The Business Services Association and PA Consulting Infrastructure Summit (25 June 2015)

Sir Merrick Cockell: 'Funding the infrastructure promises'

Good afternoon.

With each new Government comes new ideas, new promises and of course, new pledges.

Not looking to buck the trend, the Chancellor's speech to the CBI in May promised a raft of new building and infrastructure commitments.

His mea culpa is to 'build Britain', saying our '*physical infrastructure is not nearly good enough, and previous governments ducked the difficult decisions.'*

Not only did he promise to *'legislate…and start building'* he specifically addressed spending on a new South-Eastern runway, roads, rail links, telecoms and housing.

Meeting these commitments will be no easy feat. A feat that the sale of RBS and Lloyds Bank shares alone will not cover…

However, if we look back to the 2011 Autumn Statement George Osborne himself said public sector pension funds should invest in British infrastructure.

And more recently the new Pensions Minister, Dr Ros Altmann, stated that the sector's involvement is 'an ideal way to use long term pension savings'.

There have also been many stories in the press speculating that this involvement will form a British sovereign wealth fund.

But like all good stories and ideas, alongside a healthy dose of fact, one might find speculation and blue sky thinking.

To be clear, forming a sovereign wealth fund by combining public sector pension funds is not the right way forward. A sovereign wealth fund and a pension fund are vastly different in their aims and requirements.

Pension funds need to think about their liabilities as much as their assets. They need to have a clear view of how much they owe and when liabilities are due in order to know what level of returns they need to make and in what time frame.

Pension funds also need to look for stable, long term returns. At this very moment, the LPFA has approximately 65 members over the age of 100. Our liabilities stretch far into the future. Indeed, some of our current members may well be receiving pensions in the next century.

When you think about it in those terms, you realise our focus cannot just be about getting good returns, but about taking a real long-term, strategic approach to identify and invest in quality assets.

This is why we focus on infrastructure. Infrastructure investment not only provides a return over the long term, it also provides us with a liquidity premium.

With a detailed understanding of our liabilities and when they fall due, we are able to seek this liquidity premium safe in the knowledge that we are investing amounts that we do not need to access for some time.

The Canadians, Dutch, Singaporean and Australian pension funds all are geared heavily towards infrastructure and property….and most of it is British!

It would be wrong to say that UK funds are not financing any UK infrastructure. Universities Superannuation Scheme and the Greater Manchester Pension Funds are investing heavily, and many more would like to.

For example, the Railways Pensions Scheme recently announced that it is seeking to 'partner up' with like minded funds in order to be stronger competitors in the illiquid assets market.

UK public sector pension funds also have the capacity to play their part, primarily as a collective.

As the Deputy Chairman of the LPFA I represent just one of the 89 pension funds that make up the Local Government Pension Scheme; the LGPS.

With over 4.5 million members, it is one of the largest public sector pension schemes in the UK. It's nationwide and, as the name suggests, focuses predominantly on employees working in local government.

With total assets under management of over £190bn, the scheme is one of the largest in the world. It also has the potential to hold its own against many sovereign wealth funds.

However, we are all individual Funds and not represented by one body. As such, we do not use our collective strength, do not speak in one voice, and therefore do not have the liquidity or the expertise to invest in infrastructure.

In order to change this we are advocating collaboration between Funds to realise economies of scale and a more joined up approach. That is, to create the consortium before the asset.

This gives us the size and financial clout to be able to access larger infrastructure deals previously unavailable, and to attract more talent to work for us.

It is not about having one large fund, but allowing Funds to team up on deals and use their collective size in order to compete with other pension funds, or SW for that matter.

So while I can understand how this can be mistaken for a sovereign wealth fund, it clearly is not.

For example, we are currently working on a £10bn partnership with Lancashire County Pension Fund. The partnership will allow us to pool our assets and consider our liabilities on a consolidated basis, but will also maintain the sovereignty and a framework of local accountability for both Funds.

We are doing so to create an entity that will be large enough to compete on the right deals.

In addition to this, at the start of the year we announced a £500m joint venture with the Greater Manchester Pension Fund for the specific purpose of investing in infrastructure.

We must not discount the role that the local authorities can play too.

I am also Chairman of the Local Capital Finance Company, which is about to be renamed the UK Municipal Bonds Agency.

This is an exciting initiative which aims to reduce local authority reliance on Treasury funding, provide cheaper borrowing and in time facilitate inter local authority borrowing and access to other funding sources including the European Investment Bank and help access capital funding below their minimum loan size thresholds.

By acting together and creating a municipal bond agency, local authorities will benefit from the economies of scale of large, liquid bond issues. And by using our collective strength we will be able to borrow cheaper, reduce intermediary costs and create a new market in UK municipal bonds in the same way that has existed in, say Danish Municipal Bonds for many years.

This will help local authorities within current Prudential Borrowing codes to invest capital in local priorities, be they more housing or transport infrastructure; which in turn will benefit local communities.

In time, the agency will also look to allow local authorities to lend to each other, matching lending and borrowing needs, and cutting out the middleman. In future, I'd like to see retail bonds so that individuals as well as institutions can invest directly in their areas, see decent returns but also see the social benefits in housing or roads or communications.

I'd like to finish by briefly covering a conversation I had recently at an infrastructure summit in Abu Dhabi. After speaking about collaboration in infrastucture, a fellow speaker approached me and said that the key to bringing other Funds and Authorities together was having a deal in place that they gave them a reason to collaborate.

While I understand his point and agree to an extent, I don’t believe he took into account the drive and forward thinking that local government pension funds and local authorities have.

Some of the examples I have outlined today show that not only can it can be done, but it is happening.

With the right support and commitment, I believe that we are well on our way to making the Chancellor’s promises a reality when he next speaks to the CBI.

Thank you.