

ABERDEEN CITY COUNCIL

COMMITTEE	Pension Committee
DATE	11 December 2020
REPORT TITLE	Strategic Infrastructure Partnership with Aberdeen City Council
EXEMPT	No
CONFIDENTIAL	No
REPORT NUMBER	PC/DEC20/INFRA
DIRECTOR	Steve Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Jonathan Belford
TERMS OF REFERENCE	5.1

1. PURPOSE OF REPORT

- 1.1 At its meeting of 15 March 2019, the Committee agreed to instruct the Chief Officer – Finance to explore the opportunities for a strategic partnership between the Council and the North East Scotland Pension Fund (NESPF) for the purposes of supporting local infrastructure investment, and report back on the feasibility. The purpose of the report is to address that instruction.

2. RECOMMENDATIONS

- 2.1 That the Committee note the content of the report and agree that the Pension Manager maintain a watching brief on the development of investor ready opportunities in the City Region area.

3. BACKGROUND

- 3.1 In investment terms 'infrastructure' is a broad asset class.

The definition of Infrastructure

'The basic facilities, services and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines and public institutions including schools, post offices and prisons'

Infrastructure Sectors;

Transport	– roads, airports and ports.
Utilities	– water, electricity and gas grids
Telecommunications	– fibre and broadcast towers
Oil & Gas	– oil storage and pipelines
Social	– hospitals, schools and prisons
Renewable Energy	– wind, solar, hydro and biomass

- 3.2 In general the Government is responsible for providing infrastructure services to the community, Government however may discharge its responsibility directly or outsource to the private sector. In addition, the private sector may provide infrastructure services if market conditions are right.
- 3.3 While responsibility rests with Government, infrastructure services can be paid for in different ways, for example from general tax revenues or under 'user pay' arrangements.
- 3.4 With ageing infrastructure, increasing demand and new innovations investment in infrastructure throughout the UK is in high demand, with public and private sector joining forces to deliver on expectations across national and local plans.
- 3.5 Locally investment is sought for Aberdeen's strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and the City Centre Masterplan. Most recently, in May 2020, the Council's Urgent Business Committee approved the Net Zero City Vision for Aberdeen and a Strategic Infrastructure Plan – Energy Transition to support delivery of the vision.
- 3.6 The Committee was advised in the Strategic Infrastructure Priorities and the Scottish Local Government Pension Scheme report (PC/MAR19/INFRA) that there are some legal restrictions for the NESPF investing directly in Aberdeen City Council capital investments. This followed NESPF having reviewed the option to invest in the Aberdeen City Council Bond, when due diligence and legal advice was clear that the Pension Fund was prevented from participating due to the Pensions Act 1995 Section 40 which restricts employer-related investments.
- 3.7. Employer-related investments relate to *(a) shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer, (b) land which is occupied or used by, or subject to a lease in favour of, the employer or any such person, (c) property (other than land) which is used for the purposes of any business carried on by the employer or any such person, (d) loans to the employer or any such person, and (e) other prescribed investments,*
- 3.8 The ambition set out in the Regional Economic Strategy and the Net Zero City Vision for example goes much further than simply a Council being the funder of infrastructure. Both recognise the role of the UK Government and the Scottish Government in developing a mix of opportunities for a range of stakeholders, either in the public or private sector. This is not without its challenges.

The challenges of infrastructure investment

- 3.9 Infrastructure's economic characteristics can lead to attractive investment opportunities but not all display the same characteristics.
- 3.10 Providing essential services by infrastructure assets requires government / community involvement and as such;

- Incorporates an explicit or implied cap on returns, resulting in greater emphasis on initial investment assessment, robust valuation and ongoing management.
 - Requires responsible and informed long term investing and effective governance.
- 3.11 Whilst infrastructure investments can display lower volatility they are not immune to economic cycles.
- 3.12 Private investment in infrastructure assets is relatively immature and as such there is no readily available access route for non-specialist investors. Also, the regulatory and/or contractual complexity that tend to accompany such investments also act as a high barrier to entry for non-specialist investors.
- 3.13 Mitigating some of the challenges can be achieved by taking significant care and judgement to match opportunities to risk/return requirements. Selecting an access route that delivers an outcome in line with expectations, delivering on not only return but governance.

Infrastructure Asset Allocation

- 3.14 The Strategic Asset Allocation for NESPF remains underweight in relation to Infrastructure, despite new investments in the past 12 to 18 months. The Pension Fund requires investor ready projects, that have a clear business case and fully prepared offer to the market for any investment to be considered.
- 3.15 Work with Council officers has concluded that with all of the ambition and expectation for development to be taken forward, there is still a great deal of work to be carried out to move local investment opportunities to be investment ready and for a pipeline to be created.
- 3.16 There is therefore no further work on investment appraisal to be carried out at this time.
- 3.17 That said it is obvious there is clear intent included in, for example, the Regional Economic Strategy and Strategic Infrastructure Plan – Energy Transition that will need investment. Over time it is expected that the proposals will become more developed and therefore in the meantime it is recommended the Pension Fund watch developments and consider suitable proposals that are aligned to the Investment Policy, as they arise.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no financial implications arising directly from this report.

5. LEGAL IMPLICATIONS

- 5.1 Legal advice was sought in relation to the NESPF investing in the Aberdeen City Council bond issue as mentioned in the report. There are no legal implications arising directly from this report.

6. MANAGEMENT OF RISK

- 6.1 There are no issues arising directly from this report, however the management of risk is a vital component of the governance and due diligence in relation to actual investment decisions.

7. OUTCOMES

COUNCIL DELIVERY PLAN	
Regional and City Strategies	The proposals in this report support the Regional Economic Strategy and Net Zero City Vision by remaining interested in the investment opportunities arising from locally.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Full impact assessment not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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