HM Treasury | Department for Work & Pensions | Ministry of Housing, Communities & Local Government

Pensions Investment Review

Final Report

May 2025

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This publication is available at: www.gov.uk/official-documents.

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ISBN: 978-1-917638-15-9

PU: 3519

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Ministerial Forewords

We need bigger and better pension funds, as part of a pensions landscape that drives higher returns for savers and higher investment for Britain. Savers deserve security in retirement, but also to live in a growing economy after a long decade and a half of economic stagnation. This government's pensions reform agenda, often supporting change already underway in the industry, is there to help deliver on both fronts.

This Final Report outlines the conclusions of the Pensions Investment Review. It represents an important milestone as the culmination of countless hours of work alongside everyone who cares deeply about pensions – from providers and savers, to trustees, trade bodies, and councillors.

Central to the Report is a decision to add momentum to the significant consolidation already underway amongst Defined Contribution (DC) pension schemes, driving towards a market characterised by bigger, better and less fragmented schemes. As the Interim Report set out, the first mission for pensions is, and always will be, to provide security for pensioners in retirement. The larger, more consolidated system, for which we will legislate, will be able to reap the benefits of scale that we see abroad, with lower costs, an ability to invest in a wider range of assets, and higher returns for savers.

This direction is reinforced by plans to switch the focus of the pensions system towards value and away from a narrow focus only on cost. This is a journey for everyone involved in pensions – including the employers choosing pension schemes on behalf of their employees. Ultimately, it is returns that matter for pension savers and everything we do needs to reflect that.

Larger DC pensions schemes will also be pension schemes better able to invest in more productive assets, including infrastructure and fast growing companies. In that context, this Report aligns entirely with the goals of the 17 ambitious pension schemes that have signed up to the recent Mansion House Accord to diversify their asset allocation into a range of private assets, including in the UK. This very welcome leadership shows the shared sense of purpose across industry and policy makers about the journey our pensions system is on.

The Local Government Pension Scheme (LGPS) is a huge part of that system, with assets currently totally £400 billion. Scale is important here too, to deliver the strongest possible governance and investment outcomes that matter so much not only to savers and their employers, but to taxpayers and local communities. The Minister for Local Government has jointly led this aspect of the review and today has brought forward reforms to reduce fragmentation in the LGPS and ensure that one of the jewels in the crown of our pensions landscape is more than the sum of its parts.

I have always been clear that steps to support bigger pensions funds to invest in a wider range of assets are only part of this government's strategy for raising UK investment levels. The increased supply of capital can only be effective if it is matched to demand – to investible propositions. The government's job is to deepen that investment pipeline and make it more visible to pension funds. So this report also lays out our approach to doing exactly that, from planning reforms to the role of the British Business Bank.

This Report marks the end of the Pensions Investment Review, but it forms only part of our pensions reform agenda. I will be publishing a Roadmap in due course, to provide clarity about our broader strategy and to support the industry through what I appreciate is a time of significant change.

I am also confirming today that we will shortly be launching Phase Two of our Pensions Review, focusing on the outcomes we are on track to deliver for future generations of pension savers and how those can be improved upon. This will be launched in the coming months.

We should all be glad that, over the past decade, Britain has got back into the habit of saving for pensions once again. But celebrating that fact cannot be an excuse for ignoring how much more remains to be done. I look forward to doing it jointly with everyone who wants to deliver a pensions system we can all be proud of, through the months and years ahead.

Torsten Bell MP

Minister for Pensions

Reforming and modernising the Local Government Pension Scheme is a key part of the Pensions Investment Review. The scale of the scheme – both in terms of its £400bn value and the 6.7m members who rely on it – mean that we in government are committed to its continual improvement.

The LGPS contributes directly to delivering a number of vital government and national priorities; devolution delivering growth felt in every region, raising living standards for working people, and fixing the foundations of local government.

The 'Fit for the future' consultation on modernising the LGPS's investment and governance arrangements, and to boost local investment launched in November 2024. Over 200 respondents took the time to share their views on the proposals. I am grateful for the contributions of all those who responded, including pension funds, asset pools, the Scheme Advisory Board, advisors, trade unions and scheme members.

It is clear from the responses received that there is a shared and deep commitment right across the sector to ensure the LGPS is well run and managed, providing dignity and financial security for its members while also delivering for their local communities, our regions and the wider UK economy. We have also heard the calls for policy clarity, and this is why we have progressed the review at pace to avoid a long period of uncertainty and we will now bring forward legislation to deliver on the proposals in the consultation.

Alongside the important improvements to pooling, governance and administration, as the minister responsible for the Local Government Pension Scheme, I am particularly keen to see the LGPS use its scale to support UK investment and regional growth. Building on its local role and networks; including its relationships with local and strategic authorities, regional mayors, and devolved administrations, it is well placed to support a pipeline of housing, key infrastructure and regeneration projects. Funds and Pools have shown what can be achieved already, and we want to build on that with greater focus and scale.

I recognise that there will be a period of upheaval for the scheme but taken together, these changes mark the most significant reform of the LGPS in a generation, enhancing the capability of the LGPS as an institutional investor on a global scale and ensuring that the scheme is financially sustainable over the long term for members, employers and taxpayers.

Jim McMahon OBE MP

Minister of State for Local Government and English Devolution

Introduction

Over £2 trillion of assets are managed by our workplace pensions system, collectively one of our single greatest sources of national savings. Those pension assets are critically important, for all of our living standards in later life but also as a key part of our financial system.

The Pensions Investment Review was launched by the Chancellor on 20 July 2024 with the objectives of tackling fragmentation, boosting investment, increasing saver returns and addressing waste in the pensions system. It looked across the multi-employer Defined Contribution workplace (DC) pensions market and another key part of our pensions landscape: the Local Government Pension Scheme (LGPS).

This Final Report, which updates on the Interim Report published on 14 November 2024, presents the conclusions of the Pensions Investment Review. It is supported by the responses to two consultations, which were launched alongside the Interim Report:

- 'Unlocking the UK pensions market for growth'; and
- 'Local Government Pension Scheme in England and Wales: Fit for the future'.

