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Osborne to raid £140bn town hall pension pot

George Osborne: raiding pensions funds to pay for roads, bridges and homes Times photographer, Richard Pohle

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George Osborne is planning to raid the £140 billion council pension fund to pay for new roads, bridges and homes, *The Times* has learnt.

Local authority chiefs will meet Treasury officials this week to discuss how money held in 80 funds can be used for local projects.

Union leaders, who are locked in a battle with ministers over public sector pension reform, attacked the plan yesterday. Brian Strutton, national secretary of the GMB, said that many local goverment funds were now in deficit and should not be plundered for risky projects. “Members pensions’ savings will be put at risk by investing them into dodgy infrastructure projects that are notoriously more expensive than planned and are unlikely to yield good returns,” he added.

The Chancellor’s move, which could raise at least £10 billion, comes after his announcement last November that £30 billion would be spent on infrastructure projects during the next ten years. Mr Osborne said in the Autumn Statement that £20 billion would be raised from private sector pension funds with £10 billion from extra government spending.

Treasury sources admitted yesterday that the £20 billion would now be raised from private and local government pensions.

Tory MPs have been sceptical that the £20 billion could be raised from private funds. “It has never been seen as a runner. The figures were pie in the sky,” said a senior MP last night.

Merrick Cockell, the chairman of the Local Government Association, has had informal meetings with the Treasury to examine how investments from London funds could help to boost both local and national infrastructure. A group of Manchester councils have experimented with this approach with £500 million of investments in local capital projects.

Mr Cockell, who is also Conservative leader of Kensington & Chelsea council, said that local authorities were looking at investing pension funds more effectively and ensuring a good rate of return. But they also wanted to match investments with specific local projects. He believes that the Treasury should underwrite some of the early costs of the scheme, or pledge a return of 1 or 2 per cent until the project is running.

“I think the timing is right. We can use the collective force of £140 billion to work for both the financial strength of pension funds and for local and national infrastructure needs. But we need to spread the risks and make sure the schemes are viable,” Mr Cockell added.

“It is difficult to get the same returns from public projects as commercial returns. The Government could help subsidise the rate of return to achieve that level by adding 1 or 2 per cent.”

Under the plan, local authorities would pool their collective investment power. A separate investment trust could be set up with some independent members to advise on where funds should be spent and guard against conflict of interest.

“If you took, say, a 6 per cent level of investment then £2.5 billion could be available from London pension funds,” Mr Cockell said. “This could be invested in bridges, houses or toll roads. Other countries like Canada, Australia and South Africa have done this. The Local Government Pension Scheme is in too many slivers of funds and we are interested in looking at wider investments.”

Council finance chiefs believe that putting cash into infrastructure would get higher returns than government gilts — though lower than equities — and it would be much easier for pension board members to agree to invest in a local project and a local company.

At the moment only 0.7 per cent of their assets are invested in infrastructure, Joanne Segars, the chief executive of the National Association of Pension Funds, said. “Funds are struggling to generate good returns from current market conditions and are on the hunt for inflation-linked investments over a slow-burning timeframe. Big infrastructure projects could match that need, so this idea could be a real win-win,” she added.

But some finance experts said that infrastructure projects could be riskier than normal investments if "too many eggs are put into one basket" such as a failing infrastructure project or where there were cost overruns. Several private finance initiative projects have cost tens of millions of pounds more than originally expected.

Alex Waite, partner at the actuary consultants Lane, Clark, Peacock said: "There is a huge potential in this area as there is a natural match between cashflow profiles of pension schemes and infrastructure projects."

A Treasury spokesman said: "Some local government pension funds have approached the Government seeking help to enable them to invest in infrastructure projects. We are in ongoing discussions to facilitate that. Investment in infrastructure is critical to creating the conditions for long-term economic growth, which is why the Government announced a further £30 billion investment in infrastructure last November."

•George Osborne will be warned today that his alternative to the private finance initiative, which has led to expensive and delayed capital projects, might be little better. The Commons Treasury Select Committee says that the Chancellor has failed to heed its warnings that the current accounting systems still provide an incentive to use PFI because it hides government debt. It says that the alternatives might load the Treasury with further liabilities.

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