

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	City Growth and Resources
<b>DATE</b>	7 February 2019
<b>REPORT TITLE</b>	Strategic Infrastructure Priorities and the Scottish Local Government Pension Scheme
<b>REPORT NUMBER</b>	RES/19/188
<b>DIRECTOR</b>	Steve Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Jonathan Belford
<b>TERMS OF REFERENCE</b>	Purpose 1, and Remits 1.1 and 1.2

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### 1. PURPOSE OF REPORT

- 1.1 This report addresses the decision of the City Growth and Resources Committee at its meeting on 27 November 2018, to instruct the Chief Executive to explore how Scottish local government pension funds could invest locally, with specific reference to the strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and City Centre Masterplan with the Chief Officer - Finance providing a report on this matter to the 7 February 2019, City Growth and Resources Committee.

### 2. RECOMMENDATION(S)

That the Committee: -

- 2.1 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 to report on the feasibility of this within three committee cycles.

### 3. BACKGROUND

- 3.1 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.
- 3.2 It is no different locally with investment sought in Aberdeen's strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and the City Centre Masterplan.

3.3 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

3.4 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.

3.5 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.

### **UK National Infrastructure Plan**

3.6 The UK Government regularly publish a pipeline of future infrastructure projects and projected investment by the public and private sector.

3.7 The latest National Infrastructure Plan pipeline was published by the Infrastructure and Projects Authority and HM Treasury in November 2018.

3.8 The infrastructure pipeline provides a bottom-up assessment of planned investment in infrastructure, across both public and private sectors. The pipeline annual spending figures are expected to average around £61billion p.a. over the next 10 years. Of this, nearly half is expected to be funded by the private sector, predominantly in the energy and utilities.

### **Infrastructure investment and its challenges**

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 and the Scottish Local Government Pension Scheme**

- 3.14 While there are a few success stories when it comes to the Local Government Pension Scheme (LGPS) investing in infrastructure and local infrastructure there are still many challenges and barriers to overcome.
- 3.15 These challenges and barriers are not only external but are also internal when trying to access these assets.

Areas of consideration;

What type of investment is it

Risk profile

Return/yield expectations

Structure of the investment opportunity

Is it regulatory compliant for the LGPS to invest in

Governance

Resources

Reputational risk

- 3.16 Whilst challenges exist there have been some successes as mentioned earlier, for example Greater Manchester has successfully invested in local infrastructure for many years along with Strathclyde Pension Fund which has had some success in their local area. See background papers referred to in section 9. An extract from the Greater Manchester Annual Report states:

*“This year saw a number of significant new acquisitions by the Greater Manchester Property Venture Fund (GMPVF), including the Soapworks on the site of the former Colgate Palmolive factory in Salford adjacent to the Manchester Ship Canal, and a large industrial park at Broadfield, Heywood Rochdale. The GMPVF also sold its holding in the Globe Park Industrial Estate in Rochdale, which had been successfully redeveloped to provide 38,000 square feet of industrial space across 17 units. We’re also a partner in the £800 million project to develop Airport City on land with the Enterprise Zone next to Manchester Airport, and are supporting the construction of a number of new residential and offices developments across Greater*

*Manchester through a variety of joint ventures, partnerships and finance opportunities, including Matrix Homes, Urban Splash, Select Property Group and Renaker.”*

- 3.17 These examples have been achieved through having greater resources, governance structures and appetite from all stakeholders, and importantly identifying opportunities structured in a manner that the LGPS can access.
- 3.18 There are however some legal restrictions. The NESPF had reviewed the option to invest in the Aberdeen City Council Bond. Following due diligence and legal advice the Pension Fund was prevented from participating due to the Pensions Act 1995 Section 40 which restricts employer-related investments.
- 3.19 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,*
- 3.20 The law is therefore clear that the NESPF cannot invest in the capital programme of Aberdeen City as it would be an employer-related investment.

### **Conclusion**

- 3.21 To continue the development of the strategic infrastructure priorities in the City and Region, the NESPF is limited in relation to funding that it might be able to invest due to employer-related investment restrictions. That said a relationship around the subject could developed between the NESPF and the Council. The Council could explore the investment opportunities available in the wider infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and the City Centre Masterplan, specifically how a strategic partnership with the NESPF could be formed to support the future development of the strategic infrastructure priorities.
- 3.22 This could bring skills and knowledge of infrastructure and property assets, access to a range of specialist advisors and other investors / fund managers.

## **4. FINANCIAL IMPLICATIONS**

- 4.1 If a decision were taken to explore the opportunities for a strategic partnership with the NESPF then advice would have to be sought and officer time would be required to undertake the work involved. With appropriate prioritisation the work could be included within existing budget constraints, that is the capacity of staff employed by the Council.
- 4.2 If specialist advice was required then the Council may have to ask for external advice and there is no budget immediately available for this.

4.3 If the NESPF were to incur any costs these would be met by the Pension Fund.

## 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 may be other legal implications that would have to be explored if a strategic partnership was progressed which may also require external advice. These would be reported at the appropriate time.

## 6. MANAGEMENT OF RISK

6.1

<b>Management of Risk</b>	
Financial Risks	No risks arising from the report
Legal Risks	The management of risk is a vital component of the governance that would need to be considered and put in place if a strategic partnership were to be progressed. The implications would be reported at the appropriate time.
Reputational Risks	No risks arising from the report
Employee Risks	No risks arising from the report
Customer Risks	No risks arising from the report
Environment Risks	No risks arising from the report
Technology Risks	No risks arising from the report

## 7. OUTCOMES

<b>Design Principles of Target Operating Model</b>	
	<b>Impact of Report</b>
<b>Governance</b>	This report links to the 'governance' design principle by ensuring transparency and by providing the necessary information to allow informed decisions to be made and implemented, including performance and improvement measures.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	Not required

<b>Privacy Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not required

## 9. BACKGROUND PAPERS

Links to Greater Manchester and Strathclyde's Annual Report and Accounts.

<https://www.gmpf.org.uk/documents/annualreport/2018.pdf>

<http://www.spfo.org.uk/CHttpHandler.ashx?id=42886&p=0>

## 10. APPENDICES

None

## 11. REPORT AUTHOR CONTACT DETAILS

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