Feedback to the consultations generally supported the case for the headline proposals outlined at the Interim Report, around the benefits of scale and consolidation, and consistent with international evidence. The Final Report therefore puts forward major measures to assist the consolidation of the DC market and the LGPS. The full suite of measures to be implemented are outlined in the Final Report.

The implementation of these proposals, via the *Pension Schemes Bill*, will realise the commitments made in the Labour Party's Manifesto to ensure that workplace pension schemes take advantage of consolidation and scale, to deliver better returns for UK savers and greater investment in UK assets.

The Labour Party's Manifesto also committed to consider what further steps are needed to improve pension outcomes. This has been a key objective of the Pensions Investment Review and is recognised in the final proposals. The final proposals also balance the impact on pension providers and employers alongside this objective.

Looking ahead, the next phase of the Pensions Review will build on these foundations by focusing directly on the question of the adequacy of pension outcomes. The government needs to tackle systemic issues that currently mean millions are under-saving for their retirement, and the significant inequalities that persist in later life.

The government plans to launch this next phase of The Pensions Review in the coming months and will announce the reviewers and terms of reference in due course.

To set out how the Pensions Investment Review reforms combine with wider changes, the government will publish a roadmap for the private pensions market. This document, to be published in due course, will set out the broader suite and sequencing of reforms.

Chapter 1
Scale and Consolidation

Scale

1.1 The feedback to the consultation paper: 'Pensions Investment Review: Unlocking the UK Pensions Market for Growth', building on the 'Pensions Investment Review: Call for Evidence', demonstrated widespread support for the case for scale. There was extensive agreement that scale leads to economies and efficiencies, as well as enabling greater expertise and diversification in investments. There was further clear evidence that, in general, larger schemes are better able to invest in productive asset classes.

1.2 The consultation paper proposed measures designed to accelerate and help enable scale in the multi-employer Defined Contribution (DC) workplace market. The consultation proposed that those schemes be required to have at least between £25 to £50 billion in assets under management (AUM) by 2030.

1.3 Acknowledging the feedback received, the government's response to the consultation has taken account of the time needed to build scale. The response also takes account of the need to maintain sufficient market participants to provide a competitive workplace market, as well as supporting potential new entrants into the market to support innovation.

1.4 The government will, therefore, legislate through the *Pension Schemes Bill* to require that providers and master trusts must have £25 billion in AUM by 2030. It is at this quantum the benefits of scale start to be realised.

1.5 It is important to clearly define at what 'level' the scale requirement must be met by providers: at the fund, arrangement or scheme level.

1.6 Key benefits of scale, including investment sophistication, are realised at the level at which strategic decisions on investments are made. This is generally at an 'arrangement' level, where contributions are collated and where savers do not make investment decisions.

1.7 The government will, therefore, apply the £25 billion requirement at the arrangement level, such that a provider must have at least one main default arrangement meeting the requirement by 2030. The requirement will only apply to multi-employer schemes; single-employer trusts will not be subject to this requirement.

1.8 The government notes that significant consolidation is already underway and expected to continue. The measures outlined in the Report will support this trend, where it is in the best interest of savers.

1.9 In the consultation, the government acknowledged that there are various terms used by industry when referring to the particular financial vehicles in which pension assets are managed – schemes, default funds or default arrangements – and that these are used interchangeably. The government's objective is to ensure that a default used for scale can be clearly understood and that it is uniquely identifiable within the industry. It intends to define this as 'a main scale default arrangement'. The government will engage further with industry in refining this definition, including through formal consultation, before fully defining the characteristics of this level in secondary legislation.

1.10 A transition pathway will also be provided to allow additional time for smaller schemes to reach scale. In circumstances in which a provider or master trust can demonstrate they will have at least £10 billion in AUM in an arrangement by 2030, it will be able to apply to be on the transition pathway and must provide the regulator with a credible plan to have £25 billion in AUM by 2035.

1.11 The government will also legislate to require providers or master trusts to demonstrate that they have, or are building in the case of those utilising the transition pathway, an investment capability commensurate with their scale. This will ensure the advantages of scale are being realised, to the benefit of both savers and the economy.

Innovation

1.12 Maintaining innovation and competition in the market remains a critical consideration, helping ensure that competitive pressure remains a positive influence on the market and the behaviour of these bigger DC schemes.

1.13 Innovation can come from existing providers or market entrants. So alongside the scale requirements, the government will also provide for a 'new entrant' pathway. This pathway will allow new market entrants with innovative products to seek authorisation, where they are offering something significantly different that could benefit savers or employers and have plans to reach scale in the longer term.

1.14 The government continues to encourage market innovation and has, for example, carefully considered how this pathway will ensure the potential for the establishment of multi-employer Collective Defined Contribution (CDC) pension schemes that could have a significant role to play in future.

1.15 The scale requirements will not apply to CDC pension schemes. Due to their nature and the requirements of authorisation, CDC schemes will naturally have a degree of scale and invest productively, but the government will keep the market under review and consider if we need to take further steps to ensure that is the case.

1.16 In addition, the consultation response also confirms that the scale requirements will not apply to those DC/defined benefit hybrid schemes which are only available to a closed group of employers related through their industry or profession, or to default arrangements that serve protected characteristics, such as religion.

Consolidation

1.17 The government remains committed to addressing fragmentation within the DC workplace market so that the benefits of scale can be realised. Consistent with this, the government is seeking to reduce the overall number of default arrangements in the marketplace, in a way that benefits outcomes for savers and is centred around achieving scale in the main default arrangements. The government will, therefore, legislate to prevent new default arrangements from being created and operated, except in certain circumstances with regulatory approval. However, recognising the feedback from the consultation, the government has decided not to set a maximum number of default arrangements or funds for any given DC scheme.

1.18 The government has considered the case for standardised pricing by a default fund regardless of the features of the DC scheme for which it provides services. The consultation responses highlighted the complexity of the issue and the limited evidence base. The government has, therefore, decided not to take any action in this area at this time, but will undertake further market impact analysis as the market is reshaped by the measures set out in this report and the impact of the VFM Framework.

