LGPS: To pool or not to pool

Pensions Minister, Torsten Bell, has recently confirmed that the government will be sticking to the March 2026 deadline for Local Government Pension Schemes (LGPS) pooling work. *Pensions Age* asks: Do the benefits of LGPS consolidation significantly outweigh the possible downsides such as potential loss of control?

The Pensions and Lifetime Savings Association (PLSA) welcomes, in broad terms, the government's objectives of increasing scale, and of improving scheme governance and investment. The PLSA members have, however, a number of concerns relating both to the policy of what is proposed and its practical implementation.

In relation to policy, there is a risk that the funds will remain accountable for the performance of the LGPS but have limited means of controlling outcomes. Specific concerns relate to the pools becoming the principal source of advice and, potentially, carrying out the strategic asset allocation.

Practical issues include the feasibility of March 2026 for the transfer of assets, due to the absence of clear statutory requirements, and how local investments should be defined and then implemented, given wider changes in local authority structures.

PLSA head of DB, LGPS and investment, Justin Wray

We are supportive of the government's proposals to enhance the pooling and governance arrangement in the LGPS. The London Pensions Fund Authority (LPFA) has been fully pooled in Local Pensions Partnership Investments (LPPI) for many years now, so we've had time to build a collaborative working relationship under a structure very similar to the one proposed. The LPPI model under which we focus on our strategic asset allocation (taking advice from our pool while leaving the implementation to investment professionals) has delivered strong returns over both the medium and long term with robust risk management. In practice, we have not experienced any significant downsides such as a perceived loss of control. There will always be differing opinions, of course, but our experience is that conflicts of interest are manageable with appropriate oversight and are no more significant than arise in other structures today. In addition, we've achieved net cost savings of over £100 million from adopting LPPI's Whole Scheme Management approach. We do recognise the challenging timescales, as confirmed by the Pensions Minister, for pools to implement the minimum standards proposed in the consultation. We've had the benefit of time to build these capabilities with LPPI, and to recognise the benefits and make enhancements along the way. The benefits of such an internationally recognised model for asset management will provide considerable scale for the LGPS, with significant capabilities to invest in assets that can support UK growth and improve the communities of our members and employers.

LPFA funding and investment director, Lana Watson

The government's full commitment to the March 2026 deadline is ambitious, but the prize is significant if it unlocks investment in the UK, drives growth and provides strong returns to members.

Despite concerns, administering authorities (AAs) will still have significant control over how their assets are invested. They retain the fiduciary responsibility to set investment strategy, including responsible investment and level of UK investment. In addition, as partners/owners of the pools, they will have significant influence over where the pools direct their activities.

For Aon, the key risk is that the energy required to build new capabilities could distract the pools from their principal role of providing good investment performance for the AAs. The pools will need significant investment in people and modelling to develop the skills required to provide primary strategic advice, take on legacy assets and to investigate local investment opportunities.

To mitigate this risk, we believe pools will partner with organisations that have significant experience and resource in this space to help them build and transition their offerings to meet the government's target. With the right partners, the pools will be best placed to meet their key objective of delivering strong performance for the LGPS.

Aon partner and head of LGPS investment, Colin Cartwright

Views on this topic hinge on understanding the fundamental goals of further consolidation – who is driving this and why? Cited benefits are variously quoted as:

- (Further) potential economies of scale
- Potential access to better investments (or at least the ability to consider these with larger centralised specialist teams)
- Some levelling of outcomes (this could be bad or good, depending on who you ask!)

The consolidation would come with potential governance and regulatory changes for most pools (for example, falling under FCA regulations).

The relatively tight deadline has been a distraction for some pools, suspending other work to focus on this issue. There would in theory be winners and losers, which raises concerns that, in the rush for these perceived benefits, unintended consequences might be bad for an individual scheme exploring this issue. Specifically on the loss of control point, pooling may move 'local' investment initiatives further afield and end up focusing on national priorities or be subject to further (real or perceived) government interference.

There is also a case to be made that, beyond a certain scale, there is a diminishing marginal benefit to continuing to grow in terms of asset size. Fewer funds would reduce the risk of scarce assets being 'bid up' by competing schemes. Furthermore, as seen in the initial round of pooling some years ago, underlying schemes could undermine the spirit of the process by rushing through investments (potentially at odds with the broader consolidated pool strategies) which retain independence but are harder to later consolidate. In essence, unless everyone is on the same page and all clear as the motives and perceived benefits, there is potential for a bumpy ride in the implementation.

Cartwright Pension Trusts senior adviser, Ian McKnight

The majority of authorities will require significant transformation to meet wider proposals set out by the government. One of the biggest developments is for all investment matters to be managed internally – this will require significant change to current processes and could well incur undesired costs.

A more concentrated asset pool provides the opportunity to invest in ways that are desirable for government policies; whether this is in the best interest of members and sponsors can certainly be questioned. For example, asset allocators (AAs) could be forgoing more attractive global investment opportunities in order to align with government initiatives, which could be at the detriment of members.

The concern regarding implementation of pooled assets is one that should be considered further. In its current form, AAs will not have the ability to allocate between passive or active allocations, for example. This could have consequences with AAs expressing their views on areas such as ESG priorities.

Quantum Advisory senior investment consultant, Stefano Carnevale