New Stable

EXPANDING AND REFORMING THE ROLE OF THE LOCAL GOVERNMENT PENSION SCHEME IN DRIVING AFFORDABLE HOUSING

By Sandy Forsyth

About Localis

Who we are

We are a leading, independent think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is positive about promoting economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

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- **Decentralising political economy.** Developing and differentiating regional economies and an accompanying devolution of democratic leadership.
- **Empowering local leadership.** Elevating the role and responsibilities of local leaders in shaping and directing their place.
- **Extending local civil capacity.** The mission of the strategic authority as a convener of civil society; from private to charity sector, household to community.
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Executive summary

In 2025, in spite of a challenging global environment and greatly restricted public purse, there is a national opportunity for investing in growth, hinging on effective utilisation of the large surplus held in the Local Government Pension Scheme (LGPS). This report puts forward the case that, by creating appropriate investment vehicles and funding principles, and providing clear government incentives and support, the LGPS can become a significant source of patient capital for addressing the UK's chronic under-investment in genuinely affordable and social housing, ultimately contributing to both social prosperity and national economic growth. As part of this, this report also explores the potential for a long-term and stable lower rate of local authority contributions into the LGPS to act as a means of increasing access to revenue spend for support the crucial task of addressing the housing crisis.

The growth agenda and the LGPS

The government has placed the delivery of homes at significant scale at the centre of its agenda for this parliament. This drive aligns with a cross-governmental policy push to increase institutional investment into the UK economy, with the £392bn Local Government Pension Scheme (LGPS) in England and Wales cited by the Chancellor as a key means to achieve this investment, through the policy of LGPS pooling. Initiated in 2015, this process aims to consolidate LGPS funds' assets into larger investment management entities to reduce costs, increase returns, and enhance the capacity for strategic asset allocation, particularly towards infrastructure and housing. The current focus is on accelerating this process to narrow funds' options down to six "megafunds," aiming for better governance, professionalisation, and increased investment in UK growth-related assets. The government intends to make the mechanisms of LGPS pooling more prescriptive to improve upon staggered past progress.

Simultaneously, as part of the government's push for investment in growth, a plethora of reforms are at various stages of legislative development, encompassing areas such as skills, innovation, business investment, and realising the potential of regions and places. These reforms include the restructuring of local governance, the reorganisation of councils, and mandating the production of statutory growth plans by strategic authorities. These measures are intended to create a more favourable environment for investment by streamlining the planning system and fostering more coherent strategic governance. The interim report of the pensions review has called for a consistent approach to asset pooling and for LGPS funds' administering authorities to work with local and strategic authorities to identify local investment opportunities and have regard for local growth plans in their investment strategies.

The government's drive for economic growth is intrinsically linked to the LGPS reforms through the intention to leverage the scheme's substantial assets, with funds currently enjoying a substantial aggregate surplus, for investment in domestic infrastructure, thereby fostering local economic development. The reforms aim to create a framework that incentivises such investment while ensuring the fiduciary duty of LGPS funds is maintained. An alternate response to the large LGPS surplus (around £45bn total in June 2024, measured on a low-risk basis) is to adjust employer contribution rates downwards, allowing local authorities to retain a greater portion of their general funds to provide them with the financial flexibility to address their own pressing priorities. This argument highlights the link between, on the one hand, the push to invest for growth at local level – using local strategies and local government pension assets – and, on the other hand, the parlous state of local government finances in England and Wales.

Drawing attention this link is important – the intense pressure on public service delivery is in fact as significant a barrier to growth as underinvestment. The interaction of these two issues is most evident in the ongoing and intensifying housing crisis. For this reason, some within the sector are also pushing for an exploration of whether a long-term, sustainable reduction in employer contributions can release revenue savings to local authorities and help address the chronic underfunding of the sector. This does not need to be a binary choice, there is a case for a two-pronged approach to utilising the LGPS surplus and the strong conditions in the pension market, where a mix of targeted investment and sustainable lowering of contributions helps build up both the capital and the capacity for driving local growth. There may even be a case for more rapid use of surplus based on value for money principles.

Addressing the housing crisis as a pro-growth measure

The housing crisis stands as a significant barrier to economic growth. This crisis is principally one of supply, with not enough homes being built year-on-year. Beyond the overall lack of homes, there is a problem with the type of homes being supplied, with far too few genuinely affordable and social homes being built. Even an uptick in overall supply will not solve the problem without further intervention to increase the provision of affordable and social housing. The lack of this crucial type of housing puts pressure on council services, such as temporary accommodation for the homeless. It also causes enormous and unequally distributed downward pressure on disposable income due to escalating housing costs. Surveying the approach to pension investment laid out by the government reveals a focus on innovation in the form of start-ups and nascent high-value sectors. While this is undoubtedly an important element of growth, addressing the housing crisis at its root causes is equally important, and arguably more suited to LGPS investment.

Investing in genuinely affordable and social housing aligns with the long-term characteristics of pension schemes. Pension schemes, together with insurers taking on pension schemes' commitments are inherently long-term investors, and housing, particularly social housing with its government subsidies and guaranteed rental income, can offer stable, inflation-linked returns. The LGPS as a whole already has a well-developed approach to Environmental, Social and Governance (ESG) investing, and investing in social and genuinely affordable housing aligns with these principles. Indeed, many LGPS funds already have a history of co-investment in affordable housing delivery. The task for policy should be to create the conditions to maximise such investment and provide a comprehensive overview of the options for LGPS surplus management which will help address the housing crisis.

Channelling LGPS assets (directly, or indirectly via reduced contributions) into the development of affordable and social housing can help to increase the supply of these much-needed homes, thereby alleviating the pressures on council services like temporary accommodation and reducing the financial burden on low-income households. Furthermore, addressing the root cause of the housing crisis through increased investment and funding can enable a more strategic purview for local government and contribute to economic growth in general. If well managed, LGPS sourced investment in housing at the local level could serve as a blueprint for wider local investment, with government capital and private finance coalescing around investments with multidimensional socio-economic return.

The challenge is to ensure that the various institutional actors at play have the right alignment incentives and strategic tools to be able to deliver credible pipelines which provide both returns to LGPS participating employers (noting that they bear the substantive risk) and genuine social impact. Related to this challenge is the task of considering how policy can focus on directing the use of LGPS surplus funds into directly working towards solutions at local level, for example, via the lowering of contributions. There are a number of potential ringfencing options for revenue savings from surplus utilisation, including for workforce development, supporting the cost of capital borrowing or addressing the parlous state of Housing Revenue Accounts in many local authorities. Once again, it is important to consider all options when facing the major social and economic risks of allowing the housing crisis to deepen.

Creating the right conditions

Properly utilising the LGPS for social housing requires an understanding of the primary public sector institutions involved in planning and financing new homes, particularly social and genuinely affordable developments. This is a complex but potentially fruitful institutional landscape where local government, housing associations, and central government bodies like the National Wealth Fund and Homes England each play crucial roles in enabling LGPS investment into social housing. The key to unlocking this potential lies in establishing effective vehicles for collaboration and investment, such as joint ventures, and leveraging the strategic planning framework provided by local growth plans and Spatial Development Strategies. Overcoming barriers like limited local authority capacity and ensuring sufficient central government support are also critical.

Local authorities are naturally the foremost institutional actor, due to being the membership base of the LGPS, housing authorities, and bearers of the public service pressures caused by a lack of housing. They have a clear interest in attracting housing investment and can utilise various build types to target affordability. However, they face challenges including capacity constraints and expertise in accessing capital, exacerbated by the financial pressures on their Housing Revenue Accounts (HRAs). Housing Associations manage, own, and develop the majority of social housing in England. They have become a "load-bearing pillar" for new affordable housing but face increasing operational and improvement costs while relying on limited funding sources. In the right context, LGPS funds could represent the long-term, locally engaged investment that councils and housing associations require for long-term viability of schemes.

While local actors are the drivers of development, support from central government agencies is crucial for catalysing investment. Although the focus of the new National Wealth Fund (NWF) does not currently include housing, there is a strong case for its inclusion – particularly if social housing is recognised as the national infrastructure which it surely is. The NWF aims to catalyse private investment into British assets and provides an advisory service for local authorities. LGPS funds are likely to be considered in concert with the NWF's mission. There is also a key role to be played by Homes England, which manages government housing and regeneration services, providing extensive grant funding for affordable housing. Homes England can provide a stronger institutional relationship for strategic authorities and offer risk management expertise to local decision-makers. Furthermore, its capacity to support mixed-tenure schemes and offer a framework for risk sharing is important for channelling investment into housing development.

Bringing these public sector actors together, along with private sector developers and investors, requires the strategic use of joint ventures and other vehicles, anchored in local or strategic authorities. Building credible, long-term and scaled programmes around which such vehicles can coalesce is the defining task of the statutory local growth plans and Spatial Development Strategies which are to be produced by strategic authorities under the new policy regime. The government is consulting on a duty for LGPS administering authorities to identify investment opportunities for their asset pools, with strategic authorities also required to work on this. For institutional investors, these plans could provide clarity of purpose and realistic outcomes for local development. They need to be achievable and supported by sufficient funding and powers for implementation to avoid the pitfalls of past initiatives. The recommendations below present steps towards creating a more favourable investment environment for the development and delivery of such pipelines.

Recommendations

Maximising the value of LGPS investment and responding to the surplus

- To ensure the pooling process is carried out with maximum efficacy and impact, government should **extend the deadline to 2027 and provide clear guidance for investments which are linked with national missions and highlight the importance of social returns**.
    - New guidance and regulations should take an open-minded view on the LGPS surplus and lower contributions. Central government must offer explicit guidance to LGPS fund managers on how they can invest locally in housing while still fulfilling their fiduciary responsibilities, including a distinction between required assets and surplus assets. This should reassure them that local investment in well-structured projects is compatible with their duties.
    - Central government should promote the use and development of metrics that properly evaluate the broader social and environmental impact of investments in social and genuinely affordable housing, alongside financial returns on fund assets.
    - As part of the accelerated pooling process, government should review the allocations individual funds currently hold towards social and genuinely affordable housing in the UK, as well as providing guidance on the pooling of illiquid assets in general.
    - A deferral of the pooling until 2027 would allow pension funds to prioritise the 2025 actuarial valuation into decisions on employer contributions and investment risks in 2025/26.
    - The LGPS pools should be encouraged to hold information sessions with their scheme members and scheme employers about the social impact of their funds investment and their maintenance of fiduciary duty.
- In the case of a pension fund choosing to lower its contribution rates in order to provide cash savings for its employers, **local authority employers could be mandated to use a proportion of the savings made from contribution reductions as a revenue contribution to capital expenditure**. This proportion should be calculated based on the rate of contribution reduction, so that administering authorities will still be incentivised to cut rates and make initial cash savings, but those that are enjoying larger funding surpluses will be able to divert cash into more upstream investments.

Unlocking social and genuinely affordable housing investment

- The government should **consider the case for reclassifying social housing as significant national infrastructure** to unlock more capital funding and align it with other priority infrastructure investments.
  - The provision of social housing would therefore fall under the remit of NISTA and the government's 10-year infrastructure strategy.
  - The National Wealth Fund should also have its mandate extended to include the provision of social housing as significant national infrastructure.
- To make sustained investment in new development possible, government must also **provide a long-term deal for the financing of capital backlogs in the local authority HRAs and Housing Associations**.
  - The capital works backlogs faced by local authorities and Housing Associations stands as a major barrier to investing in new social and genuinely affordable housing. Establishing a long-term financing arrangement as a means of alleviating rising maintenance and service costs, or protection from inflationary pressures on existing developments, could ensure that institutional investors do not neglect their physical assets.
- Policy should **encourage and facilitate the creation of joint ventures and partnerships between local authorities, housing associations, LGPS pools and others to develop housing projects**, sharing risks and expertise.
  - In the case of an administering authority diverting capital into either a Special Purpose Vehicle earmarked for housebuilding or a joint venture scheme, then all parties involved need to have the stability that will only exist if the administering authority has the capacity to engage with expert insight. Consequently, the success of any initiative which requires administering authority involvement will rely on sufficient capacity funding.

Creating a pipeline

- Government should **actively work to help local authorities and housing associations create credible and scalable pipelines of social and genuinely affordable housing projects** that meet the investment criteria of institutional investors like LGPS funds. This includes addressing issues of local authority capacity.
  - In order to manage the risk/return profile of affordable housing investment, there is a role for central government to extend grant provision for affordable housing development beyond its current commitments, with grants available for all stages of development, from pre-planning to construction.
  - A regulatory tie-in for stakeholders in affordable housing developments will be required to ensure that ownership means responsibility, especially in the case of ongoing maintenance needs.
  - Maintaining high standards in the social housing sector through well-funded regulation is crucial for LGPS funds to have confidence that their investment will lead to positive social outcomes.
- The government should **ensure that statutory local growth plans and spatial development strategies produced by strategic authorities effectively align and synchronise an infrastructure pipeline and align with LGPS local investment strategies**. These plans need sufficient central government support and resources to be credible and effective.
  - Collaboration between strategic authorities, housing associations and regional Homes England teams will be essential in developing credible strategies.
  - Given that social and genuinely affordable housing may offer lower returns compared to other real estate assets, prospectuses must provide clear incentives and support mechanisms, lowering risk and making these investments more attractive to LGPS funds while respecting their fiduciary duty.
- Homes England is positioned well to provide central oversight of the national affordable housing development pipeline. As such, it could feasibly **package the affordable housing offering across the nation into a single, or at least less fragmented, investible proposition**, which would leverage its scalability to provide an attractive environment for the involvement of institutional investors.
  - Homes England should also offer investment expertise, or otherwise, resourcing to encourage in-house expertise in LGPS pools, with the goal of encouraging pool decision-makers to take on more diverse investment strategies for housing – such as thinking about the potential for investing in hybrid property funds, or models with different durations of asset ownership.

Introduction

Solving the housing crisis, a stated but unrealised goal of successive recent governments, is both a generational challenge for domestic policy and a hugely significant potential vehicle for investment in place. That a crisis exists is well-rehearsed, but its hydra-like, multifaceted nature must be stressed. The housing crisis is principally one of supply, with not enough homes being built in general year-on-year. Beyond this, however, is the crisis over the type and suitability of homes being supplied – with far too few genuinely affordable and social homes being built, meaning that an uptick in supply itself will not, without further intervention, alleviate the problem. There are also the myriad downstream effects of the crisis and the vicious cycle they create: the pressure on council services such as temporary accommodation caused by homelessness, the enormous and unequally distributed downwards pressure on disposable income caused by escalating housing costs.

It is for all these reasons and more that the new government has placed the delivery of homes at a scale not seen in decades at the centre of their agenda for this parliament. This drive dovetails with a cross-governmental policy push to increase institutional investment into the UK economy, with the Local Government Pension Scheme (LGPS) in England and Wales cited by chancellor Rachel Reeves in her inaugural Mansion House speech as a key means to achieve investment.

The current state of the LGPS is such that the government is not wrong to zero in on its potential as a large-scale source of investment. As of the end of 2024, the aggregate funding level for the LGPS' funds was at a record high of 125% on a low-risk basis, with 83 of the 87 constituent funds enjoying funding levels greater than 100% – i.e., the level at which a pension scheme's assets match its liabilities[1]. A low-risk funding basis is the one that would apply if the fund's assets were fully invested in liquid, low-risk investments[2], and therefore provides a useful comparator for funds' relative funding positions. As of the previous actuarial valuation of LGPS funds in 2022, zero LGPS funds had reached a 100% funding level. What this means is that the LGPS as a whole has enjoyed a few years of positive performance, to the extent that questions should now be asked of how funds should respond to the new, stable environment of positive asset-liability ratios.

1 Isio. (2025) – LGPS funding hits record highs calling pooling focus into question

2 Isio. (2024) – LGPS (England & Wales) Low-Risk Funding Index: 31 December 2024 results

This could mean lower employer contributions that could subsequently extend better resourcing to at-need local government employers. It can also mean that funds change their approach to investment risk, becoming more open to a broader range of assets – such as investments into UK growth assets. While 'big ticket' infrastructure items such as energy system upgrades and major transport projects are an important part of the picture, the lack of genuinely affordable and social housing has ramifications across the UK economy and must be considered among the priority targets for catalysing investment.

A major question for policy going forward in this context is how best to facilitate targeted investment in meeting housing demands from the LGPS into appropriate vehicles which – while acknowledging their fiduciary responsibilities – can alleviate the myriad pressures on councils through boosting housing growth across the country, with the ultimate end goal of unlocking wider economic growth missions and raising social prosperity in place. If well managed, in the correct regulatory and legal environment, fulfilling the government's housing ambitions could serve as a blueprint for LGPS sourced investment at the local level, with government capital and private finance coalescing around investments with multidimensional socio-economic returns.

This report examines the potential for the LGPS to be used to support increased investment in affordable and social housing, along with associated infrastructure, whilst retaining fiduciary integrity. Surveying the government's current approach to utilising the LGPS surplus, presenting alternative options, and looking in depth at the strengths and weaknesses of the institutional framework for channelling investment into housing projects. The report concludes with a set of options and recommendations to maximise the value of the LGPS' role in providing much-needed housing under a range of policy scenarios.

CHAPTER ONE

The LGPS, growth and housing

One of the first initiatives that Rachel Reeves introduced as chancellor was to announce a landmark pensions review that would map the current UK pensions landscape and highlight the most prominent opportunities for positive change both for national growth and for personal pensions pots. That this announcement came only two weeks into the new parliament signals something of the government's intent to target the enormous and underlying obstacles to the growth of the UK economy: namely, the poor state of our infrastructure and housing supply. The immediate intent to utilise defined contribution schemes for domestic investment and catalyse the Local Government Pension Scheme (LGPS) for domestic investment seems to indicate a positive environment for transformation. The challenge for policy is to design a framework that incentivises investment in domestic assets to facilitate economic growth and finds the right balance of resources between councils and the LGPS participators, whilst maintaining the fiduciary duty of LGPS funds.

Key points

- Reforms are being put forward by the government to leverage the £392bn Local Government Pension Scheme (LGPS) for England and Wales for national economic growth, particularly by investing in domestic infrastructure and housing supply, highlighted by the announcement of a landmark pensions review at the beginning of the current parliament.
- A decade-long policy of pooling LGPS assets into larger investment entities has aimed to reduce costs, increase returns, and enhance capacity for strategic asset allocation, especially towards infrastructure. The current landscape involves eight LGPS investment pools across England and Wales, expected to reduce to six within the next year.
- Since late 2024, the government has focused on accelerating the pooling of all LGPS assets, aiming for better governance, professionalisation, and increased investment in UK growth-related assets. There is a push for pools to reach at least £50bn in assets, for all LGPS funds to delegate their asset management to these pools and to receive investment advice from their pools.
- Concurrently, planning reforms and the reforms to local government in the forthcoming English Devolution Bill are intended to create a more favourable environment for investment by streamlining the planning system and fostering more coherent strategic governance, measures which are viewed by government as crucial for unlocking investment pipelines across the country.
- The housing crisis stands as a significant barrier to economic growth, stemming from a lack of investment in social and affordable housing. The current policy agenda aims to boost housebuilding, but the need for genuinely affordable and social housing specifically remains a critical underserved area – with the LGPS reforms and the LGPS surplus presenting an opportunity to increase investment in line with government's core missions.

1.1 LGPS pooling and infrastructure investment

The LGPS, with total assets of £392bn as at 31 March 2024, is a defined benefit pension scheme, meaning that rather than members receiving a pension based on the amount of money contributed over time by the member and the member's employer, the employer pays pension benefits based on the salary and length of service to the member. LGPS benefits increase in line with the cost of living and any shortfall in funding to cover the costs of the scheme's liabilities is the responsibility of the employer[3]. Managers of LGPS funds therefore have an ongoing fiduciary duty to ensure that LGPS members' benefits are drawn from a sufficient pension pot, which changes the willingness of fund managers to engage in any riskier investment – such as focusing larger proportions of investments on domestic infrastructure assets. Changing the regulatory framework and structure of fund investments to better incentivise investment in local growth is the overarching goal of the reforms which characterise the policy context for the LGPS in 2025.

