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Engineers calls for pension reform to fund infrastructure

A report from the Association for Consultancy & Engineering (ACE) proposes consolidating the local government pension scheme to release £6bn for investment in infrastructure.



Above: ACE chief executive Nelson Ogunshakin

The government has a target to fund more than £20bn of investment from pension funds but the local government pension scheme is too fragmented to make a contribution.

The ACE report looks at the pensions sector in the UK, which is made up of a large number of relatively small public sector funds, while the UK's private sector funds, though larger, are also relatively small by international standards. This makes investment in infrastructure difficult as each fund can allocate only so much of its funding

to any one type of investment. Long term cultural change would be needed to ensure funds see infrastructure as an attractive investment, and consolidating funds, or providing mechanisms for funds to pool their finances, will be key to achieving that, the report says.

ACE chief executive Nelson Ogunshakin said: "There are around 4.6m members of the local government pension scheme, which holds investments and assets of £120bn. But fragmentation into 99 regional funds means that no single fund has the capacity to invest in a significant infrastructure project or asset. Creating a platform through which all 99 can invest just 5% of their funds into projects would result in £6bn for infrastructure investment."

The report also suggests that the creation of the government's new Pension Investment Platform must be matched by efforts to provide certainty to pension funds and to help change the culture surrounding infrastructure investment. Funds appear to be more willing to invest in completed assets rather than investing to build infrastructure. Facilitating this would enable early phase investors, such as the Green Investment Bank, to re-invest in construction once their projects are completed.

Mr Ogunshakin said: "Some of the largest pension funds in the world invest more than 10% of their resource into infrastructure assets. This compares to lower levels in the UK, where the largest private fund, the BT Pension Fund, invests just 1.5%. Addressing concerns about risk, and reviewing regulations that limit funds' exposure to infrastructure assets, would support cultural and structural change across the pensions industry over the long term. This review should also look at why UK funds are focused on covering their future liabilities, while other international funds give greater focus to maximising returns beyond meeting their liabilities. This is crucial to help pension funds to diversify their investments while generating the infrastructure investment needed to spur growth in the economy."



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