations to take effective action? Please explain your answer and include details of any alternative proposals to encourage further action.

Yes – Whilst we are yet to identify a company whose Modern Slavery Statement does not commit them to taking any action, we note that there are a large number of statements that ignore several of the six optional areas currently listed in the Act.

For this reason, we would strongly advocate mandatory reporting against the six areas in the Act for all listed companies. It would force each organisation to address each reporting area of the Act explicitly. It would also provide better information on risk to us as investors and allow us to make a good assessment of how investee companies are managing this risk.

The statutory guidance should be strengthened to include a template of the information organisations are expected to provide on each of the six areas. This would go a long way to improving the quality of reporting.

We also believe that making the reporting criteria mandatory would also allow for collaboration among actors to address systemic problems common to multiple supply chains, as well as allow for better measurement of progress and accountability.

Further we note that such a move would harmonize UK legislation with other, similar regulation around the world. As global investors, we support moves for alignment in regulatory requirement for multi-national companies, making compliance more straightforward.

3a) If the legislation was amended to mandate the areas that statements must cover, which of the six areas currently set out in Home Office guidance should be required?

We would argue that all six areas should be required to be reported on. At present, information provided in Transparency in Supply Chains statements tends to be selective and generalised and is of little use to investors concerned with issues of risk management. Greater detail in the reporting requirements will bring helpful clarity for companies, strengthen the incentive for them to proactively identify and disclose risks, and encourage companies to take a longer-term approach to combatting modern slavery.

A. Your organisation's structure, its business and its supply chains;

This is helpful not only in helping us understand a company, but also demonstrates that a company understands its supply chain and is managing it well. Examples of useful information provided includes the nature and depth of supply chains, details on sourcing countries, the source of the labour that they draw upon, and addresses of first tier suppliers.

B. Your organisation's policies in relation to slavery and human trafficking;

We need to know how a company governs its response to slavery at a high level.

C. Your due diligence processes in relation to slavery and human trafficking in your business and supply chains;

This helps us assess procurement and HR practices and the steps that a company is taking to regarding new and existing suppliers.

D. The parts of your business and supply chains where there is a risk of slavery and human trafficking taking place, and the steps taken to assess and manage that risk;

Along with (A) risk assessment shows how well a company understands the breadth and depth of its supply chain and what action it is taking in response.

E. Your effectiveness in ensuring that slavery and human trafficking is not taking place in your business or supply chains, measured against any performance indicators as considered appropriate;

This is essential – we want more companies to demonstrate the efficacy of their actions and how they are affecting people involved in their supply chain.

F. Training and capacity building about slavery and human trafficking available to your staff.

This demonstrates how integrated a response to slavery is within a company.

3b) Are there any further areas not mentioned above that should be required? If yes, please state which.

We strongly commend and share the Government's objective, stated in their response to the Modern Slavery Act Review, to see "transparen[cy] about specific instances of slavery identified" (paragraph 34). Legislation should make this a priority area for organisations to report on.

It is our view that given the truly systemic nature of human trafficking and modern slavery there are few, if any, organisations that can claim with any degree of certainty to operate slavery-free supply chains. As such, best practice for an organisation should be to investigate examples of slavery through detailed due diligence of problematic supply chains; provide remedy and support to the survivors identified; and then to be transparent and report these actions. We recognise that there are several reasons why companies can be hesitant to disclose such information and believe that a requirement in legislation for businesses to do so would increase the effectiveness of the TISC provision.

As such we suggest that organisations should be mandated to report details around the instances of slavery that they have found. Guidance on reporting should emphasise that finding, fixing then reporting such instances is best practice and is to be commended. This

would also bring useful alignment with the 'protect, respect, remedy' framework on business and human rights advocated by UN Special Representative John Ruggie.

3c) Should any of the six suggested areas (and any additional areas suggested) be combined? Please explain your answer.

No - Keeping the areas separate improves the clarity of an organisation's response. Investors will likewise benefit on being able to clearly see how companies are assessing supply chain risk in their organisation. The reporting areas cover a wide spectrum and combining them risks failing to capture slavery risk in the supply chain.