Contractual override

1.19 To help address fragmentation, the *Pension Schemes Bill* will introduce a contractual override regime, with strong consumer safeguards, for the contract-based part of the market. This measure will help address a longstanding issue and allow schemes to consolidate underperforming and legacy arrangements, improving saver outcomes and helping the wider scale objective. Furthermore, it will help create broad equivalence between trust-based and contract-based schemes.

1.20 Consumer protection will be paramount to the working of this new regime, and contractual overrides will only be permitted where it is in savers' best interests, certified by an independent expert. Where savers are bulk transferred internally, it must be into the arrangement offered by the provider which provides the best value.

1.21 Providers will need to use objective metrics to inform contractual override decisions. These metrics are intended to include metrics obtained through the VFM Framework that the government will introduce in due course.

1.22 The detailed rules on the use of the regime will be developed by the Financial Conduct Authority (FCA) and consulted on in the usual way.

Further addressing market fragmentation

1.23 The government expects the introduction of the new contractual override regime and VFM Framework will go a long way to reduce fragmentation and the number of poor value funds. The VFM Framework will require underperforming funds to improve, wind up or consolidate into better performing ones and it will provide comparable metrics that will enable decision makers to assess performance and see whether it is in savers' best interests to remain in their current arrangement.

1.24 The government wants to ensure that savers are in funds that deliver value and is concerned that, even within schemes that are providing value for money, there is still potential for large differences in outcomes. We expect providers and trustees to take proactive steps to assess whether their savers should be moved into a main scale default arrangement.

1.25 A ministerial led review, involving the FCA and the Pensions Regulator, will then undertake an assessment commencing in 2029 of the market impact and operation of the contractual override measure and VFM

Framework, to examine the reasons why any default arrangements are continuing to operate outside main scale default arrangements. The detail of how the review will operate will be set out a later date and will depend on the number and nature of arrangements that remain.

1.26 The review will start from the presumption that, in line with the government's general expectation, savers' assets and underperforming default arrangements will have been consolidated to the main default arrangements at scale, unless there is demonstrable evidence that such a move would not be beneficial to savers. The government plans to have a legislative underpin to be able to tackle any remaining fragmentation as needed. The review will commence its work after the first tranche of VFM assessments have been completed and the contractual override has had time to take effect.

Chapter 2
Cost vs Value

2.1 The evidence and consensus in the feedback to the consultation are clear that the DC pensions market is operating with an excessively narrow focus on cost. This comes at the expense principally of value, but also to a broader range of metrics of scheme quality.

2.2 Cost will always remain a key consideration. However, the excessively narrow focus can be detrimental to saver outcomes, as it is ultimately the value of their pension that is most important. Specifically, it has the added effect of limiting investment into asset classes that might have higher upfront costs but can deliver more net value in the long-term. Such asset classes are also important to driving economic growth.

Value For Money Framework

2.3 The government has already announced plans to legislate for a VFM Framework for the DC pensions market in the forthcoming *Pension Schemes Bill*.

2.4 The implementation of the VFM Framework, with the first regulatory assessments expected to take place in 2028, will support the cultural shift needed in the DC pensions market. It will, for the first time, provide a consistent disclosure regime and make publicly available a range of data and metrics of scheme quality, including investment performance, showing the consistency of returns, over time. It will support decision making based on a wider set of metrics than just cost.

2.5 The VFM Framework will support the transfer of savers in underperforming arrangements or schemes and ensure that they benefit from better value and enhanced long-term outcomes.

2.6 As consolidation accelerates, the government expects providers to deliver this vision for the DC pensions market, transferring members into the best performing default arrangements, delivering value, and considering the full range of asset classes available.

Employers and Advisers

2.7 The government has explored whether further action might be required to support this shift to a focus on value. The consultation specifically considered the role of employers, including options around introducing a duty for employers to consider value in pension scheme selection or, alternatively, building responsibility at the Board level to do so. The government has also explored measures relating to the regulation of employee benefit advisers.

2.8 Both employers and advisers play a critical role in the pensions system, with their decisions and incentives significantly driving scheme selection and behaviours in the overall market. While there are examples of engaged employers putting in place excellent arrangements for their employees, it is particularly important that, along with the schemes themselves, employers and advisers shift their focus to value.

2.9 The VFM Framework will support this shift and the government has considered how to strengthen the guardrails around this responsibility to focus on value.

2.10 There was limited evidence, however, that the specific measures considered, targeting employers or advisers, would support the objectives of the Review in increasing productive investment and returns to savers. Evidence highlighted concerns regarding increasing burdens and costs on employers, particularly for smaller businesses.

2.11 Therefore, this Final Report and the response to the consultation do not include proposals to influence employers or advisers through regulation or legislation. Given the historic wider concerns raised related to these activities (including on market competition dynamics), the government will continue to liaise with the Financial Conduct Authority and the Competition and Markets Authority to consider any new evidence.

Chapter 3

Investment from Defined Contribution Schemes

3.1 The measures set out in Chapter 1 will ensure that DC pension providers are better placed to invest in a fuller range of asset classes, including specialist private markets such as venture capital, infrastructure, property and private credit.

3.2 The government notes that there is a growing awareness in the DC market about the benefits for savers of investing in these types of assets, not least to support diversification. The Pensions Regulator last year published guidance for trustees on how to build capabilities in these markets.

3.3 In addition to the potential saver benefits – as underlined by analysis published alongside the Interim Report – these sorts of investments can be a key source of funding for economically critical investments and sectors, including science and tech startups, pre-Initial Public Offering companies (that is, companies that offer a private sale of large blocks of stock before the shares are available on a public exchange), infrastructure projects and housebuilding.

3.4 Since the Interim Report, the government has been strongly encouraged by the recently launched Mansion House Accord, a voluntary commitment by seventeen of the largest defined contribution pension providers to invest 10% of their main default funds in private markets including 5% in the UK specifically.

