# Pension scheme mergers ‘could provide infrastructure boost’

By Richard Johnstone | 18 July 2012

Merging together local government pension schemes across Britain could free up around £6bn for investment in infrastructure developments, the Association for Consultancy and Engineering has said.

The group, which represents engineering consultants, claimed yesterday that the move would support the government’s ambition of unlocking £20bn of investment from funds.

In last November’s Autumn Statement, Chancellor George Osborne confirmed negotiations had begun with British schemes to persuade them to invest in infrastructure, with the aim of securing private funds through an ‘investment platform’.

However, the ACE warned that the ‘large number of relatively small public sector funds’ makes investing difficult, as each fund can only allocate a proportion of funds to any one type of asset. Infrastructure schemes could account for a large amount of the total capital.

Currently there are 99 regional pension funds that form part of Local Government Pension Scheme, and consolidating these, or providing mechanisms for pooled finances, could boost investment. This would also help create the ‘long-term cultural change’ needed for funds to view infrastructure as an attractive investment, the *Pensions and Infrastructure* report concluded.

ACE chief executive Nelson Ogunshakin said: ‘There are around 4.6 million 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.’

Funds appear more willing to invest in completed assets rather than in infrastructure as it is being built, the report said. It highlighted the two Canadian public sector schemes which purchased the High Speed 1 rail line in November 2010.

Facilitating such post-construction investment would also allow early investors, such as the Green Investment Bank, to re-invest in construction once projects are completed and sold on, the report added.

Ogunshakin added: ‘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.’

The report forms part of the ACE’s series of reports on infrastructure investment, examining the current conditions within the market and the implications of pension fund investment into infrastructure.