4) Should organisations be able to choose not to report on one or more of the required areas if they provide an explanation for omitting this area? Please explain your answer.

No - given the weight of evidence regarding the systemic nature of the risk, we would argue that companies should not be permitted to report they have taken no steps to address modern slavery in their supply chains. As stated previously, we do not think it plausible for a company to claim to have zero risk of human trafficking and modern slavery in its entire supply chain. It is therefore up to companies to take responsibility for the eradication of modern slavery within their supply chains and sphere of influence.

If a company was unable to report under an area of the Act, then at a very minimum the company should provide an explanation as why they were unable to, and how they plan to improve reporting in this area in the following year.

5) Would organisations face any challenges if it became mandatory to report on specific areas? If so, what would you consider these to be?

Potentially - Organisations that are currently unaware if the reporting requirements apply to them might face difficulties in allocating appropriate resources to the reporting requirements. We believe that the Government can help improve the quality of statements by clarifying which entities are covered by the reporting requirements.

There may also be organisations who have only reported on the areas they are confident on for fear of the reputational damage of the discovery of modern slavery in their supply chains. We would like to see greater Government backing and incentives for companies that provide open, honest and transparent reporting.

Section 2: Transparency, compliance and enforcement

6) Would there be any challenges associating with requiring organisations (including businesses) in scope of the Act to publish their modern slavery statement on the Government registry?

No – We do not foresee any challenges for organisations in publishing their statements on the Government registry. We would recommend that the navigation of the registry be simple and transparent to avoid confusion and to improve efficiency for investors and companies.

We believe that by publishing a statement on the Government registry, investors will be better able to check compliance with the Act. It would also enable the quality of a company's modern slavery statement to be compared with other company statements. This exposure on the Government registry could act as a good incentive to companies to improve their reporting.

7) In addition to the ability to publish and view modern slavery statements, which features should a central registry include?

A. Modern slavery statements are accessible automatically through an application programme interface (for example to support analysis by third parties)

We support any design elements in the registry that facilitate both greater distribution and deeper analysis of modern slavery statements. API functionality would be helpful for both of these.

To make best use of an API there should be appropriate meta data for each statement uploaded (year, sector, company size, stock exchange, ticker etc) so that results can be filtered and searched efficiently.

B. Organisations who have reported are available as a downloadable list

Yes. An easily searchable and up to date list of organisations that have reported would be helpful for those accessing data on the registry.

C. Guidance to help organisations to prepare more effective modern slavery statements

This would be a helpful resource for organisations. We would be willing to assist in preparing a set of expectations and best practice that could be linked to from the registry.

D. Guidance to help consumers better understand modern slavery statements

This is not a priority for us as investors, but we are not opposed to it.

E. Functions to enable easier comparison of modern slavery statements

We consider the major benefit of a well-designed registry would be the easier comparison of statements by all stakeholders. It would help us as investors to be easily able to compare a company both against peer group companies (that share a sector or sub-sector) as well as against itself over time to allow analysis of change in company practice. Archive pdf versions of each statement should be stored as they are reported and these should be available in perpetuity and not be replaced by an organisation's more recent statement.

The registry should be searchable and accessible. Inclusion of information about the reporting organisation (name, sector, turnover, etc) would be helpful to be able to filter responses. From our perspective as investors inclusion of common company identifiers such as ticker codes, ISINs or Sedol numbers are other helpful ways of making data more easily searchable and integrated into our existing processes.

As in our answer to questions 6 - being able to easily identify the ultimate parent company of a group that has reported is helpful functionality.

F. Any other features, please specify

In addition to a list of organisations that have reported it would also be beneficial to have a list of companies that are *required* to report. Whilst we understand there are difficulties in producing this at the time being, we would ask that the Government work towards providing

one in the near future and provide an indicative list in the interim. This will be helpful for all stakeholders monitoring compliance with the Act.

8a) Would establishing a single reporting deadline make the reporting process clearer for organisations captured by the legislation?

Yes - We would support the move towards a single reporting deadline for publishing a company's modern slavery deadline. We note that many such corporate transparency efforts have proved that such a model is successful, despite the apparent misalignment with financial year ends.

8b) If you are an organisation required to publish a statement, what would be the challenges of publishing on a single reporting deadline, including any additional resource or cost implication?