3.5 The government welcomes this industry-led investment commitment and is encouraged that several providers have indicated ambitions to go further. In the light of this progress, the government has concluded it is not necessary currently to mandate investment.

3.6 Instead, the *Pension Schemes Bill* will include a reserve power which would, if necessary, enable the government to set quantitative baseline targets for pension schemes to invest in a broader range of private assets, including in the UK, for the benefit of savers and for the economy.

3.7 The government does not anticipate exercising the power unless it considers that the industry has not delivered the change on its own, following the Mansion House commitments. Moreover, it would only intervene in this way having made a thorough assessment of the potential impacts of any proposed quantitative targets on savers and economic growth.

3.8 The reserve power within the Bill will include provisions and safeguards to protect savers' interests. Any requirements under the reserve power will be consistent with the principles of fiduciary duty.

3.9 In combination, these industry-led changes, with the scale and consolidation reforms and broader cultural change, will drive meaningful changes in investment to benefit both savers and UK growth.

Asset Allocation Transparency

3.10 In order to monitor the impact of the scale and consolidation reforms on investment, it is essential that the government has access to reliable, granular data on investment patterns across the market.

3.11 The VFM Framework as proposed will, once implemented, require extensive public disclosures to be made by individual providers.

3.12 However, based on the expected legislative timetable, these disclosures will only begin to come through from 2028.

3.13 Ahead of VFM, TPR and FCA have decided to launch, later this year, a joint market-wide data collection exercise which will include asset allocation information in workplace DC schemes and is envisaged to run annually until the VFM disclosure data becomes available.

3.14 The exercise will request asset allocation information from major DC providers, broken down by asset class and sub-asset class, with UK-overseas splits, and the first reporting will be available in early 2026.

Listed Equity Markets

3.15 The Interim Report noted the government's concerns about the sustained decline in investment by UK pension funds in UK listed equities. The measures confirmed by the Review will help in a number of ways.

3.16 Firstly, the industry's new, ambitious voluntary commitment will directly support investment in UK growth markets, including firms quoted on AIM and Aquis.

3.17 The reforms will also improve access to domestic capital for the most promising, high-growth UK companies. This will improve the attractiveness of the UK as a place to start and scale-up and build a strong pipeline of firms eligible to publicly list in the future.

3.18 This will complement the government's efforts to boost the attractiveness of, and increase retail participation in, UK capital markets as part of the Financial Services Growth and Competitiveness Strategy - to support long-term sustainable growth and improve returns for savers.

3.19 Alongside this, the asset allocation transparency framework referred to above will shine a light on DC providers investment in UK equities.

Chapter 4

The Local Government Pension Scheme

4.1 The focus of the review for the LGPS has been to look at how tackling fragmentation and inefficiency can unlock the investment potential of the scheme, including through asset pooling and enhanced governance, while strengthening the focus on local investment. As one of the largest pension schemes in the world, set to grow to £1 trillion by 2040, it is critical that strong and sustainable foundations are embedded, in the best interest of scheme members, employers and local taxpayers.

4.2 Feedback to the consultation 'Local Government Pension Scheme (England and Wales): Fit for the Future' indicated a broad consensus across these three areas; on the need for minimum standards on asset pooling, on maintaining a focus on local investment and, also, enhancing the governance framework of the scheme. In particular, the clarity provided on the direction of travel was strongly supported.

4.3 The government's response to the consultation confirms that all the core proposals within it will be implemented and provides additional detail where respondents have requested clarity.

Minimum standards for asset pooling

4.4 The consultation response confirms the proposed minimum standards for asset pooling. The government will require that:

- all Administering Authorities (AAs) delegate the implementation of their investment strategy to, and take their principal investment advice from, their pool, and transfer all assets to the management of their pool; and
- the pools are established as investment management companies that are authorised and regulated by the FCA. Further, each will be required to develop the capability to carry out due diligence on local and regional investments and to manage such investments.

4.5 The consultation response confirms a March 2026 deadline for AAs and pools, which remain in their current partnerships, to meet these requirements. For those AAs seeking a new asset pool, and for pools taking on new partner AAs, the government expects the deadline to be adhered to as closely as possible with an aim to have shareholder agreements in place by March 2026, but will allow some limited flexibility where necessary, in recognition of the time required for this process to take place.

4.6 The consultation response provides additional detail where clarity has been requested, in particular, on the delineation of decision making between AAs responsible for setting the investment strategy, and the pool responsible for all implementation decisions, including the choice of active or passive managed investments.

4.7 Respondents to the consultation flagged two potential barriers to maximising the benefits of scale through asset pooling and collaboration across pools. Firstly, that Stamp Duty Land Tax has implications for transferring property investments from an AA to a pool investment vehicle where the seeding relief period for that vehicle has closed. The government acknowledges the concerns regarding Stamp Duty Land Tax and tax officials will engage with pools shortly to discuss this in further detail.

4.8 Secondly, that the Procurement Act 2023 prevents pools from collaborating to their full potential by requiring demonstration that a significant majority of a single pool's activity is in the interest of its own partner Authorities only. Government legislation should not act as a barrier to pool collaboration especially where it can benefit multiple groups of AAs. As such, the *Pension Schemes Bill* will include provision such that the relevant procurement exemptions are satisfied as long as a pool is acting in the interests of any LGPS AA. This means that a pool will no longer be limited when investing through another pool, thereby harnessing even greater benefits of scale.

Transition Proposals

4.9 Alongside the consultation, each pool was invited to submit a transition proposal on how they would seek to meet the minimum standards by the proposed deadline. In particular, the government requested consideration of where closer collaboration or merger of pools provides a more cost effective, viable or otherwise preferable means of delivering this outcome.

4.10 Following the assessment of pools' proposals and extensive engagement with each pool, the government has expressed support for six of those proposals, with specific consideration given to the circumstances of each. The AAs participating in the remaining two pools have been invited to engage with pools to determine which they wish to form a new partnership with, which the government stands ready to support.