1.1.1 Background: 2015 to 2023

The creation of 'mega-pools' of LGPS fund assets, through which the Treasury hopes to draw out value for UK assets from the LGPS, reflects a decade-long process commenced under the chancellorship of George Osborne. In 2014, an analysis of the LGPS indicated a fragmented system that produced high costs to the taxpayer and unequitable benefits between lower and higher earners, leading to the introduction of a suite of measures to tackle what the government saw as a regressive system[4]. Then, in 2015, the chancellor revealed plans to pool all the funds' assets in the LGPS into six British Wealth Funds, requiring each to represent more than £25bn in assets[5]. The intentions were to cut costs, increase returns, and, fundamentally, to enhance the expertise linked to the funds in order to follow international precedent for greater investment in infrastructure. The overarching logic of the policy is that pooled assets have increased capacity for broader strategic asset allocation choices.

A consultation on the investment of the LGPS funds then introduced proposals to hand over autonomy to administering authorities to make their own investment decisions and to ensure compliance with the guidance on pooling assets[6]. Consequently, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into being, obligating, among other directives, that administering authorities were to produce an Investment Strategy Statement. By law, Investment Strategy Statements had to include a requirement to share fund money between a wide variety of investments, in order to mitigate risk, and to outline the authority's assessment of the suitability of its investments, its approach to risk and pooling investments, and its policy on the inclusion of ESG considerations into investment

3 Education and Skills Funding Agency (2024) – Local Government Pension Scheme (LGPS)

4 DLUHC and MHCLG (2018 to 2021) (2023) – Amendments to the Local Government Pension Scheme statutory underpin: government response

5 National Infrastructure Commission and the Rt Hon George Osborne (2015) – Chancellor announces major plan to get Britain building

6 MHCLG (2018 to 2021) (2016) – Local government pension scheme: investment regulations

decisions[7]. By following these regulations, administering authorities would be able to decide when and how to pool their investments while ensuring that members continue to benefit from good practice and governance.

The intent to pool came within the strictures of four criteria devised to guide administering authorities of LGPS funds in the delivery of local growth:

1. Asset pool(s) that achieve the benefits of scale;
2. Strong governance and decision making;
3. Reduced costs and excellent value for money; and
4. An improved capacity and capability to invest in infrastructure[8].

Ultimately, the six proposed Wealth Funds evolved into the eight LGPS investment pools that now function across England and Wales, conglomerating 87 pension funds – belonging to the 86 local government administering authorities and the Environment Agency[9] – into pools that are now worth between £2bn and £30bn. As of March 2022, those eight pools accounted for 39% of assets, while an additional 31% were under 'pool management', bringing the scale of the pools up to £16bn to £60bn through the inclusion of passively managed assets that are held by external managers[10].

In 2023, the government decided that progress towards the initial ambitions of Osborne's transformations had been too piecemeal. In consequence it therefore launched a further consultation to address pooling reform in the new context of 'levelling up' policy. The consultation proposed that all LGPS assets, including those less liquid assets that are challenging to transfer without significant cost, be fully transferred to the pools. It argued that not only could scaling through pooling see cost savings reach up to £100bn, but that scale had improved bargaining power with asset managers and allowed the building of internal capacity among LGPS funds. Potential to improve in-house investment management capacity in pools should, the consultation claimed, produce substantial reductions in cost. Additionally, while net savings of £380m in aggregate had already been delivered by the programme of pooling reform, UK and global infrastructure investment had seen particular uplift in investment, from

7 Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

8 Department for Communities and Local Government (2015) – Local Government Pension Scheme: Investment Reform Criteria and Guidance

9 DLUHC (2023) – Local government pension scheme funds for England and Wales: 2022 to 2023

10 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments

less than £1bn to around £27bn. Greater collaboration for pools and specialisation, the consultation went on, could have further positive implications for infrastructure and other alternative investments – including ‘levelling up’ projects and social investments[11].

1.1.2 Recent progress

In many ways building on the 2023 consultation, the current government’s pensions review concentrates on three core facets of transformation, impacting different divisions of the UK’s pension system:

- A Pension Schemes Bill that will encourage consolidation and value creation for members within the private pensions market, including the consolidation of defined benefit schemes through commercial ‘superfunds’.
- A shift that will see defined contribution schemes injecting greater investment into the UK economy.
- Action “to unleash the full investment might of the £360bn Local Government Pension Scheme to make it an engine for UK growth.”[12] A more recent estimate places the collective value of LGPS assets at £392bn in England and Wales[13].

With the review in progress, the chancellor’s Mansion House speech confirmed central government intentions to legislate for eight “megafunds” across the LGPS, encouraging more investment into domestic finance and for all LGPS funds to delegate their asset management into pools. The focus of the speech looked to preventative action, highlighting the need to ensure growth by improving government efficiency, delivering changes to the regulatory landscape of investment, and investing in public services[14].

Proposals for pensions have recommended a framework for pools to reach at least £25bn, with the collected efforts of these pools across the LGPS and private defined contribution funds expected to unlock up to £80bn of private capital for infrastructure and businesses[15]. The government has assured that it will be much more prescriptive surrounding the mechanisms of pension pooling, hoping to improve upon the precedent of the past nine years and encourage better governance and professionalisation in the pools.

11 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments
12 HM Treasury, DWP, MHCLG (2024) – Chancellor vows ‘big bang on growth’ to boost investment and savings
13 Financial Times (2024) – Reeves must go bigger and bolder on local pensions reform
14 HM Treasury (2024) – Mansion House 2024 speech
15 Financial Times (2024) – Government could force pension funds to invest more in UK assets

However, there have been concerns that choosing to continue with eight megafunds at a minimum of £25bn would limit the benefits from scaling, which are most prevalent at asset sizes of at least £78bn, according to the Pension Insurance Corporation, with greater productivity in returns from investment once funds reach more than £50bn[16]. Government is awaiting the publication of a second part to its review[17], which will focus on the stages to improving pensions outcomes and investment in UK markets[18]. The interim report was published concurrently with the Mansion House speech[19], but full recommendations are to be published in 2025 after the government receives more views on its proposals for scaling, consolidating, and pushing UK pension funds into UK growth[20].

The drive to produce better value-for-money from the pooling process has led the government, as part of its agenda for reform, to reform to ask each pool to produce proposals for their plans for transition and how they would align with the government's Fit for the Future consultation. Subsequently, the government has refused to approve the transition plans of two of the pools; Brunel and ACCESS. As such, government has directed that the funds currently aligned with Brunel and ACCESS should proceed to another pool according to the funds' choice, effectively reducing the number of government-approved pools to six, rather than eight. This may result in an improvement of the capacity for LGPS funds to benefit from the economies of scale that pooling can offer, but critics – most vocally from the two pools in question – are concerned that forcing pools to merge will generate immense transaction costs and only serve to add uncertainty to the pooling process without actually tackling the issue of individual funds failing to transfer their assets into pools[21]. As it stands, individual funds are drawing increasing attention to the costs of pooling under the government's requirements for Financial Conduct Authority (FCA) authorisation, with the Greater Manchester Pension Fund expecting its own pooling costs to increase by 55% in the next year due to the need to seek FCA approval[22].

The Parliamentary Under-Secretary of State for Pensions has also not ruled out forcing pension funds to invest more in UK assets, noting in particular the disparity between UK pension investments in domestic equities and those of other countries' funds.

16 Financial Times (2024) – Reeves must go bigger and bolder on local pensions reform
17 Financial Times (2024) – Government could force pension funds to invest more in UK assets
18 Corporate Adviser (2024) – Multi-stage pension review launched, starting with investment
19 HM Treasury, DWP and MHCLG (2024) – Pensions Investment Review: Interim Report
20 House of Commons Library (2024) – Pension scheme investments
21 Room151 (2025) – Brunel and ACCESS told to merge with other pools
22 Room151 (2025) – GMPF predicts 55% increase in pooling costs

However, the pensions review does not make specific recommendations regarding mandates for investment as of yet. It is worth noting the suggestion that rather than mandating allocations of investment, resourcing for training for pension fund managers might be worthwhile[23] – a suggestion made in the context of venture capital literacy training, but perhaps relevant to the wider sense of in-house capacity for LGPS fund management. Certainly, one well-known benefit of pooling is the ability to build internal capacity and now could be the ideal time to push for such initiatives.

As it stands, the interim report calls for the following:

- **A consistent approach to asset pooling.** The report notes that there has been greater collaboration between funds in the same pool since the introduction of pooling but also laments the piecemeal and varied progress of pooling.
    - The government is, therefore, consulting on measures that will require all LGPS funds to delegate management of all assets to their respective pools, with those pools conforming to a "rigorous and universal" set of standards. This approach will be informed by international best practice.
    - Formal standards for delegation are to include pools having responsibility for all areas of investment implementation, with funds setting the overarching investment strategy based on advice by the pools. Pools will be required to develop the capability to provide investment advice to partner funds.
- **Local investment.** The government intends to require LGPS administering authorities to work with local, mayoral and strategic authorities to identify local investment opportunities and to have regard for local growth plans in investment strategies. The report celebrates the investment of around 5% of LGPS assets in projects to support local growth, as of March 2024.
- **Strengthening governance.** Building on the 2021 report from the LGPS Scheme Advisory Board, the report includes a proposal of a biennial independent review on the governance of funds.
- **Economic growth.** The reforms outlined by the report are intended to align with other programmes for UK growth, with the government's intent to create a pipeline of investment opportunities such as the National Wealth Fund and the British Growth Partnership.

23 Juanita González-Uribe and Robyn Klingler-Vidra (2024) – Venture capital literacy could boost the potential of UK pension funds

- **Increasing capacity.** The report acknowledges that LGPS funds could benefit from greater in-house expertise and capacity in order to encourage investment in diverse asset classes[24].

The LGPS after 'Liberation Day'

Sweeping and, unfortunately, as of yet unsettled US tariff hikes across the world mean that uncertainty has destabilized the markets within which many of the LGPS funds are heavily invested. As long-term investors, funds are unlikely to make immediate and reactive policy shifts to deal with how both the US tariff positions and reciprocal tariffs from other countries will impact the global economy. However, with the LGPS triennial valuation's cut-off on March 31 2025 arriving in the midst of a heap of Trump's tariff threats and announcements, it is likely that the impacts of tariffs on global markets will play a part in the decision-making of funds considering the efficacy of their asset allocation strategies.

While funds and pools will have to re-consider the risk positions of their portfolios, especially in terms of global equity allocations, it is worth noting that the case for fund investment in alternative assets, as has been emphasized quite significantly in this report, remains compelling. Traditionally, assets such as housing and real estate perform relatively well in times of high inflation. Although capital costs and, in particular, supply chain and construction costs are likely to rise due to tariffs, physical assets such as real estate and infrastructure do not see direct impacts from tariffs in the same manner as other asset classes. This positions higher alternative asset allocations as an attractive option for funds looking to diversify their portfolios to maintain a stable, long-term outlook and manage risk despite the potential for short-term volatility in the economy, as other asset classes and primarily equities struggle to stabilise and provide returns in a context of global uncertainty.

Despite the market volatility and uncertainty on and around Liberation Day, however, it should be noted that the LGPS surplus remained intact and consistently above £50bn on a low-risk basis.

24 HM Treasury, DWP and MHCLG (2024) – Pensions Investment Review: Interim Report

1.2 Potential for further transformation

The original four criteria of pooling reform provide a good framework from which to understand and evaluate the further potential for change.

1.2.1 Achieving the benefits of scale

Efforts to boost scale in LGPS pools have seen mixed success, with slow progress only adding to costs as many individual funds opt to continue to manage a portion of their own assets, while, at expense, devoting a team towards allocating assets into the pool[25]. The details of the successes of scaling until 2023 can be found in the 2023 LGPS consultation outcome[26]. Alternatives to pooling at this stage would come in the form of merging individual LGPS funds – but there are concerns that enforcing mergers would be not only a protracted process but one also undercut by legal challenges[27]. This concern is held in particular by those funds impacted by the government's recent decision to direct Brunel and ACCESS funds towards other pools[28]. However, the previous government, in the Autumn Statement 2023, brought the deadline for the transition of all listed assets into pools to 31st March, 2025[29], following the recognition in the prior consultation on the LGPS that the pace of transition is vital to delivering the potential benefits of pooling[30]. The Mansion House speech given by the chancellor duly announced the acceleration of the pooling process under the current government with the megafunds policy, and Torsten Bell, Pensions Minister, has confirmed that the deadline for LGPS funds to complete pooling will be March 2026, including the movement of Brunel and ACCESS funds to other pools, with the idea that pooling will be able to establish better opportunities for scaling as soon as possible, despite concerns that this deadline is too exacting, particularly when it comes to the transfer of more illiquid assets.

1.2.2 Strength in governance

The review on the LGPS may have wider implications for the governance of schemes, especially in terms of the relative risk profile of investing. The pushback from some funds and scepticism towards the effectiveness of pooling of assets highlights the concerns regarding how proposed amendments might fail to provide the security

25 LGPS Board (2024) – The LGPS in 2022-23
26 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments
27 Financial Times (2024) – The race to build a £354bn British pensions behemoth
28 Room151 (2025) – Brunel and ACCESS told to merge with other pools
29 HM Treasury (2023) – Autumn Statement 2023
30 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments

that members of the scheme require. Notably, the pension fund for the Royal Borough of Kensington and Chelsea has consistently seen the best performance out of all underlying LGPS funds and has also previously threatened to quit the London LGPS Collective Investment Vehicle (London CIV)[31], maintaining that it would prefer to run a majority passive portfolio rather than rely on the active investment that characterises the London CIV. The chair of RBKC's pension fund has noted that active managers rarely add value, in the context that the average management cost of LGPS non-pooled funds is around 0.5% – much higher than corporate DB pensions, a consequence of the high proportion of actively managed equity and bonds[32].

However, the ultimate opinion of HM Treasury is that local government's pension fund management is not up to scratch: the 2023 consultation outcome noted that pensions committees tend to have high levels of turnover and that members of these committees may not have the training and expertise requisite to producing competitive outputs from investment strategies. Pool partnerships, it argued, with a "higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey."[33] As such, and following the implications of the review and call for evidence, it is likely that even the most sceptical of LGPS funds will have to accept the direction of travel and agglomerate.

1.2.3 Value for money

In the context of complete pooling, applying a value for money focus draws attention to the challenges presented by conflicts of interest in evaluating this policy: those who would be disadvantaged in the case of widespread public sector cost savings. In this case, the asset managers, primarily, as well as the lawyers, banks, and actuaries who could stand to lose out on at least £1bn in fees under a more efficient system of pooling[34]. However, the majority of concerns with asset pooling have been focused on the tight March 2025 deadline, more recently delayed to March 2026, the feasibility of complete asset transfer, poor guidelines from government from 2015, and the potential for an incautious rush towards scaling[35].

31 Portfolio Institutional (2023) – London CIV sweats on Kensington and Chelsea exit decision
32 Financial Times (2024) – The race to build a £354bn British pensions behemoth
33 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments
34 The Guardian (2024) – Why does Rachel Reeves want to copy Canada's pensions model?
35 Pensions and Lifetime Savings Association (2023) – PLSA supports pooling but warns of unnecessary risks if rushed

Positively, however, the creation of the Office for Value for Money, launched at Budget 2024, intends to ensure that full accountability for those handling public moneys will be at the heart of any further legislated transformation of the LGPS, additionally implying that it will be the responsibility of both pooled and underlying LGPS funds to indicate, with full transparency, where and how money has been saved[36]. As such, it is fairly likely that the structures will be in place to ensure that neither the transfer of funds nor the governance of pooled funds hold unnecessary risk for scheme employers and members while shoring up the potential for good value for money.

1.2.4 Investing in infrastructure

Finally, and potentially most significantly, is the progression of investments into domestic infrastructure made by pooled funds. It is estimated that LGPS assets could reach £500bn by 2030. By March 2022, it was the case that £27bn had been invested in infrastructure both in the UK and overseas[37]. In future, the Pension Insurance Corporation has proposed that complete LGPS conglomeration into a single national fund would release nearly £40bn of investment into infrastructure[38]. With all the potential of a long-term, patient capital investor, a pooled LGPS represents a significant opportunity for growth, provided that a) asset transfer happens at a sustainable pace, and b) pension managers and local politicians maintain a portfolio with diverse risk/return characteristics[39].

It is also the case that LGPS funding should not be over-stated as a new, untapped mechanism for infrastructure investment: many funds already invest to some extent in domestic infrastructure and, previously, levelling up initiatives, and the full capacity of funds to do so is limited by managers' fiduciary commitments to scheme employers and members.

The government's call for evidence on pensions investment, published with the intention of informing its Pensions Investment Review, asked three questions concerned with the potential for UK pension funds to galvanise UK growth (edited here to highlight the focus on LGPS investment)[40]:

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36 Room151 (2024) – Room151 Podcast Budget special: how will it impact the LGPS?

37 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments

38 Pension Insurance Corporation (2024) – Local government pension reform could unlock £40 billion for infrastructure

39 DLUHC (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments

40 HM Treasury, DWP, and MHCLG (2024) – Pensions Investment Review: Call for Evidence

- What is the potential for a more consolidated LGPS and an increased focus on net investment returns to increase net investment in UK asset classes such as infrastructure, and the potential impacts of such an increase on UK growth?
- What are the main factors behind changing patterns of UK pension fund investment in UK asset classes?
- Is there a case for establishing additional incentives or requirements aimed at raising the portfolio allocations of LGPS funds to UK assets or particular UK asset classes, with the priorities of improving saver outcomes and boosting UK growth? For the LGPS, what are the options to the incentives and requirements for investment in local communities contributing to local and regional growth, and what are their relative merits and predicted effectiveness?

When aligned with the launch of the British Infrastructure Taskforce – attended among others by the CEO of the Pension Insurance Corporation – and a new National Infrastructure and Service Transformation Authority (NISTA), alongside £27.8bn funding presented with the National Wealth Fund, and in concordance with the government's promotion of private sector collaboration in delivery, it is clear that LGPS reform comes as part of a much larger effort to cataylse a boom in domestic infrastructure investment, with the underlying goal of tackling regional deprivation.

1.3 The national drive for growth and affordable housing

At the fore of the government's agenda is economic growth, led by a recognition that this is a goal with multifaceted components and an intention to ensure that the benefits of growth, measured in terms of Real Household Disposable Income per person and GDP per capita, are extended across the whole country. The context for this mission is one of years of austerity leading to constrained public finances and a consistent lack of investment in services and capital investment programmes. This has left the UK's public realm and its composite institutions visibly lagging, particularly in certain areas that have consistently missed out on investment and government attention and resourcing, resulting in a loss of confidence among the public in the country's political institutions. The outcome of positive and inclusive economic growth is therefore two-fold from a governmental perspective: one, that a stronger and more stable economy will unlock a stronger position for public finances and encourage private investment in the public realm, and two, that government will benefit from the assumed political dividends of a flourishing public realm.

1.3.1 Reforms for growth

Because of the multifaceted nature of the growth problem, the government's strategy for progress has been to take a telescopic view of the interlinked areas for transformation that it has identified as holding back the country's growth, while recognising that current economic stagnation is fundamentally tied to historic cuts to public investment. These areas for transformation encompass skills and jobs, approached via the establishment of Skills England and an Industrial Strategy; investment in science and innovation, itself tied into the Industrial Strategy; a commitment to encouraging businesses investment; and, quite predominantly, a focus on the potential for regions and places to grasp the opportunities and tackle the barriers inherent to their locales.

This focus is manifested in a raft of reforms affecting the operation of local government in England. The English Devolution White Paper sets out the pathway for both the restructuring of governance and reorganisation of councils, as well as mandating the production of statutory growth plans by 'strategic authorities' – defined as combined authorities, the Greater London Authority and certain single local authorities as designated by government. Under the new regime ushered in by the Planning and Infrastructure Bill, strategic authorities will also produce spatial development strategies to provide a strategic, subregional layer to the planning system, intended to better join up development and infrastructure needs.

These reforms, amongst other wider policy transformations, represent a reshaping and retooling of English local government, in a way that is designed to respond to certain issues which have long been cited from some corners as impediments to growth, with great relevance to pension funds and institutional investors. The argument is that local governance in England is too fragmented to foster investment, with piecemeal powers unevenly divided across spatial geographies and layers of government. By simplifying and streamlining the planning system and creating a more coherent strategic governance map, these reforms are designed to create a more favourable environment for the creation of workable investment pipelines across the country.

The complexity and fragmentation of local government is only part of the criticism, however. Another issue often cited as an impediment to investment is inconsistency in the central government policy environment – embodied in recent years by the unprecedented pace of ministerial, let alone prime ministerial churn in office between 2019 and 2024 – and far from alleviated as a concern in the current environment of global instability and domestic political turbulence. In this context, the need for government to ensure that the framework put in place by the current reforms can stand the test of time and could endure any future instability in Westminster, is heightened. This involves addressing the capacity gaps in local authorities, as well as reckoning with their operational reality.

The immense and infamous financial pressures currently afflicting local government across the country are defined by several points of immediate crisis. A lack of capacity hinders expertise across a range of service and place-making provisions, while day-to-day revenue spending is overwhelmed by the costs associated with providing adult and children's social care. However, looking beyond day-to-day spending, it becomes clear that years of underinvestment in place have led to a further pressure specifically on local authority accounts, one that could really only be alleviated by significant capital spending at the local level: the housing crisis. With the aggregate pressures of the cost-of-living crisis, rising rents, and a chronic under-supply of social housing, local government is left shouldering the burden of providing temporary accommodation for homeless households, a statutory requirement for local authorities. In 2023/24, the total cost of temporary accommodation placements in England reached £2.3bn, up £0.5bn from 2022/23, highlighting the immense financial strain that the housing crisis places on an already under-resourced local government sector – further adding further stress to local public services public services, which already present a barrier to growth in their increasingly unsustainable provision.

1.3.2 The housing crisis as a barrier to growth

An examination of the approach to pension investment laid out by the government reveals a focus on innovation in the form of start-ups and nascent high-value sectors. While this is undoubtedly an important element of inclusive growth, addressing the underlying structural flaws which hold back productivity is arguably a more direct and critical mission. Taking this view, the single most important area to focus on in attempting to invest in equitable growth is the housing crisis. Ultimately caused by a lack of capital investment in social and genuinely affordable housing, the housing crisis manifests itself across a range of revenue pressures which draw down on council capacity, including – but not limited to – temporary accommodation services and adult social care. Addressing the root cause of the crisis will, therefore, prove crucial to enabling a more strategic purview for local government and to economic growth in general, with the chronic lack of suitable housing standing as one of the most significant barriers to progress on this overarching mission of government.

The figures for the total number of houses started nationally evidences a fairly stagnant effort over the past decade, leading to a backlog of supply against rising demand that has led to a crisis of housing estimated to require as many as 442,000 new homes per year over 25 years to confront effectively[41]. The current government's commitment to 1.5m homes by the end of this parliament intends to address this backlog by

41 House of Lords Library (2024) – Housing: Supply, quality and community impact

building 370,000 homes each year across the UK, as well as improving the quality of both new build homes and existing housing stock. The Office for Budget Responsibility (OBR) has estimated as of the Spring Statement 2025 that 1.3m net additional dwellings will be delivered in the next five years.

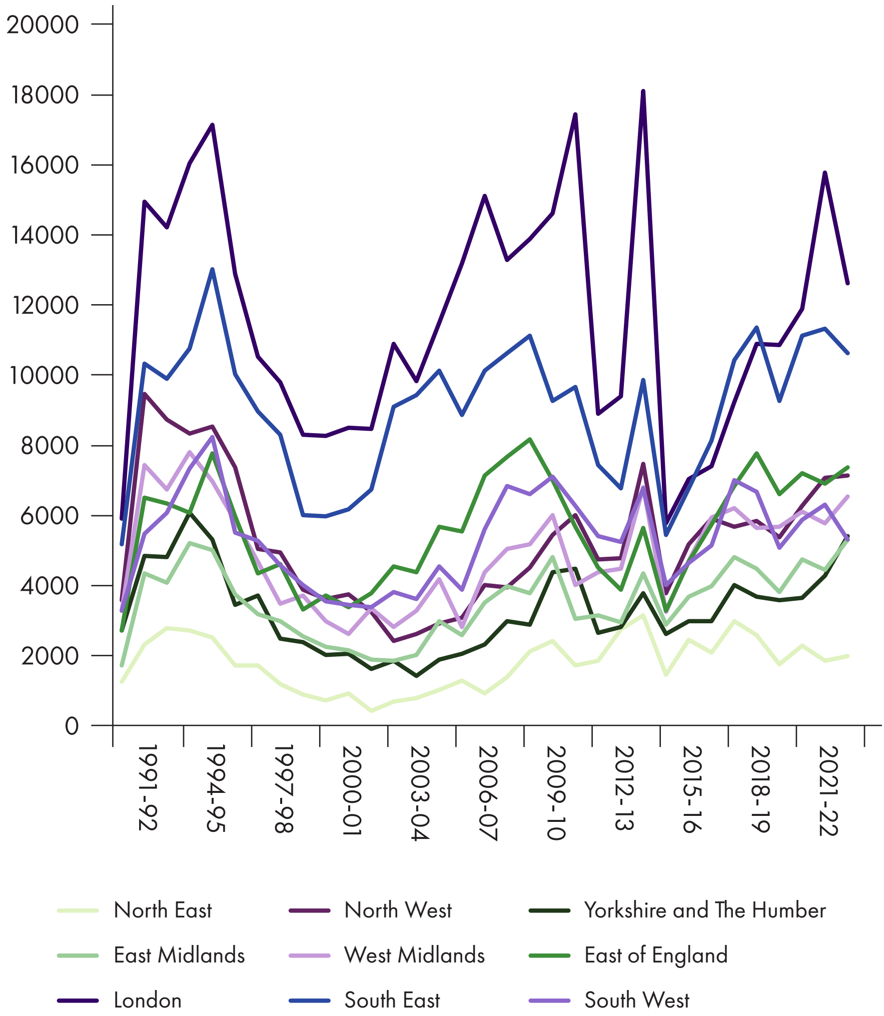
The primary mechanism via which the government hopes to deliver on its plans for 1.5m new homes is the implementation of the Planning and Infrastructure Bill, which the government believes will provide the major push that housebuilding in this country requires to meet the extent of its demand. As a vehicle for growth, the Bill will aim to improve capacity for local planning authorities, enhance the powers of planning officers to make planning decisions, and push for more weight to be given to strategic planning. The OBR also estimates that the government's complementary reforms to the National Planning Policy Framework, which include changes to green belt policy and a new formula to calculate local planning authority Local Housing Need, will boost housebuilding by 170,000 over the next five years[42].

Beyond the broad issue of national housing delivery as addressed by the Planning and Infrastructure Bill, however, the need for affordable housing as a specific element of the housing crisis is a problem that is underserved by the government's wider strategy for planning reform. As is the case with the wider housing market, demand for affordable housing is far outstripping supply: only around 59,400 affordable housing units were delivered in 2021/22[43], while the estimated number of affordable homes required annually stands at 145,000[44]. The proportion of affordable or social rent housing in England has reduced from 20% in 2000 to only 16% as of 2023[45].

42 OBR (2025) – Economic and fiscal outlook – March 2025
43 House of Commons Library (2023) – What is affordable housing?
44 House of Commons Library (2023) – Tackling the under-supply of housing in England
45 House of Commons Library (2024) – Affordable housing in England

Figure 1. Additional affordable housing

Tackling the under-supply of housing in the UK



Source: House of Commons Library (2023)

It is also important to note the ambiguity in the consideration of 'affordability'. Affordable housing is defined as any home for sale or rent that meet the needs of those who cannot otherwise afford housing at market rates. However, since 2011, 'affordable' housing, which now accounts for the largest portion of below-market housing supply, includes units with rents up to 80% of market rents, drawing scepticism about genuine affordability. When it comes to defining affordability, 'genuine affordability' recognises the limited impact that affordability based on market rates provides for low-income households and more deprived neighbourhoods. By linking affordable rent rates to market rent rates, affordability becomes defined by the market itself, with the consequence that areas where average house prices are defined by variables such as high rates of second home ownership and short-term letting, or that have a large population of commuters or large disparities in local income levels, are more vulnerable to an affordability crisis.

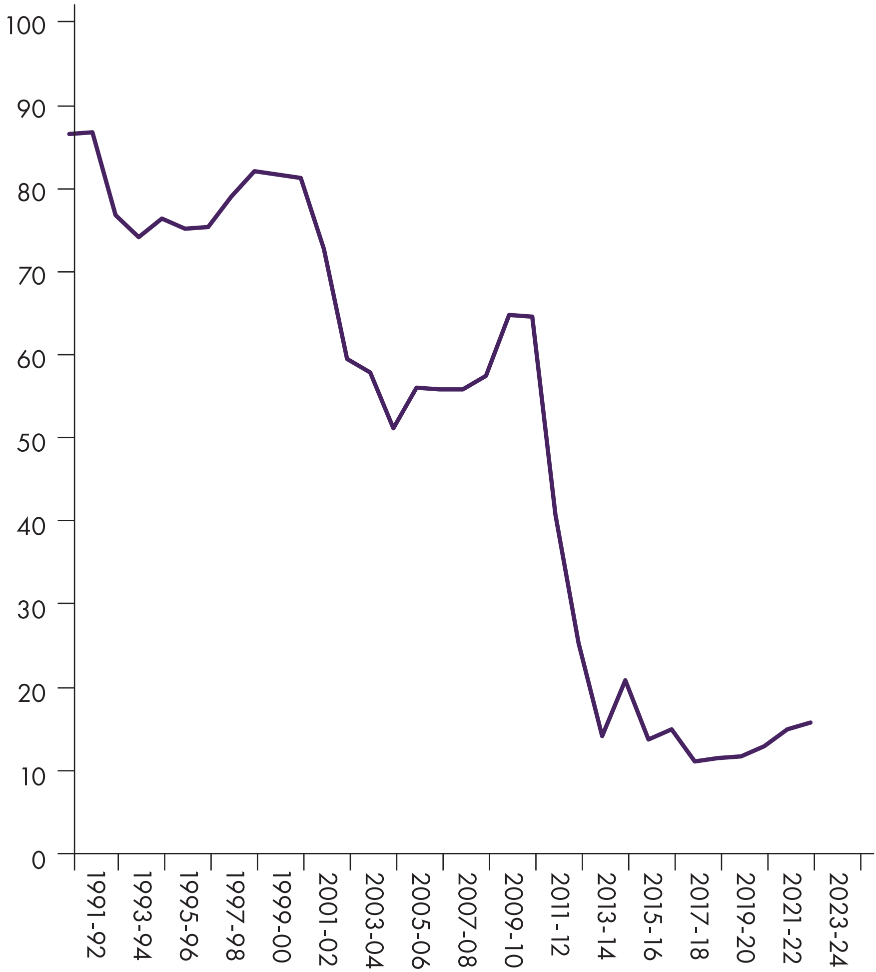
Some cities have developed policies and programmes targeting housing affordability by aiming to link affordable housing costs to local incomes, in order to tackle some of these issues. For instance, the London Living Rent, part of London's Homes for Londoners scheme, provides housing for middle-income Londoners that offers an intermediate rent based on a third of local household incomes, with the intent of allowing those residents to save money towards a home ownership deposit. The average benchmark monthly rent for a two-bedroom property under the scheme in 2025 was about 64% of the average market rent[46], highlighting the disparity between what is considered 'affordable' and what is 'genuinely affordable'. However, while the national definition of housing affordability remains one linked to market rates, genuinely affordable housing will remain widely scarce.

Social rent, on the other hand, sits at around 50-60% of market rates, with housing typically subsidised by government funding. The number of new social rent homes delivered has declined significantly over time. Social rent home delivery has dropped from 1.24m across the 1960s to only 150,000 in the 2010s[47], with little evidence to indicate that this trend will change in future. With tens of thousands of social homes lost annually to demolitions and Right to Buy sales, overall social rent delivery has reached an annual net loss.

46 Mayor of London (2025) – London Living Rent
47 Shelter (2025) – Loss of social housing

Figure 2. Proportion of affordable housing at social rent

Tackling the under-supply of housing in the UK



Source: House of Commons Library (2023)

For the government's growth objective to be reached, the case for social housing is self-evident. For every £1 invested in social housing, it is estimated that £2.70 is delivered in economic benefits[48] and the relief that additional housing can provide in terms of the provision of temporary accommodation is immense, particularly in areas such as London and the coastal areas of England that are experiencing acute housing needs. Across the UK, the lack of social housing is depressing the country's capacity to grow and, for local authorities, has become something of a poster child for the sector's funding crisis. Understanding how LGPS funds can best be directed towards redressing the chronic under-investment in genuinely affordable and social housing – in the context of a large surplus and whilst maintaining their fiduciary duty – must therefore be a crucial element of the drive to better utilise assets for investment in growth.

48 Inside Housing (2024) – The case for reclassifying housing as significant national infrastructure

CHAPTER TWO

Responding to the LGPS surplus

As the chancellor has made clear, greater public sector investment in domestic infrastructure in order to catalyse growth, regardless of the instrument used, is attractive from the perspective of central government. In this context, the argument for greater investment into genuinely affordable and social housing is clear. But are pension funds the appropriate vehicle for such targeted intervention? Furthermore, in the context of the poor financial health that besets local government and the relatedness of employer contributions – from both local authorities and all other public sector-adjacent local employers – that feed into LGPS funds, and factoring in local government capacity and responsibility for place development, the question arises as to whether maintaining such a large pensions surplus is the most beneficial use of local government resources, in the face of a housing crisis and a host of other local public service pressures.

Key points

- Given the LGPS's large surplus and the significant need for local investment, particularly in housing, there is an increasing push to encourage LGPS funds to allocate a higher proportion of their assets to local-level investments like infrastructure and real estate, while balancing this with their fiduciary duty.
- Social and genuinely affordable housing presents an investment aligned with the long-term characteristics and governance principles of the LGPS, offering stable, inflation-linked returns, especially with government subsidies and guaranteed rental income for social housing. However, lower returns compared to other real estate assets necessitate clear government incentives and support.
- Measuring the return on investment for housing, particularly social and affordable housing, can be approached not only through financial metrics for the pension fund, but also by considering the social return on investment and Place-Based Impact Investing frameworks, which can quantify the broader social and environmental benefits of such investments. These benefits can lead to long-term financial benefits for local authorities who support the LGPS pension commitments.
- The 2025 triennial valuation of LGPS funds is expected to result in some reductions in employer contribution rates due to the current strong funding levels. Administering authorities will need to consider their risk profiles and investment strategies in light of these surpluses and government guidance.
- An alternative approach to leveraging the LGPS surplus is to adjust employer contribution rates downward more significantly, allowing local authorities to directly utilise the saved funds for their own priorities, potentially including addressing the housing crisis directly or restoring service capacity.

2.1 LGPS funds as institutional investors

Faced with a large surplus in funds and a massive need for inward investment, the most obvious path for policy is to continue down the beaten track and follow the status quo that the current chancellor – and indeed, successive governments over the past decade – has heavily leaned into. This path assumes that the LGPS should make use of its huge scale as an institutional investor and that funds should place a higher proportion of their assets into a more diverse – but riskier – choice of investments at local level. The balance that must be struck by government guidance is between encouraging investment in local economies and the fiduciary duty of dispassionate, sound investment. Alternative assets such as infrastructure and real estate offer the opportunity for pension investment portfolios to diversify, policymakers have argued, while ensuring that pension funds contribute to local growth that will have future societal and economic benefits for both scheme members and their communities.

In comparison to international pension fund systems, UK pension funds have some of the lowest allocations to private equity and infrastructure assets: Canadian public sector pensions invest around 34% combined, Finnish pensions 17%, and Australian superannuated funds 14%, whereas UK pensions only invest around 6% of their funds in those asset classes[49]. According to New Financial, pension systems with high allocations in private equity and infrastructure, which are considered alternative asset classes that therefore require skill and local knowledge to achieve worthwhile returns[50], are characterised by the concentration and scale of the individual funds investing in them – something in which UK pension funds are currently deficient, being highly fragmented and much less concentrated (i.e., with lower proportions of investment in alternative assets) than their international peers[51].

UK pension funds also have a much lower average allocation in domestic equities than their international comparators. However, the appetite for mandated domestic investment among pension funds is currently fairly minimal[52], with many voicing similar concerns as the Canadian funds around the risk inherent to diverting a larger proportion of investment domestically and the potential for more limited returns. Additionally, some LGPS pools already hold a large proportion of investment in the UK: London CIV has 53% of its private market investments in the UK with sub funds across affordable housing, renewable infrastructure, and real estate that are 100% domestic. The ACCESS pool has around 22% of its total investments in UK investments[53]. As such, mandating investment decisions might disincentivise a process of domestic investment that already has some organic uptake – although not to the extent that the Treasury desires.

49 New Financial (2024) – Comparing the asset allocation of global pension systems
50 Alexander Carlo et al. (2023) – Pension fund investments in infrastructure
51 New Financial (2024) – Comparing the asset allocation of global pension systems
52 Financial Times (2024) – Pension funds warn being forced to invest in UK would be 'huge mistake'
53 Local Government Chronicle (2024) – LGPS 'not a tap' for UK investment

Guidance was established in 2022 to suggest that funds invest up to 5% of their assets under management (AUM) into levelling up, or projects to support local areas[54], and policymakers have continued to look far afield to the examples set by Canada and Australia in terms of public sector pension investment into domestic growth. Indeed, the Labour government has noted that DC schemes in the UK have also fallen behind international peers in terms of home investment[55]. More recently, the government's consultation on the LGPS has suggested that the administering authorities of LGPS funds should set out their approach to local investment in their triennial Investment Strategy Statements, as well as a requirement to take account of local growth plans and, on a wider level, to work with combined authorities and other similar bodies to ascertain potential local investment opportunities for the pool[56].

What does need to be better clarified by government in the midst of policy requirements surrounding local investment, is what 'local' is to mean in the context of LGPS pooling and fund investment priorities. While funds do currently outline their contribution to UK levelling up assets, reporting on investment into local, place-based, or UK impact assets is much more disparate and variable across the board. With funds having to shift even their illiquid asset bases into inherently more-regional-than-local pools, it will be necessary to have a straightforward definition of 'local' investment to support the kind of investment behaviour that the government wants to encourage.

Furthermore, LGPS funds are always going to be wary of engaging too much of their portfolio in solely 'local' investments, which itself inherently enlarges the concentration risk for funds if a large portion of their assets are tied to each other under a single geographic space. Taking on the context of the LGPS fund surplus, however, does suggest the possibility for funds to extend their application of centrally set local investment principles, even beyond 5%, and so leverage a higher risk appetite for such activities. Alternatively, or in addition, the creation of larger-scale national housing funds – such as the Octopus Affordable Housing Fund[57] – that offer local investment opportunities may successfully mitigate the concentration risk inherent to portfolios more largely surmised of local assets by offering a model that provides the security of a national asset portfolio while still catering to funds that are more inclined towards local social impact.