Depending on the nature and size of the business, a potential challenge could be ensuring that a statement is produced on time, and the production of the statement does not interfere or coincide with the deadline for other projects at that time. For smaller companies, it could be tricky to allocate resources.

8c) Would single reporting deadline make it easier for external parties to scrutinise whether an organisation has published an up to date statement?

Yes – We would argue that a single reporting deadline would benefit a company by creating a fixed, recognisable date that a company had to abide by. It would also benefit investors as it would make it easier to compare statements from companies and to see which companies have failed to comply with the Act.

9) If a single reporting deadline is introduced, which annual date should be used?

- A. March 31 (most UK-registered companies' financial year end)
- B. 30 September (six months most UK-registered companies' financial year end)
- C. December 31 (the end of the calendar year)
- D. 30 June (six months after the end of the calendar year)
- E. 30 March for public sector organisations, and 4 April for other types of organisations (in alignment with Gender Pay Gap reporting deadlines)
- F. Other

We do not have a strong preference for when a single reporting deadline should be set.

10a) Should any variable penalty for failing to publish a modern slavery statement or failing to publish a fully compliant statement be capped at a maximum prescribed amount? Please explain your answer.

We support any move by the regulator to improve compliance with the Act and do not oppose the introduction of financial penalties for non-compliance. However, we believe that it is for the regulators to decide on the nature of the penalty for non-conformers, and its

severity. That being said, the regulator could also provide implicit reward for companies with strong reporting. A best in class approach might incentivise the laggards to improve their reporting. Investors will also provide 'soft' enforcement through their proxy voting activities. Further, we note that the existing Act contained enforcement mechanisms which, to our knowledge, have not been used. We would encourage a review of existing enforcement mechanisms around corporate reporting, as there may be a role for the FRC in such activities, for listed companies.

10b) If yes, what do you think the maximum sum should be? Please explain your answer.

N/A

Section 3: Public sector supply chains

11a) Should the requirement to publish a modern slavery statement be extended to large public sector organisations that are not currently captured by the legislation?

Yes - We support the move by the Government to extend the reporting requirements of the Act to the public sector. Public sector organisations face the same modern slavery risks as the private sector and have significant leverage to address the risks of modern slavery in corporate supply chains. We recommend that the reporting requirement should cover all Government departments and public bodies, including local authorities with an annual budget exceeding a certain threshold.

11b) What would the benefits of extending the reporting requirements to large public sector organisations not currently captured by the legislation be?

There do however need to be more incentives for public sector organisations to report. As suggested above with the private sector, a best in class approach and an incentive of reward for strong compliance in the public sector would improve the quality of reporting. The extension of coverage to the public sector could act as a means of encouraging greater private sector buy in among the laggards.

11c) What challenges could public sector organisations face in producing a modern slavery statement?

Producing a modern slavery statement as such should from the outset not pose any more difficulty for public entities than for private entities. It is more likely to pose a challenge for some public organisations to be able to meaningfully report if either their geographical remit is very limited and/or their supply chain is very limited. It may also pose a challenge for local authorities to produce a modern slavery statement and to report against it in light of budgets having been frozen

12a) Should budget be used to determine the threshold for which large public-sector organisations should be required to publish a modern slavery statement?

That seems a sensible parameter, given that a bigger budget is likely to accompany a bigger operation and a more extensive supply chain.

12b) If yes, should the budget threshold should be £36 million? Please explain your answer.

N/A

12c) If no, what alternative metric should be used to determine the threshold for reporting?

Perhaps a metric could be the geographical remit of the organisation in question, in light of the fact that modern slavery and human trafficking is a bigger risk in certain geographical areas. It is also relevant to look at the existence of a supply chain, which in some cases for public organisations might be very limited.

**13) Should public sector organisations be able to publish a 'group statement'?¹⁴
Please explain your answer and if you are a public sector organisation please include any relevant examples of the group structure which you might report under.**

We would argue yes, in the interest of efficiency and coherency.

14) Should public sector modern slavery statements be approved by the most senior managing body and signed off by the accounting officer, Chief Executive or equivalent role? Please explain your answer.

N/A