4.11 The government recognises that this will be a substantial undertaking with impacts across the scheme, and that stability will be important for optimum performance and successful collaboration into the future. AAs and pools will need to consider carefully the decision to form a new long-term partnership, alongside capacity to deliver on the required minimum standards by the March 2026 deadline – this will be vital to delivering for members, employers and local taxpayers. The government is committed to the current reform programme and has no plans to intervene to reduce the number of pools to fewer than six.

4.12 The government's firm preference is for pool membership to be determined on a voluntary basis at a local level. In order to ensure the process of moving from eight pools to six does not result in any AA being without a pool, and to protect the scheme in the long term, the government will take a power in the *Pension Schemes Bill* to direct an AA to participate in a specific pool.

Local and Regional Investment

4.13 The track record of local and regional investment from the LGPS is a success story and one that the government is keen to build on. It is critical that the LGPS retains its local and regional focus, given its potential to drive growth in local communities. This will require productive and strategic partnerships across key institutions – to that end, the consultation response confirms a requirement for AAs and pools to work with local authorities, regional mayors and their strategic authorities, and Welsh Authorities to ensure collaboration on local growth plans. The National Wealth Fund will also collaborate with the LGPS to address access to finance gaps and support strategic objectives on growth and clean energy.

4.14 The consultation proposed that AAs be required to set out their approach to local investment, including by setting a target range for investment in their Investment Strategy Statement, and that AAs report annually on the impact of their local investments. In addition, the government proposed that AAs work with strategic authorities, or in Wales, corporate joint committees, to identify local and regional investment opportunities and that the due diligence is to be conducted by the pools.

4.15 Consultation responses indicated strong consensus for retaining and strengthening the scheme's focus on local investment with support for the collaborative approach proposed between AAs, pools and strategic authorities, in recognition of how pivotal these relationships are for driving local growth.

4.16 The consultation response confirms these proposals and, to foster collaboration, the requirement to work with strategic authorities has been broadened out to include the pools also. Further, to avoid potentially duplicative and burdensome reporting, the requirement to report on the impact of local investments will instead apply to the pools.

Governance

4.17 The consultation also proposed a series of reforms to enhance the governance of the LGPS, to implement recommendations from the Scheme Advisory Board's 2021 Good Governance Review.

4.18 The consultation additionally proposed that AAs participate in a biennial independent governance review and that AA pension committees must include an independent member who is a pensions sector professional, either as a voting member or in an advisory capacity. Recognising the feedback to the consultation and the principle of democratic accountability in the LGPS, the government has decided to amend the requirement for an independent member such that they act only as an independent adviser to the pensions committee, not as a voting member.

4.19 Feedback also highlighted that a biennial review would be misaligned with the three-year valuation cycle. This provision has therefore been amended to change the governance review to every three years.

4.20 For pools, the consultation proposed that pools are required to include either one or two representatives of shareholder AAs and sought views on the best way to ensure that members' interests are taken into account by pools. The consultation response does not impose a single model for how shareholders or scheme members are represented in their pool's governance, in recognition of the fact each partnership will wish to consider the governance structure that best meets the needs of their shareholders and scheme members.

Chapter 5

Boosting the UK's Pipeline of Investment Opportunities

5.1 To meet the investment ambitions of pension schemes, there needs to be a strong pipeline of opportunities across the UK to invest in.

5.2 For too long the supply of these opportunities has been limited by a restrictive investment environment, with barriers including the planning system, grid connectivity and regulation. There has been a lack of consistency over the government's approach to public investment; and a lack of capacity and support at local level to develop projects. Meanwhile, projects that do come through can be hindered by a lack of clear mechanisms across government to help crowd in capital and a lack of effective signposting from government.

5.3 The government has a major reform agenda to address these issues. These reforms will both boost the depth and volume of the pipeline of investment opportunities, underpinned by a competitive investment environment; and increase the visibility of these opportunities for investors.

Improving our investment environment

5.4 The government has restored political and economic stability through the actions taken at the Autumn Budget, fixing the public finances and introducing non-negotiable fiscal rules to maintain investor confidence. We also published a **Corporate Tax Roadmap** for this Parliament, committing to cap corporation tax at 25%, and retain generous capital allowances, including 100% full expensing for plant and machinery, and uncapped R&D tax credits.

5.5 The grid connections queue is being reformed to ensure projects have access to power when it is needed, while ensuring that new network infrastructure is built at pace to meet demand.

5.6 The government is going further and faster to reform the UK's regulatory architecture so it supports growth and innovation through our **Regulation Action Plan.** This will ensure regulators regulate for growth, not just for risk. The government has provided approval for **16 Nationally Significant Infrastructure Projects** since July 2024, including data centres, solar farms and wastewater treatment plants.

5.7 Access to finance is also being boosted through the **National Wealth Fund (NWF),** which, with its economic capital expanded to £7 billion, will now mobilise over £70 billion in private investment for the growth and clean energy missions and unlock projects that otherwise would not have commenced; as well as through the **British Business Bank (BBB),** which will help address finance gaps and crowd in investment into smaller and scale-up businesses.

5.8 A more competitive regulatory backdrop, underpinned by a stable economic policy, and with the infrastructure and improved access to finance, will raise the overall volume of investible projects coming through for private and local government pension funds to invest in. It will also provide the environment for high-potential firms to scale domestically.

Backing the builders – a new approach to infrastructure

5.9 Infrastructure is an asset class where returns are closely aligned with the long-term liabilities of pensions funds. However, over several years uncertainty about infrastructure plans and policy has inhibited investment in programmes and supply chains. The government is therefore adopting a new approach to delivering infrastructure, enabling us to meet the UK's housing, transport, energy and other economic infrastructure needs.

A long-term approach to infrastructure investment

5.10 First, the government has committed to increase public capital investment over the Parliament by £113 billion. The changes to the Fiscal Framework announcement at Autumn Budget 2024 will enable the government to invest in the UK's infrastructure over the long-term and crowd in private sector capital to develop and deliver the projects needed to boost growth.

