

Item 5

Pension fund investment in infrastructure

Purpose of report

For discussion.

Summary

This report provides an update on recent developments with respect to pension fund investment in UK infrastructure and the LGA's work programme.

Recommendation

Members are asked to

1. note the update;
2. comment on the proposed work plan.

Action

Officers to progress work in light of Members' comments.

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Pension fund investment in infrastructure

Background

1. At its meeting on 24 July, the Finance Task Group which laid the groundwork for the Panel agreed that the LGA should play an active role in exploring the potential for greater pension fund investment in infrastructure as part of our work on new ways of mobilising capital finance.
2. Since the July meeting, there have been several developments that have put a spotlight on pension funds as a source of investment in infrastructure and the LGA's role in this area has received considerable attention. The LGA Chairman appeared on the Today Programme on 25 October, to discuss the potential to use pension funds to drive local economic growth in response to a report from the Future Homes Commission. The report calls for the LGA to play a lead role in encouraging local authority pension schemes to pool funds to invest in new housing. Sir Merrick observed that the LGA has been in discussions with pension funds and other parties with an interest in this area about the potential for unlocking investment by addressing the obstacles to this type of investment that exist at present.
3. On 31 October, the LGA and the British Property Federation launched a joint report, [Unlocking Growth through Partnership](#), that recognises the role that pension funds could play in boosting investment for infrastructure. Our report calls for pension funds, developers and local authorities to work together to explore opportunities for investment in infrastructure and barriers that need to be addressed.
4. The Government has recently responded to our call for potential legislative barriers to greater investment to be examined. On 6 November, the Department for Communities and Local Government (DCLG) launched a consultation on two options for amending the The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to provide Funds greater flexibility to invest in infrastructure:
 - 4.1. increase the limit on investments in partnerships from 15 per cent of a local authority pension fund to 30 per cent; or
 - 4.2. create a new investment class for investment in infrastructure (including via limited liability partnerships), with a limit of 15 per cent of an overall fund
5. The LGA's Local Government Pensions Committee will be responding to the consultation, which closes on 2 December. We have previously said that we would support a move to include a new infrastructure asset class with its own limit rather than extending an existing limit on a more general class. The level of the limit does not appear to be an issue for the majority of schemes, with only about 25 per cent close to hitting the limit. We will be considering whether the establishment of a new investment class could be more useful because a tight definition of a new class might help to address concerns about conflict of interest and self-investment.

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6. Recently, a couple of local authority pension funds have made public their plans to invest in infrastructure. In September, the Greater Manchester Pension Fund announced that it had entered into a partnership with Manchester City Council and the Homes and Communities Agency (HCA). Development land will be provided by the city council and the HCA, while the Fund will finance the building of 240 new homes. Last month, the West Midlands Pension Fund announced that it will be one of the founding investors of the National Association of Pension Fund's £2 billion Pension Investment Platform, a new pooled investment vehicle.

Programme of work

7. We are convening a working group of all of the parties with an interest in this area to establish whether there is a business case for greater pension fund investment in infrastructure and how it might be strengthened, as well as the vehicles that could make infrastructure a more attractive option for investment. The Chartered Institute of Public Finance and Accountancy (CIPFA) have offered to jointly badge the working group in order to provide extra reassurance to fund managers and unions of the group's attentiveness to fiduciary responsibilities. A list of invited working group members is attached in **Appendix A**. Members' view on others who should be invited are welcome.
8. We are organising a series of 3 roundtables to be held between December and March with a view to publishing a comprehensive report to resolve the key issues. Members are invited to comment on the issues we propose to cover in the report:
 - 8.1. a comparison of the current position of private and public pension funds in the UK, and UK funds as a whole against other jurisdictions, with respect to the weighting of their investments in infrastructure;
 - 8.2. a cost-benefit analysis of diverting funds from current investments;
 - 8.3. ways to structure infrastructure projects to be more attractive to pension funds and private investors more generally;
 - 8.4. options for developing new investment vehicles that could deal with issues of scale, risk and cost in investing in infrastructure;
 - 8.5. an assessment of the relevant geography for local authority infrastructure funds to achieve the scale of investment desired by pension funds;
 - 8.6. the classes of infrastructure that match the rate of return and risk profile that pension funds have to seek;
 - 8.7. ways to address governance, reputational and legal risks, particularly related to conflict of interest and self-investment.

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Timetable

9. We are aiming for this report to be launched in the lead up to the next Budget, which would normally be expected to happen in the latter half of March 2013. This would also align with the timing of the launch of the National Association of Pension Funds' Pension Investment Platform. In order to be able to finish the work within this tight timescale, the following timetable is recommended:
 - 9.1. first roundtable to take stock and establish research/analysis needs – 29 November 2012;
 - 9.2. commission research – w/c 17 December 2013;
 - 9.3. second roundtable to review interim findings – w/c 4 February 2013;
 - 9.4. third roundtable to review final report – w/c 4 March 2013;
 - 9.5. launch of report – w/c 11 March 2013.

Member involvement

10. It is recommended that the Panel nominate one or two members to sit on the working group. We would also propose to circulate interim findings to all Panel members for comment.

Conclusion and next steps

11. You are asked to:
 - 11.1 agree the process as outlined in **paragraph 9**;
 - 11.2 nominate Panel members to sit on the working group.
12. The LGA is also calling for the establish a national pensions board for the Local Government Pension Scheme (LGPS), whose remit would be to extend best practice, increase transparency, and co ordinate technical and standards issues and liaise with The Pensions Regulator. The Board could provide a vehicle to commission and disseminate quality analysis and impartial advice on investments to LGPS funds so we will ensure that we coordinate the two pieces of work quite closely.

Financial Implications

13. This is core work for the LGA and is budgeted for within the 2012-13 LGA budget.

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Appendix A

List of invitees
LA pension funds

Peter Morris	Executive Director	Greater Manchester Pension Fund
Mike Taylor	Chief Executive	London Pension Fund Authority
Nicola Mark	Head	Norfolk Pension Fund
Bob Claxton	Head of Pensions	Wandsworth Council

Union

Brian Strutton	National Secretary for Public Services	GMB
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Pensions/finance experts

Joanne Segars	Chief Executive	National Association of Pension Funds
Michael Quicke	Chief Executive	CCLA
Graeme Muir	Partner	Barnet Waddingham

Council officers

Jonathan Hunt	Tri-borough Director for Treasury & Pensions	Westminster Council Association of Local Authority Treasurers Societies
Nathan Elvery	President	Milton Keynes Council
Tim Hannam	Corporate Director of Resources	Manchester City Council
Richard Paver	City Treasurer	

Elected members

Cllr Sharon Taylor (or other nominated member of Panel)	Chair, LGA Finance Panel Executive Member, Local Authority Pension Fund Forum	Stevenage Borough Council
Cllr Toby Simon	LGA Local Government Pensions Committee	LB Enfield
Cllr James Jamieson		Central Bedfordshire Council

Government departments

Brian Town	Workforce, Pay and Pensions Division Head of LGFPS2 Branch - Local Government and Firefighters' Pensions	Department for Communities & Local Government
Bob Holloway	Head of Infrastructure Finance	Department for Communities & Local Government
Doug Segars		Infrastructure UK

Business

Jim Bligh	Head of Labour Market and Pensions Policy	Confederation of British Industry
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Other

John Banham	Future Homes Commission	Future Homes Commission
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Paul Hackett

Director

Neil McInroy

Chief Executive

Alan MacDougall

Managing Director
Head of UK Public Sector

Gary Delderfield

Pensions Group

Amelia Henning

Vice President

Finance Panel

23 November 2012

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Smith Institute
Centre for Local Economic
Strategies
Pension Investment Research
Consultants

Evershed and Nabaro LLP
Royal Bank of Canada