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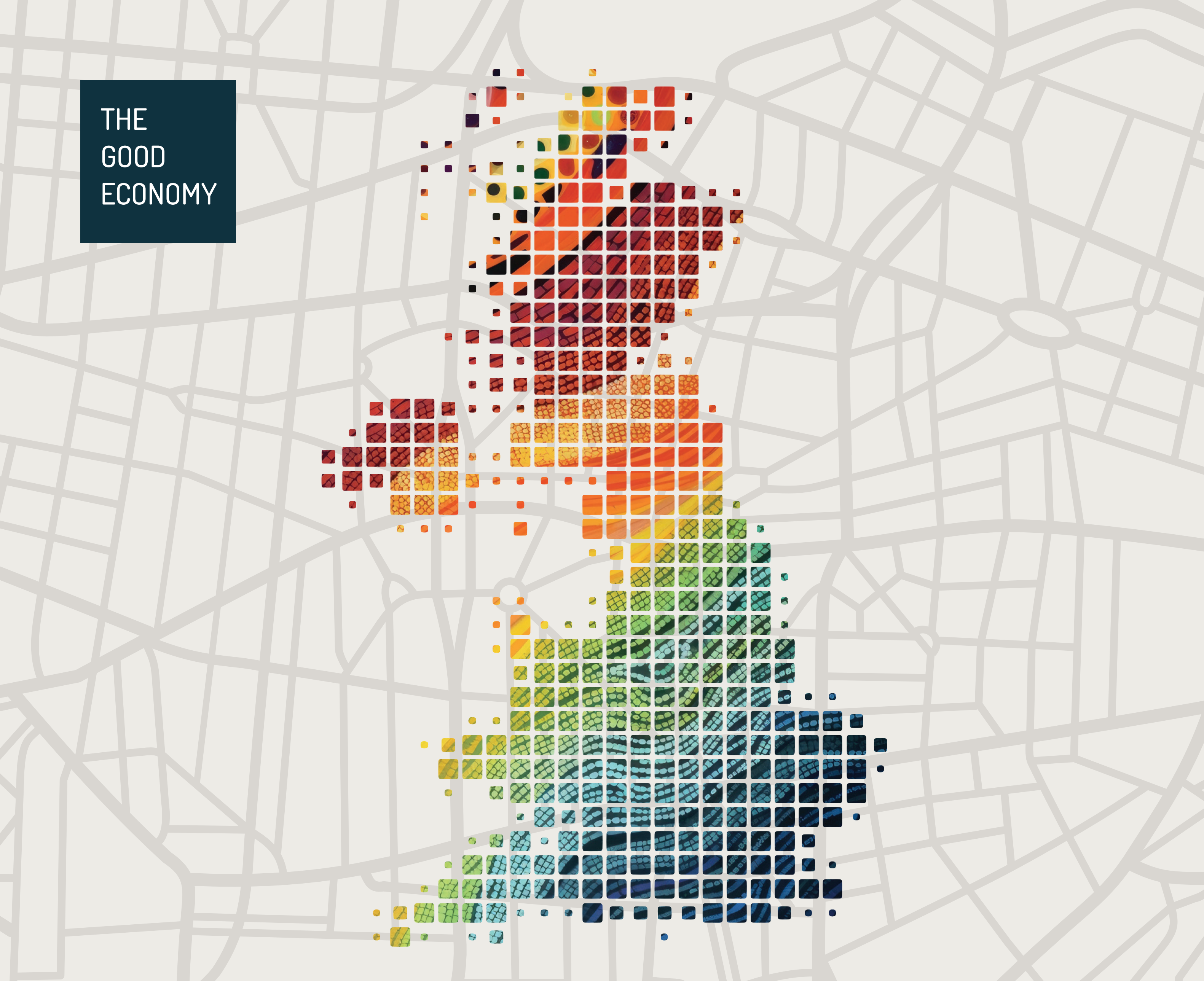

Scaling-Up Local Investing for Place-Based Impact: A Strategic Framework and Guidance for LGPS

Executive Summary

SEPTEMBER 2025

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Context and Purpose (Section 1)

The UK Government's 2025 pension reforms have challenged the Local Government Pension Scheme (LGPS) to develop local investing strategies in support of its wider effort to close the investment gap and make inclusive economic growth a reality. Administering Authorities (AAs) must now work with their pools to define strategies, set allocation ranges, and report annually on the scale and impact of local investments.