5.11 **The 10 Year Infrastructure Strategy**, which will be published alongside the spending review in June, will provide longer term certainty over infrastructure plans and objectives. As part of this, the government has committed to delivering an infrastructure pipeline with a ten-plus year horizon, providing certainty to investors.

5.12 The Strategy will be supported by stable institutional arrangements including longer capital budget allocations at spending reviews, and the establishment of the **National Infrastructure and Service Transformation Authority**, to support delivery.

5.13 Infrastructure delivery is being supported by the most ambitious planning reforms in a generation, including through the commitment to approve 150 Development Consent Orders by the end of the Parliament and changes to the National Planning Policy Statement. These reforms to the planning process will make it easier to navigate and reduce the time required to get projects off the ground.

5.14 **The Planning and Infrastructure Bill** is a step-change in the approach to cutting red tape and accelerating development, by streamlining the Nationally Significant Infrastructure Projects consenting regime and simplifying parts of the planning system that are notorious for holding up projects. Local authorities are also being equipped with the resources they need to deliver an efficient and predictable service to developers and investors.

Housing

5.15 The government has committed to supporting the building of 1.5 million homes by the end of this Parliament, presenting investible opportunities for pension funds. The government will also publish a **Long-Term Housing Strategy** and set out further details of government investment in social and affordable housing at the Spending Review. The government will also provide certainty for a next generation of new towns - a transformative programme of building.

Transport

5.16 **Air Travel** – This includes inviting proposals for a third runway at Heathrow, plans for the expansion of Luton Airport have now been approved, and a final decision on a second runway at Gatwick is due in October. The government is also supporting the Mayor of South Yorkshire's efforts to create a sustainable aviation hub. To both ensure growth and meet climate obligations, the government is also creating investment opportunities in aviation decarbonisation, investing nearly £1 billion in research and development for efficient and zero-emission aircraft technologies.

5.17 **TransPennine Route Upgrade** – The government remains committed to delivering the TransPennine Route Upgrade, which will enhance rail connectivity between York, Leeds, Huddersfield, and Manchester. This represents the largest rail infrastructure investment in the North of England in decades.

5.18 **Euston** – HS2 trains will run to Euston, with funding provided for tunnelling to the central London terminus. This investment will catalyse private investment into the station and local area, including through the Euston Housing Delivery Group, which is delivering ambitious housing and regeneration initiatives.

5.19 **Lower Thames Crossing** – Planning consent has been granted after years of delay. The government is looking to bring private sector finance and expertise into the project. Subject to the Spending Review, investors will be engaged in due course.

Energy

5.20 Ambitious but achievable goals have been set for decarbonising the power sector by 2030 and accelerating net zero. **Clean Power 2030** will require significant investment throughout the energy sector. The government will work to deliver an estimated £40 billion investment per year between 2025-2030. This demands working in tandem with the private sector to deliver unprecedented levels of clean infrastructure. Planning and grid connection reforms will provide greater certainty to projects and speed up delivery.

Backing our corporates and growth sectors

5.21 The **Industrial Strategy** is the government's plan to back investment in sectors which offer the highest growth opportunity. In October 2024, eight growth-driving sectors were set out: advanced manufacturing, clean energy, creative industries, defence, digital and technologies, financial services, life sciences, and professional and business services. Government support for these industries will help create a supply of investment opportunities across both greenfield projects and high-potential scale-ups.

5.22 The Industrial Strategy is due to be published this Summer and will set out how both government and industry are tackling barriers to growth in these sectors.

5.23 The government recognises the role it can play in enabling investors to take advantage of opportunities across these sectors. It is doing this through innovative financing mechanisms, delivered through the NWF and the BBB. Initiatives such as the **Long-term Investment for Technology and Science (LIFTS)** programme. LIFTS was designed to establish new funds or investment structures that attract institutional investment, particularly from Defined Contribution pension schemes, to support the growth of the UK's most innovative science and technology companies.

5.24 As part of raising visibility of investment opportunities to the pension sector, the BBB is also establishing the **British Growth Partnership (BGP).** This is a commercially driven investment vehicle designed to attract institutional capital, including pension funds, into venture capital funds and innovative businesses. Backed by a cornerstone government investment, BGP will leverage the BBB's position as the largest domestic investor in UK venture to provide access to a diverse pipeline of high-growth UK companies. This vehicle creates a clear pathway for pension funds to invest confidently in the UK's growth sectors. London CIV has become the first LGPS pool to announce its intention to work with the BBB on the launch of the BGP, joining Aegon UK and NatWest Cushon, who last year announced their intention to collaborate on the BGP.

Empowering our regions to boost investment

5.25 The government is working hand in hand with Mayoral Strategic Authorities (MSAs), local leaders and the devolved governments to support investment across all regions and to ensure all parts of the UK feel the benefits of growth.

5.26 The **Local Government Pension Scheme in England and Wales (LGPS)** is leading by example – its track record of regional investment is a success story and one that the government is keen to build on. The move to fewer, larger LGPS asset pools will make collaboration between the LGPS and private pension funds easier, crowding in a wider range of capital to local and regional projects.

5.27 This is supported by the government's plan to widen and deepen devolution by providing more powers and responsibilities to MSAs in England. **Local Growth Plans** are a key part of this, setting out how MSAs are using their devolved levers to drive growth – coordinating efforts across public and private sectors to do so. Following the publication of the White Paper the government will also introduce the **English Devolution Bill** to enact a generational transfer of power to our regions covering economic development, housing, employment and skills, transport and more.

5.28 The NWF will support these plans, including in partnership with the LGPS. It will play a role in supporting local government with early-stage project development to drive forward local growth.

5.29 The government is also identifying key industrial clusters across the country, building on existing Freeports and Investment Zones to channel investment into key sectoral and place-based opportunities across the country. These include AI Growth Zones and the Oxford-Cambridge Growth Corridor.

