



Pension Fund Committee

23 February 2022

Title	Local Investment
Report of	Executive Director of Resources (S151 officer)
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	None
Officer Contact Details	George Bruce, Head of Pensions, george.bruce@barnet.gov.uk - 0208 359 7126

Summary

The report brings to the attention of the Committee a recently announced intention by Government to require Local Government Pension Schemes to publish plans to invest up to 5% of assets in projects which support local areas.

Officers Recommendations

That the Pension Fund Committee is invited to note the report and agree that work be undertaken to ascertain current levels of local investment and opportunities to go further.

1. WHY THIS REPORT IS NEEDED

- 1.1 Acting in its capacity as Administering Authority to the Barnet Pension Fund, it is the responsibility of London Borough of Barnet to ensure that the Pension Fund complies with legislation and effectively manages the Fund's financial affairs.
- 1.2 HM Government published on 2nd February 2022 a paper titled "Levelling Up the United Kingdom". Within the paper there were references to encouraging Local Government Pension Schemes to invest in projects that support local areas and a requirement to publish plans with targets. The relevant text from the executive summary and detailed report are set out below. Text highlighted is as shown in the summary report.

Executive Summary

"Levelling up requires mobilising previously underutilised sources of capital. That is why we're using the tax system to incentivise private sector investment, through Freeports, Enterprise Zones and the Super-deduction. It is also why the Prime Minister and Chancellor have called on the UK's institutional investors to seize the moment for an "Investment Big Bang" to boost Britain's long-term growth. The UK Government will go further and work with **Local Government Pension Funds to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.**"

Full Report

"Unlocking institutional investment - The case for action

There is huge potential for institutional investment to support levelling up, across infrastructure, housing, regeneration and SME finance. Institutional investors currently hold UK pension assets of over £3.5tn. Within that, the Local Government Pension Scheme (LGPS) has total investments of over £330bn, making it the largest pension scheme in the UK. Only a tiny fraction of these funds are currently allocated to local projects. If all LGPS funds were to allocate 5% to local investing, this would unlock £16bn in new investment.

The policy programme

The UK Government has committed itself to removing obstacles and costs to making long-term, illiquid investments in the UK. LGPS funds are investing in a wide range of existing UK and global infrastructure, largely through the eight LGPS asset pools. A dedicated infrastructure platform (GLIL) has been established jointly by the Northern and Local Pensions Partnership Investments and LGPS asset pools, and has around £2.5bn committed, with investments including Anglian Water, Forth Ports (including Tilbury) and Clyde Windfarm.

Infrastructure investment by the LGPS has grown from under £1bn in 2016 to £21bn in 2021. To build on this established capacity and expertise, and ensure that all LGPS funds play their full part, the UK Government is asking LGPS funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets invested in projects which support local areas.

The new UK Infrastructure Bank, based in Leeds, has a mandate to catalyse investment to support regional and local economic growth, and will help increase the capacity and capability of local authorities to deliver infrastructure in their areas. It will also co-invest, offer guarantees through the existing UK Guarantees Scheme, and provide a range of debt, equity and hybrid products. It is committed to expanding institutional investment in UK infrastructure, including exploring opportunities with the LGPS.”

- 1.3 Two immediate questions arise from these proposals (1) what is local and (2) to what extent do we already hold investment that meet the criteria set out in the report.
- 1.4 The question of what is local may seem obvious, its Barnet. However, in the context of a working with LCIV they will look at local as being London wide. Hymans understand that the Government’s intention is to promote investment in the United Kingdom and that national will be the definition of local. It is expected that clarification will be forthcoming.
- 1.5 A starting point will be to ascertain the pension fund’s current level of investments in the categories mentioned by Government “infrastructure, housing, regeneration and SME finance” at a UK, London and Barnet level, expecting that the latter will be negligible. Recent investment into infrastructure with LCIV and IFM together with the Fiera property fund will have achieved some exposure to these areas. There are suggestions that the 5% target relates to ‘new’ investments, which is an interesting distinction as many pension systems have relatively low new monies for investment.
- 1.6 A report on current levels of local investment will be brought back to the next meeting together with potential areas of new opportunities.
- 1.7 As yet no timetable is known for publishing local investment plans.

2. REASONS FOR RECOMMENDATIONS

- 2.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) review and if necessary, revise the investment strategy. The proposal recognises that the strategy has been enhanced in 2015, 2016 and 2017. Modelling presented to the Committee at the June 2018 meeting indicated that the current strategy, while expected to achieve the funding objective, can be enhanced.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 The recommendations within the paper are to gather more information for decisions at a later date.

4. POST DECISION IMPLEMENTATION

- 4.1 None as yet.

5. IMPLICATIONS OF DECISION

- 5.1 **Corporate Priorities and Performance**

5.1.1 The Committee supports the delivery of the Council's strategic objectives and priorities, as expressed through the Barnet Plan 2021-2025, to be an efficient and effective Council through managing our finances and contracts robustly, by assisting in maintaining the integrity of the Pension Fund by monitoring the investments and administration of the Pension Fund.

5.2 **Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 There are no direct resources issues for the council however changes in the financial performance of the pension fund affects the pension fund deficit reflected in the Authority's accounts and the level of contributions payable by the Council and other employers.

5.3 **Social Value**

5.3.1 The Public Services (Social Value) Act 2012 came into force on 31 January 2013. It requires people who commission public services to think about how they can also secure wider social, economic and environmental benefits.

5.3.2 Before they start the procurement process, commissioners should think about whether the services they are going to buy, or the way they are going to buy them, could secure these benefits for their area or stakeholders.

5.3.3 The Act is a tool to help commissioners get more value for money out of procurement. It also encourages commissioners to talk to their local provider market or community to design better services, often finding new and innovative solutions to difficult problems.

5.3.4 There are no specific social value issues arising out of this report, however membership of the Pension Fund ensures the long-term financial health of contributing employees on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The LGPS (Management and Investment of Funds) Regulations 2016 (Regulation 7(7)) requires the Committee to periodically (at least every three years) to review and if necessary, revise the investment strategy.

5.4.2 The Council's Constitution – Article 7 – includes within the responsibilities of the Pension Fund Committee, (1) the approval of the Investment Strategy Statement and to act in accordance with its principles and (2) the appointment of investment managers. This paper considers alterations to the asset allocation set out in the ISS.

5.5 **Risk Management**

5.5.1 Risk management is central to the LGPS; which are in themselves risk management tools, managing the risk that future employer income streams will be able to meet future pensions liabilities by creating a reserve from which future liabilities will be met.

5.5.2 Understanding the causes of sources and variabilities of scheme returns informs the management of investment and funding risk.

5.6 Equalities and Diversity

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.7 Corporate Parenting

5.7.1 Not applicable in the context of this report.

5.8 Consultation and Engagement

5.8.1 Not applicable.

5.9 Insight

5.9.1 Not applicable

6. ENVIRONMENTAL IMPACT

6.1 Not directly relevant to this paper, although one of the proposals is to invest in a fund with enhanced ESG credentials.

7. BACKGROUND PAPERS

Levelling Up the United Kingdom.

<https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>