



PENSIONS COMMITTEE 30 April 2013	

Subject Heading:	Investment in Local Infrastructure Assets
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Policy context:	Pensions Investment strategy
Financial summary:	There are no immediate financial implications. Additional costs may need to be incurred to develop options for consideration by the Committee.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

To consider the options for Investing in Local Infrastructure Assets for the benefit of the Pension Fund and to note the report from PricewaterhouseCoopers included at Appendix A.

RECOMMENDATIONS

The Committee is asked to:

- a) Agree in principle to making investment in Local Infrastructure;
- b) Request that officers develop proposals for the creation of an Infrastructure asset class;
- c) Note that the governance arrangements relating to the operation of an Infrastructure asset class will need to be developed in order to meet both statutory requirements and local management needs;
- d) Consider the report from PricewaterhouseCoopers attached at Appendix A;
- e) Note that further reports will be required to approve changes in the Investment Strategy and Governance arrangements if the Committee wishes to develop the Infrastructure Investment options.

REPORT DETAIL

1. The Statement of Investment Principles (SIP) was approved at the Committee meeting of 26 March 2013. During the discussion the Committee indicated a desire to invest in local infrastructure and officers were asked to produce a further report on the matter.
2. In considering the need for further investment in the Pension Fund the Committee should also bear in mind that the latest actuarial review will be completed during the coming financial year. The report will no doubt reflect upon the increasing pressure on pension fund liabilities and will recommend the level of Council contribution rates to the Pension Fund for the coming three years.
3. The Council has faced significant budgetary pressures of its own in the wake of the economic downturn. These pressures are likely to continue but the Council has been keen to consider ways in which the Pension Fund and local residents could both gain from increased local investment. If additional Council contributions to the Pension Fund could be directed towards investment in local amenities and facilities there may be benefits to all concerned.

For example, if the Council made an increased contribution to the Pension Fund which was invested by the Fund in Private Housing development or Commercial Property the following benefits would be generated for each party:

Pension Fund

- Increase in Pension Fund asset valuation
- Revenue stream from rental income

the Council

- Increase in Council Tax base, Business Rates or New Homes Bonus
- Increase in local jobs and services
- Potential reduction in PF contribution rates as the net pension liability reduces.

4. Recent changes in the LGPS (Management and Investment of Funds) Regulations enable funds to hold up to 30% of its assets in infrastructure. Officers have been reviewing examples of infrastructure investment by other funds and will give a further update at the meeting. However, it is unlikely that an existing Investment Fund exists that would meet the Funds objectives. As such a new Fund Management vehicle would have to be created to manage the investment.
5. The creation of a new Infrastructure asset class will bring with it investment risks and opportunities and additional governance requirements. In developing these arrangements the following questions will need to be addressed.
 - Will Investment returns be sufficient to meet Pension Fund objectives?
 - Who can provide the necessary impartial infrastructure investment advice?
 - Can the level of investment risk be quantified and is it acceptable to the Fund?
 - Is the fund prepared to accept construction risk?
 - Are there any reputational matters arising from the investment which might reflect upon the fund?
 - Who will be responsible for reporting on Investment performance (i.e. who will be the fund manager?)
 - What level of reporting will be required to be made to the Committee?
 - How long will the fund hold the assets, or will it seek to make a return on the capital investment.

- Does the Pension Fund wish to limit investments in Infrastructure assets to additional Council contributions ?
- 6. The PWC report attached Appendix A considers options for Investment strategy and Governance. A further update on these and other options will be considered at the meeting.

IMPLICATIONS AND RISKS

Financial Implications and risks:

There are no immediate financial implications arising from the report. However, it may be necessary to seek specialist advice and support in order to develop the fund management structure and governance arrangements (as discussed in the PWC report)

In the event that the Fund received additional resources from the Council the financial impact on the Fund would be as follows:

- Initial increase in Fund valuation and a corresponding reduction in the Net Pension Liability.
- Increase in revenue stream arising from the use of assets.
- Potential increase in assets values over time.
- Increased Fund Management and monitoring costs.
- Risk that the portfolio fails to achieve growth objectives for the fund.
- Risk of fluctuations in assets values or revenue streams which are out of step with actuarial assumptions.

Legal Implications and risks:

None arising directly from the consultation.

While investing in the local infrastructure may be of benefit to the Council and local residents, this has to be secondary to the interests of the pension fund in securing a good return on its investment. In the event that the interests of the pension fund and the Council are in conflict then the interests of the fund must prevail

Human Resources Implications and risks:

None arising directly from the consultation.

Equalities implications and risks:

None arising directly from the consultation.

BACKGROUND PAPERS

None