AI Growth Zones

5.30 As part of the UK's **AI Opportunities Action Plan** to build on the UK's status as the third largest AI market in the world, the government is establishing AI Growth Zones (AIGZs) which will accelerate the development of the UK's AI infrastructure. AIGZs will be underpinned by partnerships between central government, local areas, and the private sector, driving long-term investment into the infrastructure, energy and R&D capabilities needed to support a future AI-enabled economy. A pipeline of investment opportunities is in development, with details to be set out in due course.

Oxford-Cambridge Growth Corridor

5.31 The Oxford-Cambridge Growth Corridor's expertise in life sciences, artificial intelligence, manufacturing and technology will be leveraged to become a world leading growth hub and a key centre for British innovation.

5.32 The government's approach includes improving connectivity through projects such as **East-West Rail**, which will link Oxford and Cambridge in just 90 minutes, unlocking new opportunities for businesses, and leveraging planning changes to support significant new settlements.

5.33 Since announcing its support of the corridor, the government has already moved forward with key opportunities, including the Luton Airport expansion, and a partnership with ComCast to bring forward a Universal Studios theme park near Bedford, creating over 20,000 jobs and catalysing further investment. Investable opportunities in the region will encompass both specific sites or businesses, where knowledge transfer or specific return on infrastructure investment is required, as well as opportunities to package up broader opportunities into funds for investors to access.

Increasing visibility through the Office for Investment

5.34 The Office for Investment (OfI), established in 2020 to improve the government's ability to land the most strategically important investments for the UK, has been expanded to service a broader range of investors and coordinate investment activity across government. The OfI reports directly to the Minister for Investment and is jointly sponsored by the Department for Business and Trade, Number 10 and the Treasury.

5.35 The OfI is equipped with the commercial capability to expand its proactive approach to attracting investment to the government's priority areas. These functions include enhanced relationship management for major capital investors, including pension funds, and a new business development unit which will work closely with stakeholders on the ground to help shape projects and connect propositions to investors.

5.36 The OfI's unique position as a bridge between central government, capital investors and the local level will allow it to act as an investment 'broker', helping to match key transformational investment opportunities to global pools of capital. It will leverage its insight into central government priorities, commercial relationships and understanding of market interests, and visibility across the landscape of opportunities across the UK, to curate a pipeline that includes a range of opportunities and asset classes according to investor demand.

Chapter 6

Beyond the Investment Review for Private Pensions

6.1 Through automatic enrolment, there are more people than ever saving for their retirement and an increasing number of people retiring solely with DC savings. This means that the private pensions systems and schemes need to be set up to deliver for their members, allowing them to accumulate savings, secure strong returns, and eventually use the resulting savings to provide an income in retirement.

6.2 Together with the other measures to be legislated in the *Pension Schemes Bill*, the reforms set out in this Report will help savers achieve these goals.

6.3 Now that the Pensions Investment Review has concluded, the next phase of the Pensions Review will build on this foundation and explore longer term challenges around retirement adequacy and outcomes. The success of Automatic Enrolment and a simplified, fairer, and more accessible new State Pension means that the foundations of the pensions system have been strengthened, however, further work is required to rebuild the pension system. Systemic issues around adequacy currently mean millions are under-saving for their retirement, and deep inequalities persist.

Annex

Impact Assessment Summary

Mansion House Accord

A.1 The 17 signatories of the Mansion House Accord, accounting for around 90% of active DC savers, have estimated that £252 billion worth of assets are currently in scope of the pledge[1].

A.2 It is estimated, if all signatories meet the commitments of the Accord, it will unlock around £50 billion of additional private market investment (of which over £25 billion is in the UK). The derivation of this estimate is outlined below:

- As the Accord is due to be met by 2030, this starting in-scope AUM of £252 billion is projected to 2030 based on historical Master Trust growth rates (average over the last 5 years[2]). This is halved to reflect a maturing market and the fact GPPs may be growing more slowly. This results in **an annual assumed growth rate of assets of 17%.** This is also broadly consistent with average investment returns (around 8%) and contribution levels entering the DC market[3].
- To reflect further consolidation in the pensions market driven through the investment review and the *Pension Schemes Bill* **an additional £60bn is added into the 'in-scope assets' projection from 2027-2029** (in £20bn increments).
- This means it could be expected around **£735 billion** worth of assets are in-scope of the Accord by 2030 (nominally).
- It is currently estimated that the DC market allocates 3.5% of assets to the private market asset classes covered by the Accord[4]. In the baseline scenario (without any change), this would mean the £735 billion in-scope market size would allocate £26 billion to private markets. It is also estimated that 40% of these existing private investments are 'UK-based'[4], this would mean £10 billion worth of UK-based private investment in a baseline scenario.
- The success of the Mansion House Accord would instead mean at least 10% of in-scope assets are allocated to private markets. This would mean

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1 https://www.gov.uk/government/news/pension-schemes-back-british-growth

2 Based on TPR DC scheme assets data

3 Around £60bn is saved into annual private-sector schemes, for example, from an industry AUM of around £600bn.

4 https://assets.publishing.service.gov.uk/media/673f3ca459aab43310b95a8d/pension-fund-investment-uk-economy.pdf

the £735 billion worth of assets allocated £74 billion to private markets, **£48 billion higher than the 'baseline' scenario**.

- In addition, 5% of assets would be allocated to UK-based private market investments, resulting in £37 billion worth of UK-based private investment, **£26 billion higher than the baseline scenario**.

Table A.1 – estimated additional investment from the Mansion House Accord

£bn (cash terms)	Private Market Investment	... of which UK-based
Baseline	£26	£10
With Accord	£74	£37
Additionality (impact)	**+£48**	**+£26**

LGPS Local Investment

A.3 The LGPS is expected to reach £550 billion AUM by 2030[5]. If 5% of this is invested locally[6] it would **secure £27.5 billion for local investment by 2030.**

A.4 Using the estimate of LGPS reaching £550 billion by 2030, if LGPS funds were to increase their allocations to local investment by 1%, this would result in an **additional £5.5 billion invested locally by 2030.**

UK Investment

A.5 Combining the LGPS' potential £27.5 billion of local investment with the Mansion House Accord's success estimated at £26 billion of UK investment, **this could secure an estimated £53.5 billion (over £50 billion) of investment in UK infrastructure, new homes and fast-growing businesses by 2030.**

Cost savings

A.6 **A range of evidence suggests scale could deliver over 10 basis points reduction in fees.** This is derived from a number of sources:

- The Pensions Investment Review consultation responses suggested consolidation of pension providers could lead to reduced charges by up to 10-20bps over the longer term.

