WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**INVESTING FOR GROWTH**
WARD/S AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES**
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of the progress of an initiative by a number of Local Authority Pension Funds including Merseyside Pension Fund to look at the potential opportunities for investing for wider economic and social benefit.

2.0 BACKGROUND AND KEY ISSUES

2.1 The Government is encouraging pension funds to invest more in major infrastructure projects. Local authorities meanwhile are looking to bridge their capital funding gaps with private finance, including from pension funds. However, it is unclear what the potential is for local authority pension funds to increase their investments in the UK, and how much scope is there to maximise investments to help stimulate economic growth.

2.2 In the spring of last year, a major new study was commissioned from the Smith Institute, supported by the Local Authority Pension Fund Forum (LAPFF) and Local Government Pension Scheme funds, seeking to provide fresh insights into what is happening with local authority pension funds and with the aim of delivering a rigorous assessment of the prospects for advancing local authority pension fund investment to help stimulate growth and wider economic development.

The study aimed to:

- Test out what the demand for such investments might be;
- review what has been achieved and what can be achieved by such investments;
- identify the key opportunities and barriers to change; and
- make recommendations on what government and other partners might do to enable changes in practice.

The review was delivered by an independent body of researchers whose members were: The Smith Institute; The Centre for Local Economic Strategies (CLES); and Pensions Investment Research Consultants (PIRC). It also included a peer review panel with members from the LAPFF.

2.3 The report was published on 24 October 2012 and is attached at appendix 1. The principal findings were:

- Impact investments, for wider economic benefit, mostly centred on developing infrastructure – mainly UK office property

- Whilst maximising returns remained paramount for all funds, most would be interested in developing impact investment provided that: rates of return and the right risk profile could be achieved; there were no conflicts of interest; the investment schedule was clear; there was a track record of delivery; and investors had a clear exit strategy.

- The main barriers were managing reputational risks and potential conflicts of interest, especially where local infrastructure schemes were concerned.

- Impact investments were perceived to be more resource-intensive than conventional investment practice, in terms of management and the knowledge requirement. Scale was required to bear the due diligence, legal, administrative and other management costs.

- A number of common areas for future training were identified including: setting up joint ventures, pooling arrangements and associated legal issues; developing framework agreements for procurement and commissioning external managers.

2.4 Following the report, to test the market, the five LGPS funds sought expressions of interest from asset managers who could propose investments with a positive economic impact locally, regionally or nationally.

A significant number of responses (28) were received and categorised according to a variety of criteria. A smaller number of proposals are now being evaluated by the LGPS funds with an initial meeting taking place on 8 November.

2.5 Those proposals that satisfactorily pass the overall evaluation criteria will be then be considered for investment by each of the LGPS funds subject to the specific requirements of each fund.

3.0 RELEVANT RISKS

3.1 Impact investing is a new area of investment for the fund and has a limited track record.

3.2 There are reputational risks and potential conflicts of interest, especially where local infrastructure schemes are concerned.

3.3 Unless adequate resources are available, there is the risk that insufficient coverage is available as the investments are likely to be more resource-intensive than conventional investment practice, in terms of management and the knowledge requirement. Due diligence, legal, administrative and other management costs will be considerable.

4.0 OTHER OPTIONS CONSIDERED

4.1 Not relevant for this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 By pooling resources with other LGPS funds and sharing the evaluation of the proposals, the Fund's approach seeks to manage demands on staff time and resources. Nonetheless, considerable staff time has already been devoted to the evaluation so far. As detailed in section 3, investments of this nature are likely to be more resource intensive.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 There are no planning or community safety implications arising from this report.

12.0 RECOMMENDATIONS

12.1 That the Pensions Committee notes the report and progress of this initiative.

13.0 REASONS FOR RECOMMENDATIONS

13.1 This initiative has gained a high profile and MPF was one of the principals behind the commissioning of the report from the Smith Institute.

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APPENDICES

1. The report from the Smith Institute is attached as an appendix to this report.

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date