The pension reform agenda sits within a broader reform programme that includes devolution, local government reform, housing and planning, infrastructure investment and a new industrial strategy. All of these policies encourage a place-based, decentralised approach. The new Local Growth Plans being prepared by Strategic Authorities (SAs) will provide the platform through which local government and the LGPS are expected to work together to drive investment that responds to local priorities.

The challenge is clear. Britain has seen decades of underinvestment, entrenched regional and social inequalities, and fresh pressures from geopolitical and economic uncertainty. Yet the LGPS – with nearly £400 billion of assets today and projected to reach £1 trillion by 2040 – has the potential to be a cornerstone of the national effort to close the investment gap and build a more resilient, inclusive domestic economy.

This White Paper sets out a strategic framework and practical guidance for local investing by the LGPS. It is designed to help AAs and their pools respond to the requirements of the *Fit for the Future* consultation. It sets out how LGPS capital can be channelled to support locally defined priorities while capturing the scale and efficiency of pooling – all within a **disciplined fiduciary framework**. This report builds on The Good Economy's 2021 White Paper, *Scaling-Up Institutional Investment for Place-based Impact* (with the Impact Investing Institute and Pensions for Purpose), and reflects our ongoing work with LGPS funds and pools already active in this space.

The guidance has been developed collaboratively, with the support of seven LGPS pools representing nearly all AAs in England and Wales, alongside contributions from specialist fund managers, public bodies and industry associations. This breadth of engagement highlights the strong appetite across stakeholders to advance the local investment agenda.

Although aimed primarily at AAs and their pools, the report is also relevant to SAs, other public sector bodies, investment intermediaries and other institutional investors – including Mansion House Accord signatories – all of whom will be critical partners in turning policy into practice and ambition into delivery.

The Local Investing Landscape (Section 2)

Government is seeking to stimulate higher levels of investment to drive economic growth. Section 2 sets out how pensions reform, devolution, local government reform, housing policy, revisions to the national infrastructure strategy, planning reforms and a new industrial strategy have all been designed to support faster, more inclusive growth at the national, regional and local levels.

Mobilising institutional capital is critical to closing the investment gap. Despite having a globally competitive financial sector, private investment in the UK has remained low relative to peers. Higher public and private investment is required to increase the rate of economic growth and help address the UK's entrenched regional and social inequalities. Public funding alone cannot generate the level of growth required to meet the Government's policy ambitions; unlocking institutional capital is essential to complement public resources.

TGE developed the Place-Based Impact Investing (PBII) pillar model as a framework for aligning institutional investment with local development policies and goals. The PBII model has proven a useful framework to align private markets investment with local development priorities and combine bottom-up, place-based development approaches with top-down investment strategies.

Momentum for local investment is growing, but the overall level of LGPS allocations currently remains relatively small. Pioneering funds and pools are showing what is possible in terms of investing locally in ways that deliver financial returns and place-based impact – from affordable housing and clean energy to SME finance and regeneration. These examples highlight the potential for wider adoption and provide valuable market insights and shared learning.

Together, these reforms and examples establish the foundations for a strategic approach to local investing which is the focus of Section 3.

A Strategic Approach to Local Investing (Section 3)

Collaboration is essential for effective local investing strategies. AAs, pools, SAs, fund managers, project developers and enabling bodies such as the National Wealth Fund, British Business Bank, Homes England and Great British Energy will all need to work with one another in new ways to deliver the systemic change and investment required.