- DWP charges survey shows around 12bp difference in charges between smallest and largest GPP/MTs[7].

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5 Estimates from the Government Actuary's Department (GAD), taking into account expected contribution rates and estimated returns, puts the size of the LGPS at £550 billion AUM by 2030.

6 In line with current MHCLG estimates of LGPS local investment.

7 https://www.gov.uk/government/publications/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes/pension-charges-survey-2020-charges-in-defined-contribution-pension-schemes

- People's Partnership research, conducted by Toby Nangle[8], found:
    - Internalising investments could save members hundreds of millions a year with "nearly £1bn in potential fee savings available".
    - Australia had around 12bp cost reduction through scale, based on CEM benchmarking data.

A.7 Taking a "top down" approach. If the overall DC market is estimated to be around £800bn-£900bn (current earnings terms) by 2030[9], then a 12bp reduction in cost applied to £800bn industry would result in a £960m saving in 2030. This is likely an 'upper bound' estimate as it assumes gains are made across the entire market.

A.8 Further analysis on the cost and benefits across the measures from the Pensions Investment Review and other measures in the Pension Schemes Bill will be produced as part of the Bill Impact Assessment.

Member Benefits

A.9 To examine the impacts of the Pensions Investment Review measures, DWP's iPEN case study has been analysed to present an illustrative case study of the potential benefit of the measures on an average earner. This is helpful to demonstrate the potential benefit of the measures. But it is important to recognise the actual benefits will differ for all savers and may be higher or lower – this estimate is based on a given set of assumptions.

A.10 Measures in the Pension Schemes Bill aimed to build scale by the creation of DC Megafunds should drive significant efficiencies and reductions in costs. This is evidenced through industry engagement and feedback, along with looking at international costs charged by large pension schemes. Combining this quantitative and qualitative evidence gives an indicative estimate **supporting a 6-basis point reduction in fees.**

A.11 As outlined in the cost savings, this could be greater; though not all of the benefit may be passed onto the member. In addition, the development of scale should increase investment in productive assets, offering a diversification benefit. Past evidence from DWP/Government Actuary's Department (GAD)[10] has highlighted that higher allocations to private markets may result in a modest uplift to pension pots. This is estimated as a 2% uplift to the final pension pot, reflecting returns and diversification benefits. This could be greater; depending on the level of investment made and returns seen.

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8 https://peoplespartnership.co.uk/media-centre/press-releases/workplace-pensions-industry-could-save-hundreds-of-millions-of-pounds-in-private-market-fees-new-report/

9 For example: https://www.gov.uk/government/publications/trends-in-the-defined-contribution-trust-based-pensions-market/trends-in-the-defined-contribution-trust-based-pensions-market; and https://www.pensionspolicyinstitute.org.uk/media/hbrgvfw5/20240926-the-dc-future-book-2024-final.pdf

10 https://www.gov.uk/government/publications/pension-fund-investment-and-the-uk-economy/pension-fund-investment-and-the-uk-economy

A.12 The case study presented below is for an average (median) earning male, saving into a DC pension, who is 22 and works/saves their entire career until State Pension age (see list of full assumptions below). The benefits outlined are phased in over 5 years. This highlights that an average earner, entering the labour market this year, could see an increase in their pension pot at retirement when saving over a career by around £6,000. This would be further increased when considering the wider Pension Schemes Bill measures, as will be outline as part of the *Pension Schemes Bill* Impact Assessment.

Table A.2 – estimated impact of Pensions Investment Review measures on average pension pots

Median earning male **Aged 22 (born 2002)**	**DC Pension Pot**	**Change**
Under current AE conditions	£163,600	
Decrease costs by 0.06ppts (Megafunds)	£166,200	+£2,500
Diversification benefits from wider asset classes (2% uplift)	£169,500	+£3,300
Pension Pots after all the reforms	**£169,500**	**+£5,900**

Box 1.A IPEN 2024 Core Assumptions

The following key assumptions have been made when calculating these case studies. The modelling is known to be sensitive to assumptions made about future economic determinants and the methodology used. The model baseline assumptions are:

a. Each individual saves into a defined contribution scheme with an annual management charge of 0.3% and a contribution charge of 1.8%.
b. Each individual contributes 5% and their employer contributes 3% within qualifying earnings bands.
c. Each individual's fund is invested in 88% equities and 12% bonds with real fund growth of 4.07% and 2.39% respectively.
d. Each individual retires at 68.
e. The automatic enrolment earnings trigger, lower earnings limit and upper earnings limit are frozen until 2028 and then increase in line with earnings over the long-term.
f. Each individual does not opt-out of pension saving.
g. Each individuals' earnings increase in-line with average earnings growth. The final pension pot size is reported in 2024/25 earnings using the Average Weekly Earnings growth deflator.
h. Earnings in the first-year of employment are increased in line with average earnings growth.
i. The median annual salary for a female working full-time is £31,672 (Source: ASHE 2024)
j. The median annual salary for a male working full-time is £37,382 (Source: ASHE 2024)

Number of Megafunds

A.13 Estimating the number of Megafunds is challenging and will depend on future growth across providers and the interactions with other measures.

A.14 Currently, it is estimated around 5-10 private DC pension providers may have over £25bn in AUM using data from Corporate Adviser and Go Pensions. Using historical trends of AUM growth across the market, it is projected there may be around 10-15 DC Megafunds by 2030 and around 15-20 by 2035.

A.15 In addition, LGPS reforms will see assets currently split over 86 administering authorities and 8 pools consolidated into just 6 pools.

A.16 Combined, **these changes are set to increase the number of Megafunds from 10 to over 20 within the next decade.**

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk