Summary
• The latest LGPS reforms aim to consolidate all assets into five LGPS pools, with the goal of expanding investment options and promoting investment in UK productive finance.
• While many schemes acknowledge the potential benefits of the reforms, some are concerned about losing control of asset allocation.
• The March 2026 deadline for implementing changes has raised significant concerns about how schemes will manage to complete all the required changes on time.

LGPS pooling reforms: Too much too soon?

The government's proposal to further consolidate LGPS assets has sparked debate about the potential benefits and drawbacks, as well as the feasibility of the timeline for implementing the changes

Since the Labour government took office, all eyes have turned to its plans for pension reform. In November, Chancellor, Rachel Reeves, delivered her much-anticipated Mansion House speech, unveiling a package of proposals and consultations aimed at reshaping pensions and investments.

Building on the work of the previous government, the proposed changes focus on a clear policy goal: Driving scheme consolidation. The rationale is that larger funds are better equipped and more inclined to invest in a broader range of productive assets.

For the Local Government Pension Scheme (LGPS), this means a proposal to merge the assets of its 86 individual funds into five LGPS pools.

Under the reforms, LGPS pools will be standardised through a universal set of criteria, with all pools required to become FCA-regulated investment managers. The funds will then rely on these pools for investment strategy advice.

The government sees consolidation as a way to expand scheme investments into a broader range of productive assets, boosting investment in UK productive finance and infrastructure. This, in turn, supports economic growth – a central pillar of its fiscal policy.

These reforms also aim to drive greater scale, efficiencies and improve governance, which are expected to lead to better investment outcomes and deliver both financial and other benefits for the LGPS.

Weighing out the pros and cons

Eversheds Sutherland partner, Gary Delderfield, notes that the proposal to consolidate more assets into pools is likely to benefit schemes involved in the LGPS by enabling greater economies of scale and cost savings for the LGPS.

"This increased scale enhances the pools' capacity to develop specialisations in areas such as local investment and infrastructure, potentially driving more effective and targeted investments," he adds.

Local Pensions Partnership Investments CEO, Chris Rule, agrees that the reforms could broaden investment options for schemes, but he also emphasises the importance of maintaining schemes' autonomy over asset allocation decisions.

"If done in the right way, these reforms could offer the LGPS the best of both worlds – retaining sovereignty of their strategic asset allocations while also leveraging cross-sector access to investment opportunities that they wouldn't have access to otherwise," he says.

While the benefits of economies of scale for schemes are apparent, it remains uncertain how these advantages will translate into benefits for members, states LCP partner, Tim Gilbert.

He notes that more efficient and better investment returns are good ambitions, which has caused him to "cautiously welcome" the proposals to enhance the current pooling arrangements. However, it is not clear from the consultation documents who will benefit if these are achieved, Gilbert adds.

"The equality impact explicitly states: 'There will be no change to member contributions or benefits as a result' – unlike some of the pre-speech material which discussed 'better member outcomes'," he says.

Gilbert adds that he hopes the outcome will be lower employer contributions, which would have the

more direct benefit of freeing up cash for employers in the short term.

"Greater pooling without any reduction in contributions would mean employers paying more into the scheme than needed to meet benefits. Even if this leads to investment in the local economy it is likely to be less efficient than simply giving cash back to councils and other employers," he adds.

Rule notes that while there may be many benefits of the proposal, reactions from the pensions community have been mixed, with some funds expressing concerns about the impact on their independence.

"Some argue that the creation of scale through greater consolidation will ultimately mean a loss of control for LGPS funds. We don't see it this way and neither do our partner funds," he says.

Delderfield agrees that, depending on stakeholders' perspectives, the potential loss of control is a significant concern for some.

"Some individual funds express concerns that their role and involvement in investment decisions are being diminished as more responsibilities will shift from the funds to the pools," he says.

However, Rule argues this issue isn't the real challenge, as instead the key lies in convincing the wider pensions sector to embrace this need for change, while also demonstrating that the pooling of resources doesn't mean that funds need to sacrifice their independence.

Meanwhile, in response to a consultation on the proposal, the Association of Professional Pension Trustees (APPT) warns that the focus on benefits from creating larger funds to create better member outcomes may not be as straightforward as promised.

The group notes that there is an underlying assumption that size of funds will lead to better outcomes for members, however there is a lack of empirical evidence for this in respect to investment returns and consolidation.

There is also an assumption that creating scale in default funds will automatically result in a significant increase in investment in infrastructure and private equity, it adds.

"It is important that the trustees' fiduciary duty to members remains paramount and therefore that investments in UK infrastructure or private equity are considered in a manner consistent with that duty, taking into account scheme specific objectives and risks," APPT chair, Rachel Croft, says.

"To encourage investment in productive assets, the government should continue with efforts to make this asset class more attractive to UK DC investors."

"The focus on benefits from creating larger funds to create better member outcomes may not be as straightforward as promised"

Meeting the deadline poses challenges

The government has set a deadline for all LGPS asset pooling to be completed by March 2026. However, as the deadline approaches, many schemes have expressed concerns that this timeline may not be achievable.

During the consultation, the Society of Pension Professionals (SPP) raised serious concerns about the feasibility of the government's timeline as each pool is required to submit their viability in meeting this deadline by 1 March 2025 – less than two months after the consultation closed on 16 January.

"It seriously constrains the ability of pools to undertake a full assessment of the merits of the different options that government is intending to prescribe," it says.

"We are not at all convinced of any merit in forcing those pools to change their approach, incurring further unnecessary costs and fundamentally changing the relationship between partner funds that has built up successfully over the past decade."

It adds that such a timescale raises serious questions as to whether this can be considered a genuine consultation rather than a predetermined policy.

Delderfield notes that even the extended deadline for implementing all reforms presents several practical challenges. Specifically, the government expects all pools to be formally structured as FCA-authorised investment management companies, but currently, three of the eligible pools do not meet this requirement.

"Establishing these new structures within the given timeframe will be demanding, as it involves creating the companies, filling key positions, and completing the FCA authorisation process," he explains.

Additionally, the government expects the pools to provide primary investment advice to their funds, a service that most pools currently do not offer. As a result, the pools will need to quickly develop this capability, adding another layer of complexity to an already tight timeline, he adds.

Furthermore, the March 2026 deadline could cause particular issues when transitioning illiquid private assets, according to a spokesperson for LGPS Central.

To help meet this timeline, the SPP recommends that the government "seriously reconsider" its stance on the issue and revise the associated timescales.

Meanwhile, Rule emphasises the importance of the government recognising where LGPS pooling is already successful and adopting a similar model across the board.

Written by Niamh Smith, a freelance journalist