There is a strong underlying rationale for LGPS to pursue local investing. Beyond the government's new requirements, local investments can deliver diversified, inflation-linked returns consistent with fiduciary duty, while capturing opportunities created by wider policy reforms. They also carry democratic legitimacy: LGPS members are not only pension savers but local citizens, with a direct interest in stronger communities. Investing locally supports better housing, infrastructure and public services – aligning the long-term interests of members with the prosperity and quality of life of the places where they live and work.

The government is proposing that only investments that are local to the AA or regional to the pool will be counted towards the 'local investing' allocation. This leaves room for AAs and pools to shape their own approaches. Differences in economic geography and the pace of alignment between AAs and pools mean coherent approaches will take time to emerge everywhere.

The paper proposes guiding principles to support strategy development. These include recognising the realities of economic geography, aligning with Local Growth Plans, and tailoring approaches to sector-specific considerations such as housing and SME finance.

Local investment strategies should be embedded in LGPS core investment policies and processes. This includes articulating AA objectives and preferences, mapping allocations to asset class groups within the Strategic Asset Allocation template, balancing scale with local outcomes and integrating risk–return–impact considerations into portfolio construction.

Recommendations:

- **Local context matters** – Local investing won't work with a 'one size fits all' approach. We advise a tailored, context-specific approach taking into account both AA and pool's economic geography, governance model, and delivery capacity while aligning with government guidance on what counts as local. It will be important to avoid territorial competition and politicisation and rather develop solidarity around local investment strategies that can be effectively managed by the pools.
- **Collaboration is key** – To be most effective, SAs and local authorities will need to work with AAs and their pools to set mutual expectations as to how they will collaborate and form a shared understanding of the role (and limitations) of LGPS investment. The pools will need to develop governance arrangements, processes and the capacity to provide feedback on local priority projects and appraise suitability for LGPS investment.
- **Share expertise** – The structural changes needed include pools (as the implementors of investment strategy on behalf of AAs) exploring collective mechanisms that enable collaboration across the LGPS for the benefit of all, whilst maintaining fiduciary independence. GLIL is a good example of a large-scale, cross-pool fund investing in infrastructure. This model could be replicated across other asset classes e.g. regeneration, natural capital, potentially with local or regional allocations.
- **Adopt a risk-return-impact lens** – Local investing strategies will need to consider how to balance financial returns and local impact. Portfolios must remain constructed to meet financial return and funding objectives, but within that framework, pools could combine large, scalable mandates in sectors such as infrastructure, clean energy and housing with smaller allocations to, for example, regional SME finance funds. Investments could also be made in high impact opportunities that offer lower but still acceptable returns, for example, in relation to tackling homelessness or social issues. These targeted investments may be less efficient to deploy, but they are vital for nurturing local ecosystems, supporting innovation and maximising local impact – all without compromising fiduciary responsibilities.

From Strategy to Implementation (Section 4)

Achieving successful local investment requires a clear transition from strategic intent to a well-defined and operationally robust delivery model. This White Paper proposes four foundations for effective implementation: fiduciary discipline, alignment with local and regional priorities, an integrated impact lens, and clear governance between pools, AAs, and stakeholders.

Building on these foundations, the paper proposes a practical delivery model. This includes strengthening origination capacity, ensuring pools act as informed clients, applying rigorous due diligence, risk management, and value-for-money tests, deploying a flexible toolkit of investment products and vehicles, and establishing dual reporting of financial and impact outcomes.

Governance and partnerships are central. Clear structures that define roles, responsibilities, and decision-making rules are essential, supported by trust-based collaboration between pools, AAs, and SAs. Cross-pool collaboration will also be important to share due diligence, achieve scale and build confidence across the system. Pools should look outward too, developing innovative investment products, broadening partnerships beyond existing networks, and aligning with Local Growth Plans to ensure capital flows to priority projects.

Public and private capital will need to work together. By combining LGPS commitments with public funders and private providers, including Defined Contribution (DC) schemes under the Mansion House Accord, pools can unlock co-investment opportunities and amplify local impact.