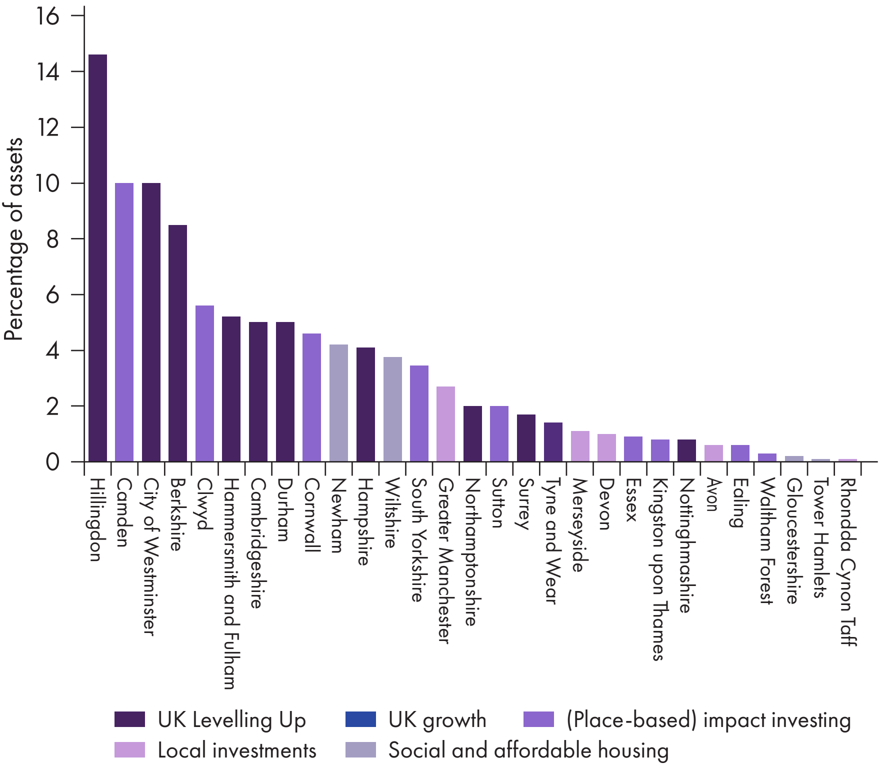
54 Department for Levelling Up, Housing & Communities (2023) – Local Government Pension Scheme (England and Wales): Next steps on investments – government response

55 HM Treasury (2024) – Pensions Investment Review: Interim Report

56 MHCLG (2024) – Local Government Pension Scheme (England and Wales): Fit for the future

57 Octopus (2024) – Octopus Investments announces £150m Local Government Pensions Scheme investment into Affordable Housing Fund

Figure 3. LGPS fund UK/local growth investments



Source: Localis analysis of LGPS fund annual reports

The consolidation of the LGPS funds will undoubtedly have an impact on the scalability of investment opportunities, as well as the structure of decision-making for funds and their capacity to engage in local investment. According to the Fit for the Future review on the LGPS, pooling LGPS assets has allowed individual administering authorities to invest in a wider range of asset classes, including and in particular private markets, while delivering cost savings and reducing risk[58]. Pools have increasingly taken on the

58 MHCLG (2024) – Local Government Pension Scheme (England and Wales): Fit for the future

responsibilities of asset allocation and stock selection as well as adopted an advisory role concerning fund investment strategies. Pools, acting as central points of investment expertise, the review argues, can provide the due diligence required to manage local investment without the potential conflict of interests and political barriers associated with the administering authorities.

Traditionally, funds enjoying healthy surpluses would be expected to de-risk their investment portfolios. However, Local Pensions Partnership Investments, a pension service provider for public sector pension funds, has estimated that shifting even 10% of asset allocations towards lower-risk, fixed income assets would actually increase contributions by up to 3% each year[59]. As such, it suggests that better-funded schemes could be allowed to take on more risk and invest in a wider range of assets with positive socio-economic outcomes – in line, in fact, with the present government push for institutional investment in alternative and domestic assets.

On the other hand, the desire to leverage pensions capital for significantly riskier investments – start-ups, scale-ups, and infrastructure – raises questions about how genuinely appropriate pension funds are for the kind of support that the government assumes they can provide. This again raises the issue of balancing fiduciary responsibility with economic priorities, within the wider context of the political argument for using pension funds as an investment vehicle to crowd-in further private investment. Maintaining this balance requires clear guidance from government on how LGPS funds can invest locally while acting in the best interests of their members, with explicit reassurance provided to fund managers that they can invest locally without compromising their responsibilities.

A further perspective, in the context of the surplus, is that employees can withstand contribution increases as a result of re-risking from a lower base. Affordable housing with lower returns, but with strong liability matching characteristics, could present an ideal use of surplus assets investment given the housing imperative.

Looking to the Canadian model as an example reveals that pooled asset managers tend to view with dissatisfaction the government's push for greater domestic investment on account of concerns surrounding investment risk, which is also tied to greater exposure to alternative assets[60], despite the relative safety that public pension funds enjoy as state-backed, subsidised institutional investors. It should however be noted that Canadian funds have not historically been in the very strong funding position that the

59 Pensions Age (2025) – 'Unnecessary' LGPS de-risking could increase cost of employer contributions

60 Eduard van Gelderen (2024) – On the sustainability of the Canadian model

LGPS currently enjoys. As Fit for Future notes, the LGPS already invests around 30% of its assets in the UK, and although the consultation proposes that the LGPS can increase its long-term investment for communities, the conflict between investor behaviour and policy decisions implies that there is only a limited potential for LGPS funds to further expand their local investment decisions. Further concern lies in how the pooling of LGPS assets might interact with the 'local' prerogative for investment decisions, as LGPS asset allocation creeps further towards a centralised nucleus of decision-making, potentially disconnecting the funds from employers' and members' communities.

Learning from trust-based schemes

Although there are significant regulatory and structural differences between trust-based defined benefits (DB) pension schemes and public service pension schemes such as the LGPS, it is still possible to draw learnings from how different types of scheme function, and how different types of scheme deal with surplus funding. Such knowledge is particularly apposite at a time when the government's approach to pensions policy is in a state of flux itself – and has been since Jeremy Hunt, when chancellor, announced extensive plans to address fragmentation and barriers to DB schemes in his 2023 Mansion House speech[61]. The DWP subsequently published the paper 'Options for defined benefit schemes' in early 2024, following a call for evidence and prior to opening a further consultation, that introduced proposals to allow trust-based DB schemes to return any surplus funds to employers[62].

The current government has picked up where the previous government left off, with new regulations to come that will extend greater flexibilities to trust-based DB pension schemes as to the use of "trapped" surplus funds. Employers are likely to be able to access surplus from their schemes on an ongoing basis if certain conditions are met (which may include considerations around improving members' benefits). Employer with these well-performing schemes will see their surplus funds invested in their business (under certain conditions) and therefore in "the wider UK economy"[63]. Legislation to codify these measures in the form of the Pension Schemes Bill will arrive sometime in 2025.

61 HM Treasury (2023) – Chancellor Jeremy Hunt's Mansion House speech
62 DWP (2024) – Options for Defined Benefit schemes
63 HM Treasury et al. (2025) – Pension reforms to go further to unlock billions to drive growth and boost working peoples' pension pots

The present environment of DB schemes requires that any surplus is only accessible if the scheme had passed a resolution by 2016, even with full support from trustees or sponsors[64], but the proposed changes would allow surplus extraction with the agreement of trustees with employers. It would still be the case that any return of surplus would be in line with the fiduciary duty of trustees to scheme members and employers. As Jeremy Hunt pointed out in his Mansion House speech, there is an ongoing need to improve the understanding of fiduciary duty among pension scheme trustees[65].

Interestingly, Eversheds Sutherland have recently offered what they are calling a "new interpretation" of Trustees fiduciary duty. It takes the position that trustees can take into account members' future standard of living in retirement when making investment decisions. They contrast this with current fiduciary duty guidance which implies that trustees should be cautious and should generally invest to target the best long-term risk adjusted returns by reference to pot size or annuity that can be bought.

Eversheds view, provided as part of their advice to the NatWest Cushon Master Trust (a Defined Contribution rather than a DB trust), is that Trustees can consider factors beyond traditional financial returns, such as the future standard of living of scheme members. This view is intended to increase Trustees' ability to allocate assets to private markets in the UK and to support the Government's growth agenda. The advice stops short of suggesting that the law needs changing, and is predicated on the view that it is "sufficiently broad, flexible and permissive for trustees, in the right circumstances, to take a wider amore holistic view of sustainability" but Trustees will still need to take their own advice on their investment decisions. This view may have some read across to further enabling a broader view of the fiduciary duty in the LGPS to be taken, in relation to social impact for example.

2.2 LGPS investment and housing

Addressing the housing crisis must be a foremost priority in alleviating barriers to local economic growth across the country. Moving to a framework where LGPS pools become a significant part of the mix of capital sources for new genuinely affordable

64 Ibid.

65 HM Treasury (2023) – Chancellor Jeremy Hunt's Mansion House speech

and social housing would, therefore, be a desirable outcome of the government's current approach to the LGPS surplus. In order for this to be the case, policy must recognise and respond to the particular challenges and opportunities of housing as an investment, particularly genuinely affordable and social housing, with an understanding of the unique characteristics of LGPS investment.

2.2.1 LGPS investment characteristics and the housing crisis

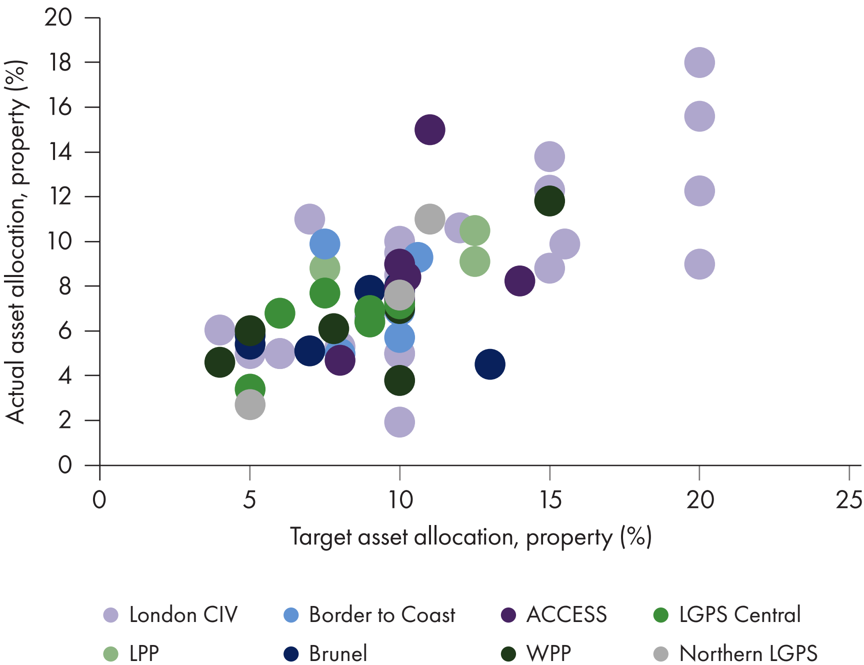
Pension funds have unique characteristics which distinguish them from other forms of institutional finance. As inherently long-term funds, they take a different purview to other financial intermediaries such as banks, generally operating to a longer investment horizon. In addition to this, pension funds tend to command a large asset base, making them influential actors within financial markets, both in terms of the level of overall capital supply and through the influence their investment criteria exerts on market behaviour. Public sector pension funds, in particular, can wield extremely large portfolios, yet they are different from private sector funds in their generally lower appetite for risk and the heightened importance of effective governance in a sector which is naturally more subject to political influence and considerations of public accountability. The role of actuaries is, therefore, all the more critical for public funds, to ensure that fiduciary duty is not overtaken by political factors and the need to balance stakeholder interests[66].

In the context of an LGPS pool with a local investment mandate, these considerations of market influence and effective governance are magnified. Once completed, the new pools will represent a massive volume of assets and liabilities, with a possible mandate to invest locally also creating the potential problem of conflicts of interest and all the governance challenges that accompany such a risk. From another perspective however, the unique characteristics of pension fund investment are well suited to alleviating the barrier to growth that is the housing crisis, in a manner that is far from unprecedented for the LGPS. The LGPS already has a well-developed and comprehensive approach to Environmental, Social and Governance (ESG) investing. Across the existing pools are various frameworks for responsible investment, with ESG generally integrated into investments across all asset classes[67]. Extending these frameworks alongside the mandate for local investment can provide a solid basis for investing in social and genuinely affordable housing.

66 Public Plans Practices Task Force of the American Academy of Actuaries (2010) – Risk Management and Public Plan Retirement Systems

67 LGPS Central – Responsible Investment

Figure 4. LGPS fund asset allocation to property



Source: Localis analysis of LGPS fund annual reports

In the UK, the underlying funds in the LGPS already have a history of co-investment in the delivery of affordable homes: LGPS Central invested £40m into PGIM's UK Affordable Housing strategy[68], the LGPS Pool ACCESS committed £125m to the Legal & General Affordable Housing Fund[69], and the Octopus Energy Affordable Housing Fund

68 Professional Pensions (2024) – LGPS Central invests £40m in PGIM affordable housing strategy
69 Legal & General (2024) – Legal & General launches new fund to deliver affordable housing across England

benefitted from £150m in fundraising from LGPS investors in 2024 alone[70]. Contribution to affordable housing schemes is undertaken with the intention to deliver a diversified portfolio for investors, with affordable housing listed as an inflation-linked cash flow as real estate[71]. Affordable however, does not equate as a definition to genuinely affordable in many parts of the country, given that it is defined as a proportion of market price rather than of local incomes, meaning that affordable housing funds can be at times more limited in their overall social impact.

Social housing, however, also presents an investment potential well-suited to the characteristics of the LGPS. As well as being aligned with ESG principles, social housing can provide stable, inflation-linked returns due to the guarantee of social rent. From an investment standpoint, social housing can be a fairly attractive offer, given that not only is affordable housing development often encouraged through state subsidy, with such instruments as the Affordable Homes Programme, for instance, in the system to provide the grant funding for capital costs of new affordable housing, but also because rental income becomes a certainty with government providing funds for low-income tenants.

However, some limits of genuinely affordable and social housing investment may be off-putting to investors. These are real-estate funds, and these types of housing tend to see lower returns on investments than other real estate assets[72], meaning that the argument made for affordable housing needs to be strong, with clear incentive from government for LGPS funds to pursue this social mandate, and support for other institutional actors to put together the correct vehicles to facilitate this. This involves engaging in 'upstream' activities such as the provision of infrastructure and local government capacity building, to ensure any developments brought forward are commercially viable.

Furthermore, Social Rent caps have led to a 15% fall in real terms rent from social housing since 2015[73]. This is an example of an area where central government must be joined-up in its approach and ensure that policy from one area does not disincentivise the type of investment behaviour that policy in other areas is seeking to encourage. Likewise, ensuring that high standards are maintained in the social housing sector through well-funded regulation must be a central government priority if LGPS funds are to be confident that their investment will result in positive social outcomes.

70 Octopus group (2024) – Octopus Investments announces £150m Local Government Pensions Scheme investment into Affordable Housing Fund

71 Legal & General (2024) – Legal & General launches new fund to deliver affordable housing across England

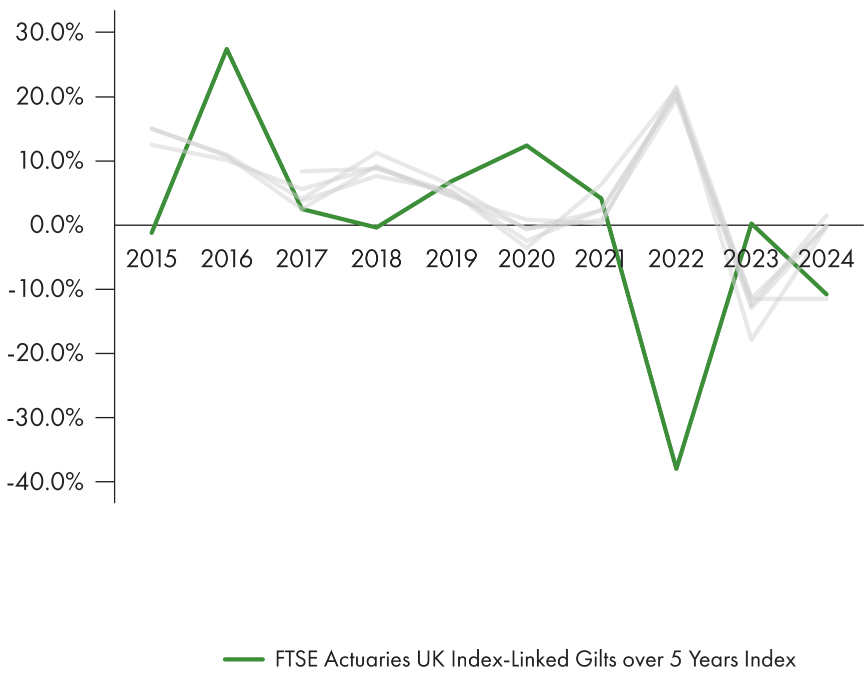
72 New Capital Link (2024) – Social Housing Investment Returns | Complete Guide 2024

73 Lloyds Banking Group (2024) – Building futures: A new era of investment in social housing

Ultimately, because of the fiduciary duty of LGPS funds to assure stable and positive returns from investment decisions, the case for investment in social housing must be made in terms of risk and return. For government to drive up investment, policy must work to maximise this risk-return case. There are of course already some benefits to considering investment in social housing: namely, diversification of investment portfolios and the fact that high demand for social housing in the UK, alongside government subsidies and incentives for tenancies and housing programmes, means that such investment is likely to benefit from secure returns[74]. In the new policy landscape, central and local government policy – along with other public agencies – has to be centred on furthering the argument.

Figure 5. LGPS property investment performance compared to UK Index-Linked Gilts

FTSE Actuaries UK Index-Linked Gilts over 5 Years Index



Source: Localis analysis of LGPS fund annual accounts; London Stock Exchange Group (2025)

74 New Capital Link (2024) – Social Housing Investment Returns | Complete Guide 2024

A detailed study into social housing investment by the Australian Housing and Urban Research Institute (AHURI) evidenced that the most cost-effective model for funding social housing was to use a 'capital grant' model supplemented by efficient financing[75]. Interestingly, the research notes in particular the inefficiencies derived from PPPs and PFIs in the UK, which were significant in that the PFI programme procured social housing as an infrastructure investment. The risk, however, was that many of those projects experienced cost increases over time, with the National Audit Office noting in 2010 that risks to value for money of the programme went unmanaged[76]. There were worries that PFI procurement – in general, not just as a vehicle for funding social housing – was excessively costly in comparison to other mechanisms. Obviously, the PFI model, given its many and varied issues, is not one that will be returned to by the UK government[77] – but the case for social housing as an asset likened to schools and hospitals is worth noting.

2.2.2 Housing as national infrastructure

Housing is classed in investment terms as real estate and there are two strands of argument concerned with pension fund investment into social housing in particular: one being the argument that situates social housing as an infrastructure asset rather than real estate in order to boost investment, and two, one which calls for higher investment into real estate in itself, and specifically into social housing. The case has, alternatively, been made for housing to be reclassified as significant national infrastructure[78], a move which could engage more capital grant towards a vital asset for UK growth.

Notably, in a Q&A for LGPS scheme members in 2015, the government included housing supply within a list of options for infrastructure investment by the LGPS[79]. Overall, although there is little case to be made for much larger proportions of investment into real estate assets than are already made, with the government's push for domestic investment and into domestic infrastructure there might be room for a bigger drive for LGPS pools to match their international peers in rates of domestic investment – or even to engage with social housing as infrastructure, or with the infrastructure that surrounds development such as water and energy as non-cyclical investments themselves.

75 Australian Housing and Urban Research Institute (2018) – Social housing as infrastructure: an investment pathway

76 National Audit Office (2010) – PFI in housing

77 Defend Council Housing (2020) – The Case Against PFI for Council Housing

78 Inside Housing (2024) – The case for reclassifying housing as significant national infrastructure

79 House of Commons Library (2022) – Local Government Pension Scheme investments

According to the Australian Housing and Urban Research Institute (AHURI), in order to fully realise the potential for investment, social housing requires an ‘infrastructure investment pathway’. This pathway calls for the alignment of the construction and operation of assets and services to deliver social and economic benefits to society, which requires both funding and financing – funding being the process of resource allocation to cover capital investment and operating costs, and financing being the instruments that disperse those costs over time. The question, therefore, is from where to source the resourcing for capital investment. This is where the mix of institutional actors becomes important, both at local and national level, as putting together vehicles for investment in social housing involving grant funding and institutional capital will involve a variety of stakeholders.

Part of the challenge of putting vehicles together is the management of different housing investment priorities, particularly between balancing investment in the maintenance of existing stock – sorely needed for social housing in some areas – with the creation of new assets. These are not necessarily competing goals, but rather a matter of balance. In many cases, the use of existing assets can help drive the case for new investment. Diverse investment strategies are thus required, utilising methods like long-term asset holding and hybrid fund models – that allow investors to benefit from investment in physical assets and still benefit from the liquidity of equity – to support genuinely affordable and social housing provision. Furthermore, the long-term protection of these assets must be factored in, with vehicles building in provision against social housing stock being offloaded for short-term budgetary reasons in later years.

2.2.3 Measuring ROI on housing investment

Part of making the case for greater investment into genuinely affordable and social housing is putting forward metrics which properly evaluate the impact of such investment, as measured against the mandate given to LGPS pools by central government, and as necessitated by LGPS funds' fiduciary obligations.

There are several characteristics that identify social and affordable housing investment funds as attractive offers for institutional investors in the context of assuring Return On Investment (ROI). Namely, as a means for portfolio diversification, as long-term inflation-linked income, and as representing assets where demand far surpasses supply. Recent government policy intervention to allow social rents to increase above inflation additionally means that the sector is more attractive to investment, a status which itself improves the stability and outlook of the sector having a run on effect that encourages further participation by potential investors[80]. The financial ROI of affordable housing assets is simple enough to measure, but can depend on a number of variables.

The investment fund strategy – i.e., investment in specialist housing, transitional support housing, or general needs social and affordable housing[81] – can impact ROI and investment risks, namely through variety in exposure to development risk, the time from investment to income generation, lease lengths, and the percentage of income that is government-backed. Typical ROI for affordable housing assets sits between 5% and 8% dependent on tenure, leverage involved in the investment, and development risk[82], the latter relying on the location of development, property types, and the local property market. Although the need to retrofit and maintain existing housing stocks can dampen returns, and yields from genuinely affordable housing will be lower than housing with rents set at affordable rates based on market rents, investors can still benefit from the certainty of government-backed income when it comes to social housing schemes.

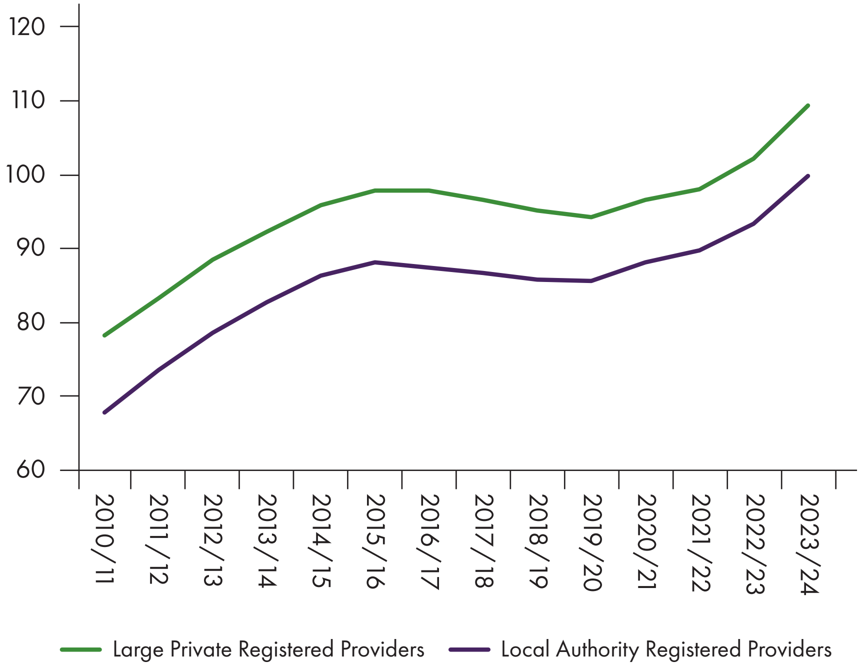
80 CBRE (2025) – UK Real Estate Market Outlook 2025

81 Better Society Capital (2021) – Mapping the market: UK social and affordable housing funds 2021

82 The Good Economy and Better Society Capital (2021) – Affordable housing equity investment models: Optimising risk, return and impact

Figure 6. Social housing rents

Registered providers social housing stock and rents in England



Source: MHCLG and the Regulator of Social Housing (2024)

Moreover, when ROI is considered from a perspective that includes non-financial outcomes, including the social ROI (SROI), the case for investment in genuinely affordable and social housing gains appeal. Metrics for measuring SROI are harder to achieve than evaluating straight financial outcomes, as they involve not only inserting a monetary value on social change, but must take account of how much change an action makes in comparison to not taking that action or whether another activity might have been displaced in doing so, as well as accounting for the effort by stakeholders involved in ensuring the activity takes place. A number of organisations have produced tools for calculating the SROI, particularly when concerned with the cost-benefit analysis of work by public sector social programmes, in order to make the holistic investment case for engagement in such projects. The Institute for Social Value provides one approach to measuring SROI in the form of a template SROI Impact Map, which allows users to reach a monetary valuation of outcomes guided by the cost of inputs and indicators to measure the efficacy of actions taken[83].

In a similar vein, in order for institutional investors to surmise the impact of their investments into diverse asset classes, which is particularly pertinent to investors keen on understanding the social value of local investment, place-based impact investing (PBII) impact reporting has been championed by the Impact Investing Institute as providing a comprehensive understanding of both the social and environmental impacts of private market investments across asset classes[84], in a context of increasing demand for local investment. The Good Economy's PBII reporting framework makes use of a PBII conceptual model that examines the interactive priorities for place, indicating where investment in specific assets, with impact investment principles in mind, can support place with the needs and opportunities of place defined by those best suited to identify them – local and strategic authorities and other local stakeholders[85]. Under this methodology, investments are evaluated against traits of PBII: whether the investment strategy considers the needs of place and engages with local stakeholders; and whether the strategy intends to positively impact people, place or planet[86]. The London Pensions Fund Authority (LPFA), for one, has used the PBII reporting framework to evidence quantifiably the social and environmental impacts of its investments for places and The Good Economy reports that its PBII reporting framework has been adopted by a number of other LGPS funds in a sign that where the methodology exists, funds will be keen to evidence the SROI and place benefits that arise from their investments.

As an instrument for encouraging pension funds to invest locally, SROI metrics can make a good quantifiable case – and potentially more so, if there were an existing mechanism to recognise the social and economic benefits of local infrastructure for residents within LGPS fund accounts[87]. But similarly, the value of word-of-mouth information sharing and the gathering of feedback from employers and scheme members cannot be understated as a way to influence fund decision-makers towards

83 Institute for Social Value (2025) – Resources Library: SROI Value Map
84 Impact Investing Institute (2024) – Place-based impact investing: Emerging impact and insights
85 The Good Economy (2024) – PBII Reporting Framework gains traction with release of 'Investing in the UK' report from the London Pensions Fund Authority
86 The Good Economy (2023) – Groundbreaking Report on Local Impact of Investments Released by GMPF
87 Room 151 (2023) – David Spreckley: f is for fuzzy fiduciary finking

locally involved investments. The primary benefit of collaboration and openness with employers and members is that it taps into the heart of what makes LGPS schemes unique as institutional investors – that scheme employers and members will tend to hold strong stakes in local development and growth as members of the LGPS funds' constituent communities themselves. The LPFA, for instance, in order to engage with its members, holds an annual Member Forum, at which pension fund board members and fund managers can interact with members and inform them of ongoing investment strategy and decisions, and how those decisions impact the individual member, particularly focusing on how that strategy invests in its local communities. Members are surveyed for feedback, ensuring that the fund makes its decisions with them in mind[88].

The question remains whether pools will be able to use the membership-level engagement that individual funds can leverage within the government's framework for the complete delegation of asset management to pools – particularly under the context of only six pools covering all of England and Wales. The capacity for pools to respond to member needs as conveyed by their constituent funds could well serve as a litmus test, in future, for their capacity to support impactful local investment.

2.3 Adjusting contributions: An alternative approach

The incentivisation of investment into local housing is not the only potential course of action in the face of a national housing crisis. A potential 'Goldilocks solution' acknowledges the surplus across the LGPS and takes account of the wider context of faltering local government capacity, without placing too much weight on the capacity of LGPS funds as investment vehicles, nor just giving surplus funds back to the administering authority. This approach encourages the adjustment of employer contributions – with the intention of deploying saved cash on positive outcomes for the relevant administering authority. This could allow for the restoration of capacity within, or the direct raising of investment capital by local authorities to address the root causes of the housing crisis.

2.3.1 The case for lowering contributions

As the current funding gap for local authorities is estimated at £2.6bn for 2025/26 and £3.9bn in 2026/27[89], the savings potentially represented by lowering contribution rates are significant. As of 31 December 2024, 83 of the 87 LGPS England and Wales pension funds have been enjoying funding levels of 100% or

88 London Pensions Fund Authority (2024) – LPFA Fund Member Forum 2024 – Highlights

89 LGA (2024) – Further funding cuts for councils would be disastrous; urgent funding and reform is needed

higher on a low-risk basis, when scheme liabilities are valued with a discount rate that uses UK government gilt yields as a benchmark. The low-risk basis has most recently pointed to an aggregate funding level across the LGPS (E&W) of 125%[90], and estimates place the aggregate low-risk surplus, according to recent figures, as high as £85bn. There has been a recent push to respond to the high estimated aggregate surplus of LGPS funds and generally buoyant current market conditions with a significant recalculation of contributions and therefore a reduction in the cash requirement from local authorities by more than 2% of the total local authority budget for England and Wales as of 2023-24, or more than £3bn a year[91].

Although average LGPS employer contribution rates have sat at more than 20% of salaries for the last decade[92], there is already precedent for quite radical reductions to rates. The extreme end of the scale is evidenced by the decision of the Royal Borough of Kensington and Chelsea (RBKC) Pension Fund to drop its employer contribution rate to 0% for the year April 2025 to March 2026[93]. This was a decision for the fund that was not made lightly, and one that follows years of strong funding that has culminated in a 207% funding level by 2024, with £2bn AUM, assessed on the Fund's ongoing basis rather than a low-risk basis. The fund cited that 'significant' local financial challenges in particular drove the decision to reduce contribution rates[94], a statement which highlights the urgency of the local government financial context alongside the potential of flexibility that the structure of the LGPS offers for authorities.

RBKC has, however, made it clear that it does not intend for its decision to set a standard for other LGPS funds, and the fund's actuary has expressed discontent that the decision might set unreasonable expectations that this would be a long-term, sustainable rate and that the rate is misaligned with the fund's funding strategy statement. Furthermore, since the council confirmed its decision, the Ministry for Housing, Communities and Local Government (MHCLG) has taken a sceptical stance against dropping contributions to 0%. With MHCLG having written to pension funds expressing its apprehension of RBKC's use of an inter-valuation review to lower contributions so drastically, the government may now intend to change regulations concerning specifically the ability for funds to revise contribution rates outside of the

90 Isio (2024) – LGPS (England & Wales) Low-Risk Funding Index: 31 December 2024 results
91 LCP (2024) – LCP estimates that councils could save £3 billion each year by cutting LGPS contribution
92 PensionsAge (2025) – LGPS valuation and employer contribution review confirmed
93 Room151 (2025) – Kensington and Chelsea cuts LGPS contributions to zero
94 Local Government Chronicle (2025) – UPDATE: Pension fund cuts borough's contribution rate to zero

valuation process[95]. It remains to be seen whether such changes to regulation would impact funds' capacity to increase contribution rates between valuations, in the case of poor fund outcomes.

On the other hand, taking a broader perspective of the LGPS as a whole shows that even lowering contribution rates to an average 15% would purportedly save more than £2bn for employers[96]. Although the new RBKC rate does not offer a long-term solution, particularly as taking a contribution holiday may, in the long run, negatively impact employees' opinions and trust for the pension fund's governance, and certainly should not represent a one-size-fits-all solution across the LGPS, a new lower, stable contribution rate could provide the additional stretch to council budgets that many require.

The date for LGPS funds to carry out their triennial valuation for 2025 has passed, with results to be published later in the year. Expectations are that many, if not almost all[97], councils will reduce their contribution rates. Although analysis suggests that some contributions have the room to fall to up to half of their current rate[98], LGPS funds are likely to hold onto a principle of retrospective stability and limit contribution reductions. The previous valuation, despite funds' confidence in their funding levels, did not result in substantial rate changes, meaning that surpluses have ballooned in the intervening three years. As such, contribution rates are likely to see more widespread reductions to rates this time around, and it is expected that many funds will review their risk profiles in light of market conditions[99]. Considerations for administering authorities, when responding to the likely much stronger position of their funds in 2025, will include how much risk they will be prepared to take on in their upcoming investment strategies, accounting for the context of several years' good investment performance and, naturally, government guidance on extending investment to a more diverse spread of asset classes. Predictions are that more funds, following the 2025 triennial valuation, will take on more diverse investment strategies – those with high funding levels reducing risk, and others taking on more risk to establish higher surpluses.

95 LGC (2025) – MHCLG to tighten rules on pension contribution cuts
96 Isio (2024) – Persistently strong LGPS funding suggests the need for a new stable contribution rate
97 LGC (2025) – EXCLUSIVE: Council pension contributions set to be cut
98 PensionsAge (2025) – LGPS valuation and employer contribution review confirmed
99 LCP (2024) – LCP estimates that councils could save £3 billion each year by cutting LGPS contribution

It should be noted that, at the moment, alterations to contribution rates do not have to align concurrently with the three-year timeline for the LGPS valuation period. Inter-valuation reviews on contribution rates can be carried out by administering authorities under two circumstances: if employers request a review, or if an administering authority requires one[100]. As such, contribution rates can respond to market-driven changes in the LGPS surplus if necessary, meaning that concerns about the medium-to-long-term risk of lowering contributions are minimised – as exemplified quite clearly by RBKC pension fund's recent changes. With the government response to RBKC's contribution rate change, however, rules surrounding inter-valuation reviews may become stricter.

2.3.2 Lowering contributions and the housing crisis

Lowering pensions contributions is an easy enough case to make, with the potential for substantial employer savings appealing to many, although concerns do remain surrounding the importance of the ongoing stability of pension funds. In the context of many councils seeing their pension contribution rates going down, those funds that have not enjoyed such meaningful growth in funding levels may have to dampen employer hopes that they will be able to follow the wider trend of lower contributions.

However, the question of what to do with additional cash savings for those employers that do enjoy reduced contribution rates is an important one, particularly when framed within the potential of ongoing funding stability for LGPS schemes. It may be the case that significant financial pressures drive local authorities to funnel any additional savings straight into revenue-intensive and faltering public service provision at the heart of the council funding gap – i.e., social care and SEND education. However, the argument for utilising pension funds, in surplus, as patient capital investors, can find its equivalent in the case to be made for lower contributions.

A counterfactual case could be made that, rather than focusing on how to catalyse LGPS investment into local genuinely affordable and social housing, policy might be better focused on directing the use of surplus funds into directly working towards solutions at local level, via the lowering of contributions. If, for instance, savings were ringfenced as sources of investment in housing, then a new, lower stable contribution rate could also directly catalyse local growth. The question therefore becomes one of value for money: how can local authorities make the most of the very strong position that their LGPS fund participations are currently enjoying?

100 The Local Government Pension Scheme Advisory Board – England and Wales (2021) – Guide to Employer Flexibilities

There are a number of ways to consider devising such a policy which could guard against the risk of reduced contributions leading to a revenue surplus immediately absorbed by the local government funding gap. Of these, the most simple would be to reclassify the money raised by lowering contributions as capital spend, and in doing so exempt it from use on revenue services. Another approach could be for local authorities to borrow from the capital markets, the Public Works Loan Board or other finance sources – indeed, some existing pension funds view local authority lending as an asset class – and use the savings from reduced contributions to cover the interest payments and account for the minimum revenue provision required to ensure cash is retained to cover the loan repayment. This would allow local authorities to invest directly in projects such as the provision of genuinely affordable and social housing without needing to use LGPS assets.

Another potential use of savings from lowered contributions which might more directly address the pressures around a lack of housing is in the building up of council capacity, either through repairing currently broken mechanisms for financing new houses or building up the commercial expertise within councils to develop new models. Regarding the former, it might be possible for government policy to allow the redirecting of these funds into the repairing of councils' Housing Revenue Accounts (HRAs), which are in many cases under severe strain and facing major capital works backlogs. HRAs are held by all councils holding more than 200 dwellings in housing stock. The parlous state of HRAs across the country however, prevents this from being a viable option in the long-term, with the LGA estimating a total of £3bn in deficits across accounts over the next ten years.

In this context, a more prudent use of savings from lower contributions might be to instead ringfence the money for workforce development, to increase the capacity of councils to engage in innovative projects. Sitting alongside the issue of capacity is the problem of viability, which must also be addressed if schemes are to be delivered at scale across the country. Reduced contribution savings could also, therefore, be used to invest on a matched basis with developers to fund the early phase activity of development, from site identification to the pre-planning work which is essential to establishing viable projects.

CHAPTER THREE

The institutional landscape

Properly utilising the LGPS in the delivery of housing requires understanding the primary public sector institutions involved in the planning and financing of new homes, particularly social housing and genuinely affordable new developments. While councils have the central role as planning and housing authorities, interactions with housing associations, as registered providers of social housing, and with the central government-backed agencies charged with boosting local investment will be an important part of addressing the housing crisis at its root cause.

Key points

- The success of utilising LGPS and other capital investments for affordable housing hinges on overcoming barriers such as limited local authority capacity, ensuring sufficient funding and support from central government, and establishing credible and achievable development pipelines.
- Local government holds a central position in utilising LGPS funds for affordable housing, acting as planners, housing authorities and as the membership base of the funds themselves. However, they face severe challenges in the form of staffing, skills and financial constraints.
- The delivery of affordable housing necessitates a collaborative effort to create joint vehicles involving various institutional actors. Housing associations are key partners, managing the majority of social housing and increasingly seeking partnerships for capital funding, while central government bodies like the National Wealth Fund and Homes England provide crucial financial support and strategic direction. Strategic authorities play a growing role in coordinating these efforts.
- The government's growth agenda includes the creation of statutory local growth plans and Strategic Development Strategies by strategic authorities. If delivered well, these legal documents can outline investment opportunities and guide the implementation of housing and other policies, potentially attracting LGPS funds and other institutional capital into local development.

3.1 Local government

Local government is, for a host of reasons, the foremost institutional actor in the process of attempting to use the LGPS to deliver genuinely affordable and social housing. Quite apart from being the membership base of the LGPS, councils are also housing authorities and the bearers of much of the public service pressures caused by a lack of housing availability, from temporary accommodation to social care costs. Councils across the country have a clear interest in attracting investment into housing to meet the demands in their area, yet the task is complicated by a number of internal and external factors. Issues of capacity, strategic planning, relationship management and investment vehicle design all present barriers to genuinely joined-up strategy. To achieve its stated policy goals, central government must work to support councils in overcoming these barriers through a multifaceted response.

As housing authorities, councils provide a cornerstone for the government's growth outlook and for themselves as facilitators of local economic and social development. Councils can harness a number of types of build to target specifically the more affordable end of the housing market to ensure that their communities are served by the housing that is needed, not just the housing that provides market-rate financial returns. At the most affordable, they provide housing at social rent for residents on council housing waiting lists; build housing for shared ownership, via which local first-time buyers can enter the property ladder by means of purchasing a share of the home's full market value, and potentially 'staircase' up to owning more shares in the home; and, in London, they offer affordable homes at the London Living Rent, an intermediate level of affordability with rents calculated based on local income, rather than market rent rates. Priorities for housing authorities when developing new builds are split between affordability and quality, with the latter becoming more challenging to achieve in alignment with the former as regulations for building standards tighten.

To provide this range of housing provision, concurrent with their offer of other housing services such as upgrades and maintenance, councils have several options for delivery, ranging from the direct delivery of housing, relying very much on in-house capacity, to using council-owned housing companies, joint ventures, and Arm's Length Management Organisations (ALMOs)[101]. Each mechanism has its relative merits and detractors that provide alleviation, or can exacerbate, the existing barriers to effective delivery dependent on how much risk lies with the council and its partners as well as the relationship between the council and the development vehicle. The barriers to delivery include those that increase the price of housing delivery, such as supply constraints, to those that limit the capacity of councils and their partners, such as the drain on the Housing Revenue Account (HRA) from ongoing maintenance costs. Even under the assumption of heightened levels of investment into affordable housing development, the fact of the matter is that councils continue to be constrained by capacity in their efforts to deliver.

The problem of local government capacity, hollowed out after a decade of austerity and increasingly oriented around reactive – rather than preventative – problem-solving, is one that impacts all areas of council activity. It is particularly acute, however, in the complex business of accessing private and institutional capital, which requires particular expertise that is often lacking in local authorities. The problem of capacity is well illustrated by the often substantial sums of unspent money which local authorities hold from developer contributions – the Home Builders Federation found

101 Centre for London (2018) – Borough Builders: Delivering More Housing Across London

in early 2025 that councils hold on average £100 per resident in unspent funds from section 106 and Community Infrastructure Levy payments. One reason for this underspend is a lack of capacity to track, manage and spend the funds, even in the context of a major funding gap that the extra capital ought to alleviate. Another is the need for more viable schemes which the receipts can be applied to, which calls back to the importance of investing in the early pre-development work which establishes credible projects[102]. In this context, it is easy to see why there might be a lack of confidence that injections of institutional capital are a simple fix to the problem of local underinvestment.

The issue is compounded by problems of scale, with individual local authority sites and projects not necessarily amounting to a sufficient volume of investment for a major institutional investor. Developing propositions for long-term capital finance therefore involves working with a range of partners, often across administrative geographies, and utilising a variety of funding sources including central government agencies and sparse council funds to leverage institutional capital. For this type of activity to become widespread, resources must be provided to build local authority capacity to create and manage investable housing projects that align with institutional investment criteria.

The increasingly prominent role of strategic authorities, codified in government policy via the devolution and planning reforms, is an important step in the right direction. The institutional alignment needed to originate investable propositions, particularly in the area of genuinely affordable and social housing, requires a great deal of communication and knowledge sharing among stakeholders. As bodies covering broader functional economic geographies, strategic authorities have significant convening powers to facilitate such activity. Engagement between strategic authorities and their respective LGPS pools is therefore absolutely crucial. The production of the local growth plans and spatial development strategies, new statutory duties of strategic authorities, presents an excellent opportunity to catalyse investment and bring LGPS pools into the process. These documents should act in concert with LGPS strategies for local investment and inform propositions to other potential partners in private finance and public agencies like Homes England and the National Wealth Fund.

102 Home Builders Federation (2025) – Unspent developer contributions: Local authority outliers from the national average

Housing Revenue Account

The Housing Revenue Account (HRA) is a record of the expenditure and income related to a council's ownership of council housing stock as a ring-fenced account financed via rental income from council housing and drawn from solely for use on council housing activities. Costs accounted by the HRA extend across capital investment requirements, day-to-day revenue funding, including the need to regenerate and maintain housing to meet increasingly stringent regulatory requirements, and the costs of new housing delivery[103]. However, with local government facing immense financial pressures, challenges abound concerning HRA budgeting that have been exacerbated by consecutive policy changes and the volatility of the economy.

The government is consulting on a long-term rent settlement that would allow councils to raise council housing rents by CPI + 1% over five years – where previously caps on rent increases have been set well below inflation leading to years of compounding issues related to under-resourcing. However, based on current and expected future rental incomes, even accounting for the new settlement, councils with HRAs consider themselves unlikely to be able to meet the cost challenges facing the sector, with many expecting to have to draw down on budget reserves in the next year and reduce revenue costs and spending for both existing stock and new builds.

Significantly, when councils budget based on expected income to the HRA, there are strict rules, as in much of local government financing, around what can be used to finance capital or revenue expenditure. Local authority reserves could theoretically be put to use to finance future capital spend, but in reality are under severe pressure from the overall funding crisis in the sector. This leads to a situation where the only capital sources for new development schemes is a combination of grant funding and debt financing. In this context, where rent controls, inflation, and regulation changes have all exacerbated revenue spending requirements, local authorities have been pushed to unsustainable levels of debt in order to meet demands for capital injections where they are needed and for local communities to still benefit from a stock of sustainable and affordable housing for rent.

103 Local Government Association (2024) – Housing Revenue Account research update

3.2 Housing Associations

Housing associations manage, own, and develop the majority of social and affordable housing in England. Social housing is defined as housing with low-cost rents typically around 50% of market rate. With an increasing prevalence of different tenures of home within the definition of affordable housing, however, including "affordable rent" housing that can reach up to 80% of market rates, the overall delivery of homes at social rent levels has decreased significantly in the past decade. This, alongside the impact of Right to Buy, which has led to a large decline in the quantity of available social housing properties, has contributed to a consistent contraction in social housing stock and a subsequent increase in pressures for providers to develop new housing.

With local authority housing budgets in a parlous state, housing associations have become a load-bearing pillar of the national requirement for new affordable housing – whether that be social rent, affordable rent, or shared ownership – despite a profusion of additional strains to the sector in terms of the ongoing viability of developments and maintenance, historically within a context of a mercurial housing policy environment.

Increased costs in the social housing sector are two-fold: increased operational costs, such as higher energy prices; and enforced improvement costs, driven by regulatory changes such as Awaab's Law. Although some housing associations are in a position to continue developing new builds, some are struggling with challenges such as damp and mould, alongside fire safety regulations, particularly following the implementation of the Building Safety Act 2022, and sustainability standards. For instance, Southern Housing has announced a freeze on commitments to new developments, focusing expenditure on the maintenance of existing homes until its financial situation improves[104]. The introduction of the Future Homes Standard, which the previous government committed to rolling out in 2025, set to upgrade building regulations in favour of low-carbon heating and energy efficiency for new homes, is also likely to further exacerbate the cost pressures of housing provision and therefore escalate the need for housing associations to find long-term investment to manufacture a viable business model.

Housing associations rely primarily on a trifecta of funding sources to remain solvent: one, rent and service charges; two, government funding through grants and subsidies; and three, debt funding. Government caps on social housing rent, as well as a 1% annual rent reduction from 2015-2020 driven by reductions in Housing Benefit

104 Housing Today (2024) – Southern stops committing to new developments as surplus falls

expenditure[105], have limited the sector's operating capacity, restricting the potential for both the delivery of new social housing and investment in existing stock.

There are also concerns about the extent of government financial support for housing associations, particularly in the context of the target of 1.5m new homes in this parliament and ongoing changes to safety and sustainability regulations. The end to the Affordable Homes Programme (AHP) is imminent and brings concerns about the ongoing viability of social housing provision, with the recent £500m top-up from the Treasury only likely to assist larger housing providers that can make use of longer funding time frames, as the grant is only available for schemes completed by the AHP's 2026 deadline[106].

Housing associations spend a substantial amount on debt, financing investment in new homes primarily through borrowing, meaning that they are fairly reliant on interest rate stability to ensure low borrowing costs. Repayment of debt is primarily achieved via rental income, which, as highlighted above, is constrained by government policies. As a consequence, aggregating pressures on housing associations have led to a trend of mergers across the sector, with associations driven by a need for greater efficiency and to pool resources in order to continue to provide services for residents and invest in housing.

The social housing sector as a whole has seen a significant constriction of its operating margin over the last decade, with rising costs reflecting inflation, supply chain issues, and an increase to services and maintenance costs[107], driven at least in part by higher energy prices. However, the capacity for housing associations to respond to these pressures differs significantly across the country, mainly due to the geographical disparity in the stage of progression in the social housing stock that means that while some areas already enjoy an expansive and sustainable stock, other areas see housing associations playing catch-up, having to focus resources on ensuring existing stock is up to scratch and in line with new regulations before investing in new homes. As such, any attempts to mandate local investment for social housing would need to consider the diversity of local contexts and how this impacts housing association capacities.

105 Levelling Up, Housing and Communities Committee (2024) – The Finances and Sustainability of the Social Housing Sector

106 Inside Housing (2024) – Affordable Homes Programme deadline leaves builders unable to access £500m top-up

107 Regulator of Social Housing (2024) – Sector analysis

LGPS funds may represent the kind of long-term and locally engaged investment that the housing association sector needs to establish consistent viability in the face of rising costs and limited budgets, although the establishment of both a system that provides sufficient genuinely affordable housing to meet local needs and an efficient, functional housing investment environment across the UK will require a range of tools. Some housing associations, for instance, have seen success in the use of Recycled Capital Grant Funding (RCGF) from shared ownership properties to support a development pipeline. RCGF is an internal account set up by a Registered Provider to retain any recovered grant funding that their properties might have produced – in the case of shared ownership, through owners buying additional shares in their property – with the understanding that the provider does not profit from the original grant funding by recycling it into new affordable homes.

3.3 Central government bodies

Alongside local and regional level actors, catalysing investment into place requires support from central government agencies. Capable of providing both financial support and expert advice, these national bodies are a crucial part of the growth mission, with the National Wealth Fund and Homes England being of particular relevance to the challenge of channelling capital into the provision of genuinely affordable and social homes.

3.3.1 The National Wealth Fund

Transformation of the environment for LGPS funds cannot be untied from transformation of the wider national environment for large-scale investment into alternative assets, with prospects for investment in growth programmes buoyed by central government's imperative to leverage collaboration between the public and private sectors. The new National Wealth Fund (NWF) has been lauded by the government as one that will catalyse private investment into British assets, providing direction for investors, such as pension funds, to engage with the government's goals for strategic and widespread growth.

Spawning from the UK Infrastructure Bank but with an expanded remit, larger budget, and greater appetite for risk, the NWF comes alongside a suite of new government interventions aimed at providing a framework for growth projects. This framework is substantiated by a recent report from the National Infrastructure Commission, which has set out four interrelated barriers to the delivery of infrastructure projects on time and within budget[108]: a lack of clear strategic direction; client and sponsorship

108 National Infrastructure Commission (2024) – Cost drivers of major infrastructure projects in the UK

challenges; inefficient planning and compliance frameworks for infrastructure projects; and a constrained supply chain. To tackle this broad assembly of issues, the government has also announced the creation of a new National Infrastructure and Service Authority (NISTA), which will combine the functions of the National Infrastructure Commission and the Infrastructure and Projects Authority in order to lead on the delivery of a ten-year national infrastructure strategy that will itself be published alongside the second phase of the Spending Review[109].

The NWF, as the UK's principle public sector investor into infrastructure, has every opportunity to establish a vital position within the already, necessarily, complex network of institutions and organisations that engender development projects across the country. This role, for the NWF to differentiate itself from previous central government iterations of largescale public investment bodies, will require the NWF to become an originator of investment projects, actively identifying opportunities for public investment to rectify an 'undersupply of private finance'[110].

The government has previously confirmed that the NWF will be working in lockstep with the Treasury in order to crowd in investment into productive assets[111], with a prerogative towards specific sectors expected to have an exceptional impact on UK growth, and to take on the role of a proactive 'impact investor', notably making use of its extended capacity to engage in riskier investment principles. The two strategic objectives for the NWF, to support regional and local economic growth and to tackle climate change[112], will require the body to collaborate closely with other actors within the government's growth framework. Namely, tackling climate change alongside the nascent GB Energy company, and working in partnership with local authorities to support local growth. Collaboration with local authorities will facilitate the NWF's progress as an active stakeholder in national growth projects, by locating the NWF within an already well-established sector with an existing expertise in facilitating regional progress, ideally without the already heavily constrained local government sector having to take on additional financial risk or rely on its limited internal capacity.

109 HM Treasury and Darren Jones MP (2024) – Chief Secretary to the Treasury sets vision for future of Britain's infrastructure

110 HM Treasury (2024) – National Wealth Fund: Mobilising Private Investment

111 HM Treasury and the Rt Hon Rachel Reeves MP (2024) – Mansion House 2024 speech

112 HM Treasury (2025) – Statement of Strategic Priorities to the National Wealth Fund

Although the NWF's chosen sectors for its investment focus do not include housing, there is a case to be made for the inclusion of housing as a real opportunity for the NWF to meet its objective for regional growth, particularly if housing is considered as an infrastructure asset and aligned with the national framework for infrastructure investment and development. There is already some precedent in terms of NWF support for stakeholders to augment opportunities for green and/or local development in terms of housing assets, albeit not through housing development specifically: for instance, by providing financial guarantees amounting to £750m in support of loans from Lloyds and Barclays banks for the retrofit of social housing[113], and guaranteeing a further £150m in loans provided by the Housing Finance Corporation, with plans for hundreds of millions more, towards housing retrofit[114].

The NWF builds upon the work of its predecessor, the UK Infrastructure Bank, not only as a pot of money for crowding in investment capital, but also as an impartial advisory service for local authorities. UKIB provided a central hub of expertise for local government actors, including instruction on how to tackle the commercial and financial nuances of infrastructure projects and encouragement to scale up their infrastructure operations, effectively attenuating the issues of capacity and resourcing on local authorities[115]. From an investment point of view, the NWF's advisory work, renewed from that of UKIB, needs to retain its ability to enhance the strategic purview of local government, in the context of both local government reorganisation and the devolution of resourcing to strategic authorities. It will be the work of the NWF to provide something of a counterweight to instability in the local government sector, entrenched after years of underinvestment in capacity, so that the risk of investment for investors does not also extend to dealing with an under-informed and under-resourced public sector.

The role of LGPS funds as institutional investors, considering the functions of the NWF, should align with both the strategic direction of the national-level NWF and the place-based policies of local institutions, which are themselves to be delineated by the implementation of local growth plans across the board. LGPS funds are going to be reliably considered in concert with the wider conversation about largescale investment into domestic assets, as evidenced by the representation of the LGPS within the NWF's inaugural taskforce and speculation that government is expecting the LGPS to support

113 Institute for Government (2025) – National Wealth Fund

114 Financial Times (2025) – UK National Wealth Fund boosts support for energy efficiency in social housing

115 UK Infrastructure Bank (2023) – Strategy Update: Local Authority Advisory and Lending

the NWF[116]. As such, if able to specialise in or focus on specific asset classes, such as housing, LGPS funds could have an active hand in managing the strategic objective of the NWF to progress local growth, provided they are not seen as a limitless source of finance[117]. The NWF represents the necessity for scale when it comes to tackling regional and local growth and LGPS funds are ideally placed to offer not only that scale as investors, but also the local preference that could galvanise effective and locally integrated development.

Concerns about LGPS involvement in the NWF's mission, particularly given its larger appetite for investment risk, note that any inclusion of funds in national investment priorities needs to rely on incentivisation rather than mandate for pension fund investment into productive finance[118]. Furthermore, there is a need for the NWF to ensure it achieves value for money from the investment decisions that it takes, without lumping the public sector with high levels of risk ownership in the case of infrastructure development. For this reason, it needs to be part of the assumed configuration of the NWF that the public sector is to provide strategy and direction for growth programmes as a proactive investor with regulatory assurance that such schemes will not end up causing much greater risk for stakeholders.

The Treasury Committee has launched an inquiry into how the NWF will differ from the UK Infrastructure Bank, how the NWF will prioritise value-for-money in investment decisions, and, significantly, how the NWF will interact with other parts of the public sector for the purpose of investment in major infrastructure[119]. The inquiry's focus on the NWF's capacity to instigate economic growth through its strategic priorities and its two objectives highlights both that there are still questions surrounding how the NWF fits into the government's growth agenda alongside other, existing, institutions, and how effectively the NWF can deliver on its directive to draw in investment for infrastructure, especially without crowding out the private sector. The NWF represents a sizeable opportunity for encouraging investment into vital sectors that can stimulate economic growth for the UK, but this will require strong direction and clarity when it comes to managing the fund's financial decisions and its many relationships with other bodies as an independent policy bank.

116 Local Government Chronicle (2024) – LGPS 'not a tap' for UK investment

117 Ibid.

118 Pensions expert (2024) – Govt launches National Wealth Fund to drive pension fund investment

119 Treasury Committee (2025) – Can the National Wealth Fund move the dial on growth? New inquiry launched

3.3.2 Homes England

Homes England (HE) is the organisation set up to manage the government's housing and regeneration services under the oversight and resourcing of MHCLG. As an arm of government, HE provides an interface between MHCLG, housing providers, and the private market, in a unique position bolstered by sizeable land ownership and capital spend authority. It provides extensive grant funding support for the delivery of affordable housing in particular and as such needs not to be overlooked as an actor in the drive for housing delivery in England. Although central government is, by necessity, removed from place, HE has the unique position of being able to work across the geographic and political boundaries that divide the centre from the local. The question is how HE could best leverage this position in order to drive the kind of housing delivery that the country needs.

HE's strategy statement for 2023-2028 makes clear the imperative of a place-based approach for the organisation. Three of its five objectives are concerned with place-making, while the other two, "a housing and regeneration sector that works for everyone" and "homes people need", themselves absolutely require a strategic perspective of housing delivery that aligns with skills and supply chains, and that considers the specific requirements of places in terms of type and tenure of homes[120]. The granularity of HE's strategy makes more evident the holistic effort that the organisation is trying to address, particularly in the form of KPIs that consider the social value return on investments and the total number of local authorities receiving in-depth capacity support.

In light of this commitment to holistic place-based support, the role of HE in the context of English devolution must be considered. Specifically, how HE can work to provide a stronger institutional relationship for strategic authorities following the increasing regionalisation of England as set out in the English Devolution white paper, and how devolution can serve affordable housing provision in regional, large-scale quantities rather than a sparse and fragmented model of delivery. A collaborative environment underpinned by spatial development strategies, as tabled by the government's plan for devolution, would ideally offer HE, as a central body, the framework from which to engage with its obligation to provide a holistic and place-centred package for housing development. Noting also the work of HE in providing capacity support for local authorities, there is a further opportunity for the body to extend risk management expertise to local decision-makers and therefore ensure that large-scale investment decisions are managed effectively at the local level.

120 Homes England (2023) – Strategic Plan: 2023-28

Given the prerogative of HE to provide a diverse offering when it comes to the development of places, in terms of both tenure of housing and the more extensive implementation of regeneration schemes, there is a case to be made for the social return offering that HE can provide, which, again, gets to the heart of making a case for investment – for local government certainly, but also touching on the social directive of institutional investors, who hold much of the responsibility to approach HE with development portfolios. The capacity for HE to underpin otherwise less-attractive housing, and particularly affordable housing, development opportunities by supporting mixed-tenure schemes, providing early-stage enabling work for developments, and offering a framework for risk sharing – and risk alleviation by means of enhancing the capacity of local authorities – should not be understated in terms of its potential to channel investment into a national pipeline of housing development.

