

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel
Date:	7 December 2012
Title:	Investment limits – Government consultation
Reference:	4476
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Ian Howell

Tel: 01962 847540

Email: ian.howell@hants.gov.uk

1. Executive Summary

- 1.1. This report suggests a response to a Government consultation paper on changes to the statutory limits on the Pension Fund's investments in partnerships.

2. Background

- 2.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 set limits on the size of some categories of investments, including the total value of investments in partnerships.
- 2.2. Currently, no more than 5% of the Pension Fund may be invested in partnerships, with an option for administering authorities to increase this limit to 15% subject to meeting conditions in the Regulations such as obtaining appropriate advice. The Panel has agreed to increase the limit to 10%, reflecting the level of investments in partnerships which is currently 6.5% of the Pension Fund.
- 2.3. Some commentators have argued that the limit on investing in partnerships may prevent Local Government Pension Funds from investing as much as they would like in infrastructure. Not all infrastructure investments are constituted as partnerships but it is a commonly used form of corporate structure for such funds.

3. Consultation paper

- 3.1. The Department for Communities and Local Government issued a consultation paper on 6 November 2012 seeking views on whether the limit on investments in partnerships should be relaxed.
- 3.2. The deadline for responses is 18 December 2012.

- 3.3. The consultation paper offers two options:
- a) increase the maximum limit on investments in partnerships from 15% of a local authority pension fund to 30%, or
 - b) create a new investment class for infrastructure (including investments in partnerships), with a limit of 15% of an overall fund.
- 3.4. Option b) is intended to target investment towards infrastructure as, under option a), it would be possible for pension funds to take advantage of the relaxed restriction to increase their investments in partnerships for purposes other than infrastructure. Most private equity funds and some indirect property funds use a partnership structure.

4. Consultation questions

- 4.1. The consultation paper includes the following five questions for respondents to answer. Suggestions for a response on behalf of the Hampshire Pension Fund are included below each question, together with some comments.

Q1. **How best could the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be amended to enable local authority pension funds to invest more easily in infrastructure vehicles?**

Response:

The Hampshire Pension Fund supports steps to assist Local Government Pension Scheme funds to invest in infrastructure investments that are appropriate for those pension funds in terms of their returns and risks.

Increasing the limit on investments in partnerships, as proposed in option a), is a sensible way forward if such a limit is thought to be necessary.

Comments:

The existing statutory limit has not been a deciding factor, so far, affecting the Hampshire Pension Fund's level of investment in infrastructure. At this stage, finding viable and appropriate investment opportunities has been more important.

As a general principle, fewer statutory restrictions on the Pension Fund's ability to invest its funds are preferable.

Q2. **What would be the most appropriate limit on investments in partnerships contained within the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009?**

Response:

The proposed increase to 30% is sensible, if it is thought necessary to retain any limit.

Comments:

The Hampshire Pension Fund's total investments in partnerships are currently 6.5% (£249m) of the Pension Fund. A 30% limit would be £1,140m.

Investments of that scale in infrastructure (or any other categories of partnership investment), if contemplated, would represent a major change in the Pension Fund's overall investment strategy and would require a full review of that strategy.

- Q3. **Should a new investment class for investment in infrastructure (including via partnerships or limited liability partnerships) be created and be inserted into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009? If so, what would be an appropriate limit for such a class? How might this be best defined in regulation?**

Response:

A separate investment class for infrastructure is unnecessary. Pension Funds should be left as much freedom as possible to decide on their own investment strategies, taking into account their fiduciary duty to achieve the best possible financial return for the Pension Fund consistent with an acceptable level of risk.

It would also be easier to define a "partnership" in the Regulations than to try to specify what is meant by "infrastructure" investments.

- Q4. **Are there other ways, not specifically raised in this consultation document, that the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 could be amended to increase flexibility for local authority pension funds to invest in infrastructure projects?**

Response:

No.

- Q5. **Are there ways in which the Regulations could be amended to facilitate investment in infrastructure specifically in the United Kingdom, where local funds believe that appropriate rates of return can be achieved?**

Response:

No.

Comments:

As the question implies, proposals to invest Pension Fund money in infrastructure in specific locations, whether that is the UK, the South East or the Hampshire area, must take into account the Pension

Fund's fiduciary duty to achieve the best possible financial return consistent with an acceptable level of risk.

5. Consultation response

- 5.1. Subject to any comments Panel members may have, the Director of Corporate Resources will submit a response to the Government's consultation paper based on the above comments, by the deadline of 18 December 2012.

6. Recommendation

- 6.1. That the Director of Corporate Resources submit a response to the Government's consultation paper based on the proposals set out in this report, subject to any comments that the Panel may have.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

Hampshire safer and more secure for all:	yes/no
Corporate Business plan link number (if appropriate):	
Maximising well-being:	yes/no
Corporate Business plan link number (if appropriate):	
Enhancing our quality of place:	yes/no
Corporate Business plan link number (if appropriate):	
OR	
These proposals do not link to the Corporate Strategy but, nevertheless, require decisions to agree a response to the Government's consultation on changes to the investment limits.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

<u>Document</u>	<u>Location</u>
None	

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. Equality objectives are not considered to be adversely affected by the proposals in this report.

2. Impact on Crime and Disorder:

- 2.1. The proposals in this report are not considered to have any direct impact on the prevention of crime.

3. Climate Change:

- a) How does what is being proposed impact on our carbon footprint / energy consumption?

No specific impact.

- b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No specific impact.