Good practice already exists. Case studies such as the South Yorkshire Pension Authority's Memorandum of Understanding (MoU) with the Mayoral Combined Authority, and GMPF's housing and SME mandates, show how institutional investment rigour can be combined with place-sensitive strategies to position pools as long-term providers of capital and trusted partners in local investment ecosystems.

Recommendations:

- **Map and align** – A useful early step is for AAs and pools to map their local investing knowledge, capabilities and ecosystems, and consider formalising relationships with SAs (e.g. through MoUs) to build shared expectations and decision-making processes.
- **Broaden the pipeline** – Pools can strengthen the flow of investable opportunities by working with public funders and other partners to bring forward projects that align with Local Growth Plans and regional priorities, including the use of blended finance where this helps unlock opportunities.
- **Scale with partners** – Pools may wish to explore opportunities to co-invest with Mansion House Accord signatories, DC funds, other private investors, and fellow pools to achieve greater scale.
- **Enable inward investment** – AAs and pools can look to ensure their allocations are supportive of regional inward investment ambitions, embedding these objectives in product design and engagement with fund managers.

Impact Reporting (Section 5)

Section 5 sets out how local investing could be measured, managed, and reported to demonstrate local impact. It recognises that reporting must go beyond compliance, serving as part of a broader impact management process – guiding investment decisions, strengthening accountability, and showing how LGPS capital supports local priorities alongside financial returns.

Three principles guide effective impact reporting:

First, reporting should align with locally defined opportunities and needs, objectives and targets. Alignment with the overall aims and investment projects identified within Local Growth Plans is particularly important as they are expected to provide the cornerstone for linking institutional capital to local priorities. Acting early to build relationships with SAs and local partners will help shape LGPS local investment strategy objectives, asset allocation decisions, and impact metrics as these plans take shape.

Second, consistency matters. Reporting frameworks should allow for disaggregation to each AA while building towards a common LGPS-wide standard. This will reduce duplication, improve comparability, and make reports more useful to members, policymakers, and other stakeholders.

Third, pools should build on existing Responsible Investment and ESG frameworks, adapting them to capture place-based outcomes. Local investing will demand richer data on social and economic impact, particularly in private markets where transparency is limited. To support this, the report provides example tools and templates, including an impact assessment framework built around the internationally-recognised Five Dimensions of Impact (what, who, how much, contribution, risk). Case studies from funds such as Clwyd, London Pensions Fund Authority (LPFA), Greater Manchester Pension Fund (GMPF), South Yorkshire Pensions Authority (SYPA) and West Midlands Pension Fund (WMPF) show that practical, engaging impact reporting is already achievable today.

By working collectively, the LGPS can build confidence among members and stakeholders while demonstrating the long-term value created by local investing – setting a new benchmark for transparency in private markets.

Recommendations:

- **Streamline requirements** – A systemic review of reporting obligations could reduce duplication and reconcile overlapping needs of public bodies and investors. Establishing common approaches would help ensure that time and resources are focussed on delivering outcomes, rather than diverted into multiple layers of measurement and reporting.
- **Establish a common standard** – Pools should work collectively to develop a vision and roadmap to embed a shared reporting framework, building on the industry-led model already developed by The Good Economy with AAs and fund managers. This will ensure consistency, comparability, and transparency across reports.

Final Reflections (Section 6)

The UK needs a stronger domestic economy built on inclusive, long-term growth. Delivering this requires productive investment that benefits society. Institutional capital is maturing and the LGPS has a distinctive role to play – but wider investor confidence and stronger public-private collaboration are essential.

The challenge for pools and AAs is significant, but not new. As this report has shown, good practice already exists – from established local investment strategies to innovative fund models – providing a foundation to build from.

The task ahead is to turn momentum into coordinated action. Pools and AAs must work together to interpret new responsibilities, set and monitor local investment targets, and embed impact alongside risk and return across strategies, portfolios and reporting. What is needed now is confidence, discipline, and partnership. If embraced with urgency, LGPS local investing can set new norms and benchmarks for responsible private market investment, delivering robust returns for members, and long-term prosperity for communities across the country.

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