3.4 Vehicles for local investment

Bringing the various institutional actors required for housing investment together, particularly whilst centering the social returns on that investment, requires both models for collaboration and developed, credible development pipelines at place level. The use of joint ventures between local authorities and partners in such delivery is already established, and the introduction of statutory local growth plans, along with spatial development strategies at strategic authority level, present an opportunity to scale-up the utilisation of such vehicles with the enhanced certainty of a plan backed with legislation.

3.4.1 Joint ventures

There remains a need for models that can attend to the need for genuinely affordable and sustainable housing stock. Direct investment into housing projects by LGPS funds is one option, but the complex project requirements for social and affordable housing, along with the range of actors involved, could mean that joint venture models are more suitable. Setting up a joint venture at strategic or local authority level can allow for the involvement of multiple investors, including private and public bodies, alongside LGPS pools. Housing associations are becoming more enthusiastic about partnerships with investors and for-profit registered providers, owing primarily to the need to generate additional capital funding, highlighting the opportunities that partnerships can afford in attracting investment without over-reliance on borrowing or government funding.

With local authorities holding strategic planning authority over local development, and ideally providing strategic alignment for involved parties, housing associations providing extensive expertise in terms of housing development and maintenance, as well as identifying how to utilise available capital, and an institutional investor drawing on reserves to instigate new development projects, the model appears stable and likely to encourage investor confidence, with risks shared across public and private partners. Furthermore, Homes England has, at its core, the mandate to provide development finance and to catalyse private sector investment for housebuilding and regeneration projects, with its ongoing income generation from loans freeing up further public investment capacity.

As such, using the NWF as a point of comparison reveals a structure that could be imitated by HE for state co-investment in development projects. At the present, HE has a history of involvement in joint ventures with private capital funds aimed at accelerating larger housing sites, into the thousands of homes, including the development of sustainable, low-carbon housing[121]. If HE has the chance to provide central support for large-scale housing production, including affordable housing, it evidently has the scope to lay the groundwork for more extensive private financing opportunities, with the potential to direct these at areas otherwise underserved by investment.

A larger scale pipeline for HE to harness would necessitate a scaled-up strategy for affordable housing projects in particular – but instigating such a strategy has the additional advantage of providing a foundation for institutional investment of the kind made available by LGPS funds. In this case, another benefit of specifically pension fund investment is that as pension funds are patient, the issue of retaining immediate revenue return for the investor is minimal. Likewise, the local authority will benefit from the social returns of additional affordable housing. As investors, pension funds are also very likely to care about the condition of the housing stock given that it is delivered in areas where pension fund members live. With suitable regulatory support, therefore, the joint venture model presents an opportunity that aligns sound investment sense with strategic responses to place-based issues, and could alleviate some of the many pressures currently hindering housing association capacity.

The primary question in the case of joint ventures is one of ownership and returns. Financial risk is shared between partners, but decision-making control over development is likely to be retained by the local authority. Therefore, in the establishment of such ventures, the risk for potential conflict of interest must be taken into account, with dispassionate professional advice needed to counterbalance a potential 'optimism bias' from those parties with an interest in local economic development and positive social outcomes. The actuarial experience of pension fund managers can therefore be a valuable asset to JVs, beyond their capital input.

121 Housing Today (2024) – Homes England, Muse and pensions insurer announce JV to build 3,000 homes

3.4.2 The role of local growth plans and prospectuses

One key part of the government's growth agenda, lauded as an instrument to achieve regional prosperity, will be the local growth plans produced as a statutory requirement, in line with the English Devolution White Paper, by mayoral strategic authorities to work within and sustain the framework of their integrated funding settlements[122]. The core of the local growth plans will be a set of shared strategic priorities developed to establish collaboration with central government to ensure that policy at the centre is in the right place to support the requirements of local areas to meet their economic objectives. The picture is one of close partnership at the strategic, sub-regional level, augmented by the newly enhanced strategic authority model.

Significantly, local growth plans will become a vehicle through which strategic authorities can set out a functional pipeline of investment opportunities, in an attempt to attract both public and private investment towards the needs of place, and therefore provide a clarity of investment purpose that would de-risk the place offer. For the LGPS, the government has considered and is consulting on a duty for LGPS administering authorities to identify investment opportunities to their asset pools, who would in turn have to have the capability to "conduct due diligence on those proposals" prior to any final investment decisions. Conversely, strategic authorities will be required to work with administering authorities and the asset pools to develop investment opportunities for pensions investment[123]. The English Devolution Bill will codify these requirements. Ultimately, what local growth plans could represent for institutional investors, and with the requisite legislation, LGPS funds in particular, is a clarity of purpose in terms of how local development can be achieved, through the establishing of specific and realistic outcomes. They will be further supported by partnership between mayoral strategic authorities and the National Wealth Fund, and align with the new national context for growth, including the newly formed body NISTA and the government's Industrial Strategy.

Local growth plans may, as such, evoke some recollections of the Local Industrial Strategies (LISs) of the Conservative May government, which were intended to see Mayoral Combined Authorities and Local Enterprise Partnerships outline how local economic policy, building from existing frameworks for national growth policies, could align with national priorities and so instigate the collaboration between levels of government and the public and private sectors at the level of place. However,

122 MHCLG (2024) – English Devolution White Paper
123 Ibid.

despite good intentions, LISs suffered from a number of obstacles that led to a low rate of uptake and eventual fading into obsolescence. The foremost of these obstacles were the variation of local government and stakeholder capacity, a lack of long-term funding and support from central government, and the difficult balancing act between meeting the government's targets for productivity and ensuring that LISs were locally distinctive[124]. Economies across diverse localities in the UK actually have similar challenges to growth, while not everywhere can benefit from the characteristics that make places such as the Oxford-Cambridge Arc or Greater London so distinctive in terms of attracting investment and foreign interest.

A key takeaway from the LISs was that local decision-makers need to be realistic about the local economy. Applying this learning to the implementation of local growth plans will be vital: in order to be successful in building a pipeline for development that can actually attract investors and siphon funding into where it can be most useful and used most efficiently, local growth plans need to provide a framework for local development that is primarily and above all achievable, comprised of realisable outcomes that will enhance the government's national industrial strategy and mission for growth. The caveat, of course, is that the success of local growth plans, much like local industrial strategies in the past, will rely on sufficient access to funding and powers for implementation, by relevant strategic authorities, at the local level.

To be achievable, local growth plans also require credibility, and the statutory obligation for strategic authorities to produce them will go a long way towards cementing the credibility of such plans at the national scale. Additionally, and again likewise to the LIS framework, local growth plans will require central government approval, and this oversight will also likely establish an element of credibility to the plans and how they fit into the national and strategic pictures. However, this will require the approval process to not undermine or encumber the production of successful plans, as was the result of the approach for LISs due to limited resources being devoted to the central team[125]. To achieve credibility, both in terms of strategic authorities having the capacity to meet their statutory obligation and central government ensuring that there is no bottleneck in the implementation process, it is clear that sufficient resourcing will lie at the heart of an effective local growth process.

124 Local Government Association (2019) – Local Industrial Strategies: Lessons Learned

125 Institute for Government (2024) – Local growth plans: How government should support a place-based approach to its national growth mission

With local growth plans representing one pillar of the national growth agenda, the question of orientation within the newly strategic planning context arises. Strategic Development Strategies (SDS) are to become a statutory requirement for strategic authorities and will pertain to housing and affordable housing provision, climate change policies and local natural recovery strategies, health inequality, and the identification of strategic infrastructure. Accordingly, where local growth plans are to provide a holistic perspective of the prospects for growth in an area, tied into the unique requirements and opportunities of place, a SDS must be coupled with the growth agenda as a vehicle for on-the-ground implementation, with local plans taking on the individual delivery of sites. MHCLG anticipates a role for Homes England in supporting both local growth plans and SDSs, while assuring that affordable housing in particular is to come under the prerogative of devolved authorities, indicating the place for local growth plans and SDSs within a collaborative framework of governance. As such, private investment will be conveyed across a co-relational system of strategy and planning, notably with central government support.

The production and implementation of local growth plans will not happen overnight: they will represent the ambitions of strategic authorities for large-scale projects following full pipelines for local development, and the English Devolution Bill, which will mandate their implementation by strategic authorities, is only to appear later this year. Following what is likely to be a months- or even years-long process of production, they will offer a long-term vision for place in providing a 10-year picture of local growth, working in alignment with local plans. Conversely, the government has introduced a new, shorter timescale for local plans, instigating a deadline of 30 months from the start of the process to completion, vastly shaving down the previous average time of completion of seven years[126].

Under NPPF guidelines, the policies introduced by both local plans and SDSs should be reviewed at least once every five years. All of this means that a hierarchy will exist where the granular details of local housing and development delivery are evaluated on a medium-term basis, whereas the envisaged strategic local growth plans are to offer a long-term period for implementation. As such, the case must be made for investment in place that mirrors the long-term nature of strategic development, which is where pension funds come up in spades, and that can align with the economic geographies relevant to the local growth plan process – as local investment guidelines for LGPS funds could feasibly stipulate.

126 LGC (2025) – Ministers to set 30 month deadline for local plans

CHAPTER FOUR

Lessons from abroad

Part of the rationale for the reforms pursued by the government's pensions review is to bring the UK system more into line with successful international counterparts. It is therefore important to examine the landscape in comparable countries, particularly the Canadian example which forms a central part of the argument for pools and megafunds, for replicable lessons and principles, as well as notes of caution.

Summary of case studies	
Canada	
Key points	• The Canadian public pension system, embodied in the 'Maple-8' group of funds, is seen by the UK government as a potential model for reform due to its successful management of around £1.1tn in assets. • Key characteristics of the Canadian model include good governance, a large allocation to private markets, in-house asset management, and a long-term value creation focus. • This model allows for greater flexibility in investment choices, such as in public infrastructure, and its immense scale is of interest to the HM Treasury. • The Canadian model also has its challenges, such as dissatisfaction from the Alberta government regarding the Canada Pension Plan and issues with the Alberta Investment Management Corporation (AIMCo), including rising costs, poor returns, and increasing politicisation. • There are also debates within the Maple-8 regarding the government's push for increased domestic investment, raising concerns about diversification and potential risks.
Lessons for the UK	• The Canadian model's large allocation to private markets and in-house management of assets are seen as drivers of sustainable performance. This suggests that UK pension pools could explore increasing their private market investments and developing in-house capabilities where appropriate, as some pools like Border to Coast and Local Pensions Partnership Investments are already doing. • Canada's higher allocation to infrastructure (around 9% by the Canada Pension Plan Investment Board) compared to the LGPS (around 3%) indicates a potential for the LGPS to significantly boost infrastructure investment by potentially £40bn if it were to imitate the Canadian model.

	• The comparison with Canada suggests that the UK needs to establish clearer criteria for pooling funds and ensure consistent policy and enforcement to fully realise the benefits of a consolidated system. The diverse approaches to pooling structures in the UK might currently hinder effective pooling. • The dissatisfaction from Alberta regarding the CPP and the issues at AIMCo, including politicisation, serve as notes of caution. These examples highlight the importance of maintaining independence from political interference and ensuring robust management. The debates around domestic investment within the Maple-8 also underscore the need to carefully consider diversification and risk management.
The Netherlands	
Key points	• The Dutch ABP is the fifth-largest pension fund globally and the largest in Europe, with significant assets. It serves government and education employees in the Netherlands. The Dutch pension system is a three-pillar system, with ABP operating within the second pillar. • The Dutch pension system is undergoing significant reform, shifting from defined benefit (DB) to defined contribution (DC) schemes, with ABP aiming to complete this transition by 2027. This shift is driven by concerns about the sustainability of the DB model due to changes in working patterns. • ABP has maintained a consistently sufficient funding ratio and has achieved strong average investment returns. Recently, ABP has adjusted its investment strategy, including increasing its allocation to index investing for developed market equities to simplify asset management and reduce costs. • ABP also intends to generate a positive societal return through its "Investing in the Netherlands" programme, with significant commitments to impact investments, including affordable and sustainable housing.

Lessons for the UK	• The Netherlands' shift from Defined Benefit (DB) to Defined Contribution (DC) schemes demonstrates the importance of pension systems adapting to changes in the labour market and demographic pressures. While the UK LGPS is DB, understanding the drivers behind such significant reforms in other developed nations can inform long-term strategic thinking. • ABP's move towards increased index investing for developed market equities highlights a potential strategy for simplifying asset management and reducing costs while achieving sufficient diversification. This could be a relevant consideration for UK pension pools looking to optimise their investment operations. • ABP's strong emphasis on "Investing in the Netherlands" and its significant commitments to impact investments, including affordable housing, showcases a model for how large pension funds can pursue both financial returns and positive societal outcomes. This aligns with growing calls in the UK for LGPS funds to consider broader impacts through their investments.
Sweden	
Key points	• The default Swedish state premium pension option, AP7 Såfa, has demonstrated historically strong investment performance, making it a key case study. Its portfolio adjusts risk levels based on the saver's age. • As a large fund, AP7's investment strategy significantly influences public values, particularly in balancing sustainable investment (ESG) with economic returns. AP7 actively promotes ESG principles and publishes sustainability reports and a Climate Action Plan. • AP7 actively engages with the companies it invests in to promote ethical practices and sustainability, including blacklisting companies that do not meet certain criteria related to human rights, the environment, and weapons production. • Recent regulatory changes have allowed AP7 to increase its allocation to alternative, illiquid investments, leading to its first real estate investment for risk diversification.

Lessons for the UK	• AP7's deep commitment to ESG principles, its active engagement with portfolio companies, and its public blacklisting of non-compliant firms demonstrate how large institutional investors can leverage their power to promote ethical and sustainable practices. This provides a strong example for UK LGPS pools to consider in terms of their own responsible investment strategies. • While the UK government seeks greater domestic investment from pension funds, AP7's approach suggests that domestic investment should be considered within a wider risk management and portfolio diversification strategy that prioritises long-term value creation and the stability of the economic system in which the fund operates. • AP7's increased allocation to alternative, illiquid investments like real estate for risk diversification highlights the potential benefits of expanding investment horizons beyond traditional asset classes. This is a trend also being observed in other large pension funds and could be relevant for the LGPS.

4.1 The Canadian example

It is no secret that the government are looking to Canada and its renowned 'Maple-8' for guidance on public pension reform. Together, the group of eight Canadian public pension funds that make up the Maple-8 manage around CAD$2tn, or around £1.1tn, in assets and are commonly acknowledged as one of the most successful pensions globally[127]. These funds include the Canada and Quebec pension funds, into which all working Canadians contribute, alongside the Ontario Teachers' Pension Plan, and the Investment Management Corporations of British Columbia and Alberta respectively.

The Canadian model is defined by sustainable performance largely the consequence of four characteristics: good governance, a large allocation of investment in private markets, in-house management of assets, and a focus on long-term value creation[128].

127 ICAEW (2024) – Canadian pension: a model for the UK?
128 Eduard van Gelderen (2024) – On the sustainability of the Canadian model

Supporters of the model purport a greater flexibility in investment choices that can be made by managers, such as the possibility of investing in public infrastructure[129]. The HM Treasury's interest, as articulated by the Chancellor, is in the immense scale of the system and potential benefits thereof.

Looking to investment in infrastructure, there is clear precedent from Canada. The PIC compares the Canada Pension Plan Investment Board, which invests around 9% of its assets in infrastructure, with the LGPS, of which only 3% are similarly invested[130]. Estimates from the PIC place the potential for the LGPS to boost infrastructure investment by £40bn if it were to imitate the Canadian model[131]. However, it has been suggested that the UK has far to go before it meets the successes of the Canadian model, with commentators pointing in particular to the relaxed policy environment surrounding the LGPS, noting that the system needs to reflect Canada's clear criteria for pooling funds and consistent policy and enforcement[132].

Some of the eight existing UK pension pools are already fairly aligned with the Canadian model: Border to Coast, for instance, and Local Pensions Partnership Investments both follow the model of having in-house investment management capacity and larger allocations in private markets. On the other hand, others are much less suited to the shift – while some pools take the structure of Financial Conduct Authority-regulated entities owned by the underlying administering authorities, others outsource operations, which naturally pulls them further away from the Canadian precedent[133]. One pool operates effectively as a joint procurement platform from which contributing councils confer over which assets to buy[134]. However, it should be noted that the UK government intends for all six of the approved LGPS pools to achieve FCA authorisation by the March 2026 pooling deadline. The diverse approach to pooling structure in the UK to this point may have obstructed effective and complete pooling, which will need to be achieved if the LGPS is to mirror the success of the Canadian model.

129 ICAEW (2024) – Canadian pension: a model for the UK?

130 Pension Insurance Corporation (2024) – Local government pension reform could unlock £40 billion for infrastructure

131 Financial Times (2024) – The race to build a £354bn British pensions behemoth

132 Top1000funds.com (2024) – How UK's LGPS still has a long way to go creating a Canadian model

133 Mallowstreet (2024) – Will LGPS pools stick with their operating models?

134 Financial Times (2024) – The race to build a £354bn British pensions behemoth

4.1.1. Challenges to the Canadian model

It would be remiss to assume that the Canadian model is one without its own challenges. Notably, the Alberta government has made clear some dissatisfaction with the Canadian Pension Plan and has signalled an intention to exit, evidencing some existing structural issues in the system surrounding the payouts on offer to leaving entities[135] – the province has suggested that it is owed a transfer of more than half of the CPP's total assets, to the consternation, particularly, of those who have pointed out that the province's total contribution to the CPP has amounted to around 16% of its assets[136].

Similarly, the Alberta government has also, very recently, fired the chief executive and entire board of directors of the Alberta Investment Management Corporation, on the grounds of rising costs and poor returns[137]. One of the defining features of the Maple-8 is that each fund is at arms-length from the Canadian government. The establishment of high-level government officials to AIMCo in the wake of its purge of the board has raised eyebrows and, fundamentally, put claim to a wider trend of increasing politicisation of the pension industry in Canada, which violates one of the principal tenets of the Maple-8's claims to success.

Additionally, many leaders across the Maple-8 have emphasised dissatisfaction with the government's push for them to invest a greater proportion of their assets within Canada, citing an aversion to the lack of diversity in investment and potential for taking on more risk than would be appropriate on behalf of their membership, as well as concerns that pressures to increase domestic investments will result in more investment into fossil fuels[138]. The IMF has previously noted that Canadian public pension plans have become more exposed to risk over time as they increasingly rely on leverage – the use of borrowing to fund investment – and become more exposed to alternative assets[139]. However, commentators have noted that Maple-8 funds are heavily subsidised by nature of the public pensions model and should therefore be in a better position to take on the kind of risk that a much higher proportion of domestic investment – particularly investment into more illiquid assets – would incur[140]. The IMF has also suggested strengthening regulatory oversight to shore up resilience to increasing risks[141].

135 TD Securities (2024) – Exploring Pension Fund Issues Impacting the Maple 8
136 Policy Options (2023) – Alberta should think twice before breaking from the Canada Pension Plan
137 Top1000funds.com (2024) – Chaos at AIMCo as politicians take control
138 Ibid.
139 Eduard van Gelderen (2024) – On the sustainability of the Canadian model
140 TD Securities (2024) – Exploring Pension Fund Issues Impacting the Maple 8
141 Eduard van Gelderen (2024) – On the sustainability of the Canadian model

Funds in the CPP have become increasingly interested in using infrastructure investment strategically to protect against inflation. Following the pandemic there have been appeals for funds to invest and support the domestic economy, but managers point to the fact that pension funds do not exist for domestic growth. Experts have stated the need for funds to maintain focus on long-term value creation and invest non-cyclically – i.e., in assets that run against market fluctuations. Fortunately, in the context of the drive for investment in British infrastructure, infrastructure assets such as utilities are non-cyclical[142], and therefore, as inherently long-term portfolios, pension plans can improve financial certainty for their members using strategic investment in infrastructure. However, this must not come at the expense of diversification or by overlooking potential in foreign investments, which have historically defined the Maple-8's investment portfolios[143].

Such considerations will, by necessity, have to be part of the decision-making process for UK funds. It will be worth the examination of other international models that also make use of large-scale pooling or investment of public pension funds – such as the Dutch ABP, Norwegian Government Pension Fund Global, the United States' public pension funds, Australia's system of Superannuation, or even the Japanese Government Pension Investment Fund – in order to ascertain the best practice for the UK case. Most prominently, considering a shift towards the Canadian model will come with the necessity of balancing duty towards the interests of pension holders against the potential for domestic investment.

4.2 Public pensions investment across Europe

Demographic shifts and changes to the labour market across Europe have led to consecutive pension reforms across the continent, as regulation tries to maintain stable returns to contribution in the face of fiscal and economic pressures. For instance, the German pension system has introduced an initiative entitled Generation Capital in order to keep contribution rates stable despite demographic pressures, a sovereign fund to be worth hundreds of billions of euros financed via loans from the German federal budget and a transfer of government funds, to invest in global equities. Concerns abound surrounding the extent of public borrowing required to finance Generation Capital, but the fund is intended to highlight the opportunities presented by global markets to support ageing populations in Europe[144]. Elsewhere, shifts in

142 LSEG (2023) – Time to trim some (inflation) hedges?
143 Eduard van Gelderen (2024) – On the sustainability of the Canadian model
144 Reuters (2024) – Germany sovereign pension fund is sound but small

policy are driving new investment strategies, and international responses to surplus funds are worth observation to draw learnings for the LGPS and UK-based impact and growth investment.

4.2.1 Pension financialisation: The Netherlands and ABP

The Dutch ABP is the fifth-largest pension fund in the world, and by far the largest in Europe, representing €547bn in assets as of December 31, 2024[145]. It sits within the wider Dutch pension system as the pension fund for all government and education employees in the Netherlands, supplementing the state-wide pay-as-you-go (PAYG) "Algemene Ouderdoms Wet" (AOW). The Dutch pension system, which accounts for assets amounting in value to almost 200% of the Dutch GDP[146], is a three-pillar system: the PAYG AOW is the first pillar, while individual private pension savings constitute the third pillar. The second pillar supplements the first by means of arrangements between employers and employees within the fiscal framework set out by the government and under the supervisory auspices of the Dutch Central Bank and the Financial Market Authority[147].

Until 2020, pension funds in the Netherlands were primarily defined benefit schemes. However, a framework agreement for reform of the system was signed in mid-2019 that called for the termination of all DB schemes from 2023-2027, with the ABP to complete its transition into a defined contribution (DC) model in 2027[148]. All EU member states over the past 30 years have reformed their pension systems with the aim of limiting future rises in contribution rates in the face of widespread population ageing and a wider fiscal context of increasing welfare state expenditure and public funding of adult health and social care[149].

Reasoning for the shift in the Netherlands to the DC model has been primarily concerned with the sustainability of the benefits model in the face of changes to typical working behaviours[150]. Namely, changes to the labour market that mean employees are less likely to remain with the same employer throughout their entire career. The new DC system intends to allocate each member's pension contribution

145 ABP (2024) – Our financial situation

146 Diljá Matthíasardóttir & Lara Zarges (2021) – The role of pensions: exploring the link between pension funds, monetary policy and economic performance: a case study of the Netherlands

147 Ed Westerhout (2020) – Pension Reform in the Netherlands

148 European Pensions (2023) – Dutch pension fund ABP delays switch to new system to 2027

149 Karl Hinrichs (2021) – Recent pension reforms in Europe: More challenges, new directions. An overview

150 De Nederlandsche Bank (2025) – The new pension system

to their individual pension capital, in order to optimise the distribution of collective assets without making "uncertain promises" about benefit pay-outs. And, significantly, the new DC system will mean that providers are now able to take different kinds of investment risk for members at different stages of their saving lifecycle – i.e., younger savers taking on more risk than older savers.

Concerns about the viability of pension schemes have dominated the conversation about pension reform, with the decline of funding ratios attributed to a number of factors, with the global crash in equity markets in 2008 leading the pack, alongside increases to longevity and a decline in interest rates[151]. The context of the ABP's investment decisions is therefore one of a national concern with pensions funding levels and contribution rates.

On the national scale, the Dutch funded pension system exemplifies the question of balancing the expansion of wealth across the whole national economic system in the "most 'pension-funded' economy in the world"[152] against the needs of pensioners. The question is one that examines whether a focus on investment outcomes might overlook the purpose of pension funds – whether the needs of government and financial actors come before or align with the needs of pensioners.

The Dutch system is one defined by net investment, in which total annual contributions have continued to exceed benefits for more than two decades. Factors influencing continued pension fund expansion have been posited to range from large-scale remuneration for the financial sector – those who manage the pension funds – to relieving inflationary pressures on the Dutch economy, to political demand for the maintenance of a high funding ratio.

On the other hand, increasing pension financialisation, which is the process of fund accumulation for the purpose of investment into global financial market, with benefits paid from the return on investment[153], can have its own pitfalls. Namely, that the accumulation of assets can overweigh the needs of pensions, and that the accumulation of funds can lead to increased volatility and a loss of effective demand in the wider economy – or the ability for people to afford to purchase things, as they contribute greater amounts towards their pensions[154].

151 Ed Westerhout (2020) – Pension Reform in the Netherlands
152 Dirk Johan Bezemer (2022) – Explaining the growth of funded pensions: A case study of the Netherlands
153 Natascha van der Zwan (2017) – Financialisation and the Pension System
154 Dirk Johan Bezemer (2022) – Explaining the growth of funded pensions: A case study of the Netherlands

To observe the system at a more granular scale, the ABP for instance has had a consistently sufficient funding ratio, with an average ratio of 114.2% over the 12 months until July 2024, with positive investment returns primarily driven by equity investments[155]. Over the past 20 years, ABP's investments have achieved an average return of over 7% annually[156]. Recently, however, the fund has made significant alterations to its investment strategy, switching to a new portfolio for equities in developed markets. Around 80% of this new portfolio has been relegated to an index designed to achieve sufficient diversification of assets while managing investment risks, following analysis that showed index investing to provide a more simple and cost-effective solution to asset management, in comparison to active management[157].

ABP has stated that it intends to provide not only financial reassurance to its members, but also to contribute a positive societal return, ensuring that it examines Dutch investments that "have an impact" on its members within its wider 'Investing in the Netherlands' programme[158]. The fund has a history of significant commitments to impact investing, announcing in early 2024 that it would aim to devote at least €30bn to impact investments, including affordable and sustainable housing, by 2030[159] – with at least a third of that devoted to domestic investment. In 2023, the programme was relaunched with one of its initial outcomes the investment in housing investor Vesteda for a rental home project intended to provide housing for those in 'social' professions such as care workers and teachers[160]. ABP also established a partnership with another pension fund, BpfBOUW, to invest €400m in affordable housing options for the Netherlands later that year[161].

It appears that the response by ABP to comfortable funding levels has been one that would mirror Reeves' solution in the UK – higher levels of domestic and impact investing – while taking on an indexed portfolio for its more diverse assets. The fund's management and strategy are highly supportive of the fund taking on a positive societal and social role through its investment decisions. The Dutch pension system enjoys very high international regard in terms of security and benefits, and although sweeping reforms to the system are likely to change national pension investment

155 European Pensions (2024) – ABP suffers negative investment performance in Q2
156 ABP (2025) – Investments
157 European Pensions (2025) – ABP switches to index investing and reduces portfolio
158 ABP (2022) – Investment beliefs
159 Reuters (2024) – Dutch pension fund ABP aims for $32.5 bln in 'impact' investments by 2030
160 ABP (2023) – Annual Report 2023
161 IPE Real Assets (2023) – ABP and bpfBOUW join forces to create affordable housing in Netherlands

behaviours, it is unlikely that, for the ABP, contribution rates will change. The fund intends to ensure that its funding ratio remain in surplus of 110% in order to increase pensions, rather than reduce contributions[162].

With the whole Dutch system in a state of flux, it remains to be seen whether ABP's emphasis on impact investing will serve its members well in the coming years. The policy-driven shift towards the DC model perhaps explains ABP's change in strategy towards a more long-term perspective designed to benefit younger savers, with more investment in illiquid, and potentially riskier, asset classes designed to respond to this perspective in a wider context of de-risking through switching investments to a passive index portfolio.

4.2.2 Principled institutional investment: The Swedish premium pension

The Swedish pension system is, likewise, in a state of confident surplus and therefore worth looking to in terms of finding precedent for the investment and strategy decisions of large-scale, public-sector pensions. The Swedish state pension, like the Dutch system, is comprised of three parts: the national pension, an occupational pension, and additional private savings. The first pillar, the state pension, which is available to all Swedish workers and residents, is based on all taxed income and is itself comprised of several parts. These are the income pension, the income pension complement, the premium pension, and the guarantee pension. To look specifically at one aspect of the Swedish system, the premium pension is a mandatory 2.5% contribution from a saver's pensionable income towards a savings account administered by the Swedish Pensions Agency[163]. In comparison, the income pension, which accounts for the majority of the state pension, makes up 16% of employee salaries.

Savers can choose the level of risk and investment strategy for their savings in the premium fund. The default option for the premium pension is the state pre-selection alternative, the AP7 Såfa, and the historically strong investment performance of the AP7 Såfa makes it an ideal case study for the analysis of the use and benefits of large-scale institutional investment. For savers, the fund provides a portfolio that tailors its risk level towards their individual needs, with a higher risk for younger members that tapers towards a medium risk level as members age. The AP7 Såfa currently holds SEK 1,440bn (£110.59bn) assets under management and has in some years outperformed its private sector peers in terms of investment returns. In 2024, it

162 ABP (2024) – Press release: Quarterly report Q4 2024

163 Ftn (2025) – The Swedish premium pension system

achieved an average return of 27.3%, with its equity fund seeing a return of 29.8%[164] – the equity fund making up almost 90% of AP7's managed capital.

As such a sizeable fund, AP7's investment strategy and principles hold immense weight in terms of the promotion of certain public values – notably, in managing the balance between sustainable investment and the drive for economic returns. Extensive literature has been produced concerning ESG commitments in pensions investing in reference to AP7, which produces a sustainability report each year alongside its annual accounts and has published a continuously developing Climate Action Plan that examines how the fund will actively use its ownership in more than 3000 companies worldwide to support the global goal of net zero 2050. It has pledged to do so by taking on active ownership principles and either reallocating capital from high-emissions sectors to low-emissions sectors or putting direct pressure on companies in which it has ownership to adapt their operations[165].

Stakeholders look to the example of the AP7 to explore issues in governance and value setting among institutional investors, with research suggesting that, over time, the code of good fund management has shifted somewhat away from sole concern with fiduciary duty towards a wider concern with the ethics involved in wielding such immense investment power[166]. For pension funds, as institutional investors, this translates to the idea that funds have a vested interest in the stability of the economic system, which further relies on environmental, social, and political stability.

The AP7 has taken a rigorous approach to its role in the sustainable finance and ethical investing context. The values of the fund are most evident in its public blacklisting of companies that a.) do not align with the UN Global Compact's principles on human rights, labour the environment and anti-corruption; b.) do not align with the UNFCCC Paris Agreement; and c.) are involved in the development or production of nuclear weapons. As of 2023, AP7's list extended to 106 blacklisted companies. The AP7's commitment to active ownership has even had impact in the UK. In 2023, AP7 joined with the Church of England Pensions Board to lobby for the National Grid to develop a policy of disclosure concerning climate lobbying, highlighting the potential transformative power of institutional investors[167]. Other examples of AP7's influence include its success reaching settlements in legal cases

164 European Pensions (2025) – Sweden's AP7 returns 27.3% in 2024

165 AP7 (2022) – Climate Action Plan

166 Monika Berg & Jan Olsson (2023) – Managing public value conflicts – Institutional strategies and the greening of public pension funds

167 AP7 (2023) – AP7 revises vote at National Grid after new climate lobbying commitment

against such mammoth companies as Alphabet, Google's parent company, and Facebook, by means of which the fund has claimed to contribute to creating norms in the market[168].

As for the power of the fund to leverage capital investment for specific socio-economic outcomes, recent changes to investment regulation have transformed how the fund considers and allocates risk within its portfolio. Since 2023, regulations in Sweden have allowed AP7 to invest up to 20% of its assets in alternative, illiquid investments, up from 10% previously[169]. In practice, this regulatory change resulted in AP7 making its first real estate investment within the year, with the fund citing risk diversification as its primary motivation for doing so[170]. By the end of 2024, the AP7's equity fund had allocated 2% of its holdings to real estate assets[171], continuing its strategy of risk reduction via portfolio diversification – a strategy that has reduced its commitment to global equity but extended its exposure to emerging markets and private equities alongside real estate.

The UK government has stated that "Pension funds are… critical as a major source of domestic investment."[172] As such, it is worth observing how large and influential funds such as the AP7 balance domestic investment with their fiduciary duty and wider value setting as an institutional investor. What can be concluded is that domestic investment needs to be argued for as a tool within a wider risk management and portfolio diversification strategy for pension funds and, fundamentally, as an investment strategy that contributes to the stability of the economic system within which the fund operates, appealing to the pension fund's estimation of sustainability.

Additionally, the work of the AP7 implies that UK LGPS funds, and particularly the larger pools, could be making a more active contribution as investors to enforce specific principles aligned with national values. LGPS pools do currently offer strategies aligned with broader sustainability and climate goals, such as the Border to Coast pool, which publishes an annual Climate Change Report[173], and LGPS Central, which has contributed a Net Zero Strategy alongside its Responsible Investment & Engagement Framework[174], already actively contributing to investment

168 AP7 (2023) – Annual and Sustainability Report
169 Top1000 funds (2023) – AP7 shifts gears as boosted alternatives allocation comes to life
170 AP7 (2023) – Annual and Sustainability Report
171 AP7 (2025) – AP7 Equity Fund
172 MHCLG (2024) – Local Government Pension Scheme (England and Wales): Fit for the future
173 Border to Coast (2024) – Border to Cost Pensions Partnership: Climate Change Report 2023/2024
174 LGPS Central (2025) – Responsible Investment

outcomes beyond financial returns. LPPI has also recently launched an Environmental Opportunities Fund, through which the London Pensions Fund Authority has committed £250m, or 3% of its portfolio, to environmental investments[175]. The AP7 example suggests that perhaps all pools should be leveraging their power as large-scale investors to wider socio-economic and environmental benefit, with the overarching and relative success of the fund's investment evidencing the potential that ESG-conscious investing by large-scale pension funds is not incompatible with the funds' capacity to meet their liabilities.

175 Room151 (2025) – London LGPS fund commits £250m to new climate vehicle

CHAPTER FIVE

Recommendations

With historic underinvestment a major drag on UK growth, the government is right to seek to incentivise greater domestic investment from institutional capital, and the well-funded, public sector LGPS is naturally expected to play a role. However, government cannot rely on pension funds to make a significant difference in every aspect of growth – this report has made the case that genuinely affordable and social housing is the most well suited investment target both to the characteristics of the LGPS and the government's overarching growth mission. The recommendations below present steps towards creating a more favourable investment environment for this sorely needed class of housing:

5.1 Maximising the value of LGPS investment and responding to the surplus

- To ensure the pooling process is carried out with maximum efficacy and impact, government should **extend the deadline to 2027 and provide clear guidance for investments which are linked with national missions and highlight the importance of social returns**.
    - New guidance and regulations should take an open-minded view on the LGPS surplus and lower contributions. Central government must offer explicit guidance to LGPS fund managers on how they can invest locally in housing while still fulfilling their fiduciary responsibilities, including a distinction between required assets and surplus assets. This should reassure them that local investment in well-structured projects is compatible with their duties.
    - Central government should promote the use and development of metrics that properly evaluate the broader social and environmental impact of investments in social and genuinely affordable housing, alongside financial returns on fund assets.
    - As part of the accelerated pooling process, government should review the allocations individual funds currently hold towards social and genuinely affordable housing in the UK, as well as providing guidance on the pooling of illiquid assets in general.
    - A deferral of the pooling until 2027 would allow pension funds to prioritise the 2025 actuarial valuation into decisions on employer contributions and investment risks in 2025/26.
    - The LGPS pools should be encouraged to hold information sessions with their scheme members and scheme employers about the social impact of their funds investment and their maintenance of fiduciary duty.
- In the case of a pension fund choosing to lower its contribution rates in order to provide cash savings for its employers, **local authority employers could be mandated to use a proportion of the savings made from contribution reductions as a revenue contribution to capital expenditure**. This proportion should be calculated based on the rate of contribution reduction, so that administering authorities will still be incentivised to cut rates and make initial cash savings, but those that are enjoying larger funding surpluses will be able to divert cash into more upstream investments.

5.2 Unlocking social and genuinely affordable housing investment

- The government should **consider the case for reclassifying social housing as significant national infrastructure** to unlock more capital funding and align it with other priority infrastructure investments.
  - The provision of social housing would therefore fall under the remit of NISTA and the government's 10-year infrastructure strategy.
  - The National Wealth Fund should also have its mandate extended to include the provision of social housing as significant national infrastructure.
- To make sustained investment in new development possible, government must also **provide a long-term deal for the financing of capital backlogs in the local authority HRAs and Housing Associations**.
  - The capital works backlogs faced by local authorities and Housing Associations stands as a major barrier to investing in new social and genuinely affordable housing. Establishing a long-term financing arrangement as a means of alleviating rising maintenance and service costs, or protection from inflationary pressures on existing developments, could ensure that institutional investors do not neglect their physical assets.
- Policy should **encourage and facilitate the creation of joint ventures and partnerships between local authorities, housing associations, LGPS pools and others to develop housing projects**, sharing risks and expertise.
  - In the case of an administering authority diverting capital into either a Special Purpose Vehicle earmarked for housebuilding or a joint venture scheme, then all parties involved need to have the stability that will only exist if the administering authority has the capacity to engage with expert insight. Consequently, the success of any initiative which requires administering authority involvement will rely on sufficient capacity funding.

5.3 Creating a pipeline

- Government should **actively work to help local authorities and housing associations create credible and scalable pipelines of social and genuinely affordable housing projects** that meet the investment criteria of institutional investors like LGPS funds. This includes addressing issues of local authority capacity.
    - In order to manage the risk/return profile of affordable housing investment, there is a role for central government to extend grant provision for affordable housing development beyond its current commitments, with grants available for all stages of development, from pre-planning to construction.
    - A regulatory tie-in for stakeholders in affordable housing developments will be required to ensure that ownership means responsibility, especially in the case of ongoing maintenance needs.
    - Maintaining high standards in the social housing sector through well-funded regulation is crucial for LGPS funds to have confidence that their investment will lead to positive social outcomes.
- The government should **ensure that statutory local growth plans and spatial development strategies produced by strategic authorities effectively align and synchronise an infrastructure pipeline and align with LGPS local investment strategies**. These plans need sufficient central government support and resources to be credible and effective.
    - Collaboration between strategic authorities, housing associations and regional Homes England teams will be essential in developing credible strategies.
    - Given that social and genuinely affordable housing may offer lower returns compared to other real estate assets, prospectuses must provide clear incentives and support mechanisms, lowering risk and making these investments more attractive to LGPS funds while respecting their fiduciary duty.
- Homes England is positioned well to provide central oversight of the national affordable housing development pipeline. As such, it could feasibly **package the affordable housing offering across the nation into a single, or at least less fragmented, investible proposition**, which would leverage its scalability to provide an attractive environment for the involvement of institutional investors.
    - Homes England should also offer investment expertise, or otherwise, resourcing to encourage in-house expertise in LGPS pools, with the goal of encouraging pool decision-makers to take on more diverse investment strategies for housing – such as thinking about the potential for investing in hybrid property funds, or models with different durations of asset ownership.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