

Council pension assets should be funding solution to UK's affordable housing crisis, Localis recommends

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Ministers should set up investment vehicles and give clear support and incentives to harness the significant £392bn worth of assets held across the Local Government Pension Scheme (LGPS) to address the UK's chronic underinvestment in affordable and social housing, a new report by the think-tank Localis has urged.

In a report published today entitled “**New Stable: expanding and reforming the role of the LGPS in driving affordable housing**”, Localis makes an evidenced case that institutional investment in affordable and social housing would boost social prosperity and national economic growth in a way that aligns with the long-term nature and ethical principles of town hall pension funds.

The report highlights the government's ongoing reforms to the LGPS, including the push for "megafund" pools, to enhance investment in UK growth-related assets, and also notes the substantial aggregate surplus currently held by LGPS funds in England and Wales.

Drawing attention to the government's focus on housing delivery and increasing institutional investment, the paper outlines key recommendations for creating the right conditions to channel LGPS funds into a crucial sector where underinvestment and underfunding are a serious impediment to national growth plans.

Among the key recommendations in the ‘New Stable’ report, Localis calls for the:

- **Reclassifying social housing as national infrastructure:** The government should consider **reclassifying social housing as significant national infrastructure** to unlock more capital funding and align it with other priority investments. This would bring social housing under the remit of NISTA and the government's 10-year infrastructure strategy, and potentially extend the mandate of the National Wealth Fund (NWF) to include it.
- **Strategic use of pension surpluses:** When contribution rates are lowered due to pension fund surpluses, local authority employers could be **mandated to allocate a proportion of these savings towards their capital spending budgets**.
- **Strategic alignment through Local Growth Plans:** Statutory local growth plans and spatial development strategies should **effectively outline housing investment opportunities and align with LGPS local investment strategies**, requiring sufficient central government support and resources. Collaboration between strategic authorities, housing associations, and regional Homes England teams is essential. Prospectuses must offer clear incentives to make these investments attractive to LGPS funds while respecting fiduciary duty.
- **Enhanced guidance and support for LGPS investment:** Central government should provide **explicit guidance to LGPS fund managers on local housing investment**, ensuring it aligns with their fiduciary duties. The government should also promote metrics that evaluate the **broader social and environmental impact of these investments** alongside financial returns.
- **Optimizing the LGPS pooling process:** The government should consider **extending the LGPS pooling deadline to 2027** and offer clear guidance linking investments to national missions, emphasizing social returns. A review of current allocations towards social and affordable housing within individual funds and guidance on pooling illiquid assets is also recommended. Furthermore, the new LGPS investment pools should be encouraged to **inform scheme members about the social impact of their investments**.
- **Central oversight by Homes England:** Homes England is well-positioned to provide **central oversight of the national affordable housing development pipeline**, potentially packaging it into a more attractive investment proposition for institutional investors. Homes England should also offer investment expertise to LGPS pools to encourage more diverse housing investment strategies.

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Localis head of research, Joe Fyans, said: “By implementing these recommendations, the ‘New Stable’ report argues that the LGPS can become a pivotal source of patient capital, contributing significantly to alleviating the housing crisis, supporting local economic development, and fostering national economic growth.

“The challenge lies in ensuring the right incentives and strategic tools are in place for all involved parties to deliver meaningful and impactful outcomes.”

Steve Simkins, public services leader, Isio, said: “These recommendations recognise that the LGPS is part of the wider local government ecosystem in which social housing plays a crucial part.

“They encourage integrated approaches and solutions to both LGPS investment and funding to be found at a time when the government needs to make the best use of available resources.

“The current LGPS surplus presents a unique and unexpected opportunity to drive affordable housing growth at a crucial time for the UK. The scenario of some council revenue savings being directed to removing barriers to housing development, as the LGPS becomes more adept at local investment, presents a solution which can benefit our society as a whole .”

Adele Gritten, chief executive, Local Partnerships, said: “Affordable housing is a priority for both central and local government.

“Local Partnerships is delighted to support this timely report that offers practical ways to unlock investment from the Local Government Pension Scheme, enabling local authorities to take a leading role in tackling the housing crisis and supporting national growth.”

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Notes to Editors:

- 1. An advance copy of the report is available for download:**

1. About Localis

Localis is an independent think-tank dedicated to issues related to politics, public service reform and localism. We carry out innovative research, hold events and facilitate an ever-growing network of members to stimulate and challenge the current orthodoxy of the governance of the UK.

www.localis.org.uk

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About Isio

Isio is a leading independent UK provider of actuarial & consulting, pensions administration, investment advisory, employee reward & benefits and wealth advisory services. With a national team of 1,200 people across ten UK offices, Isio is committed to promoting financial wellbeing for all and works with

companies, trustees and individuals to help them make informed decisions to protect their financial future. For more information, please visit <http://www.isio.com>

About Local Partnerships

Local Partnerships is an in-house public sector consultancy jointly owned by the LGA, HM Treasury and Welsh Government. We work solely for central government departments, the Welsh Government, councils and combined authorities.

Local Partnerships delivers value and efficacy for the public purse. As a key interface between local and central government, we provide expert advice and practical resources alongside project and programme delivery support, enabling public services to thrive.

Whether supporting and accelerating the delivery of major infrastructure, tackling climate challenges through waste efficiency and renewable energy propositions through to wider place-making initiatives, we help transform services across the public sector ecosystem.

1. New Stable Recommendations

1. Maximising the value of LGPS investment and responding to the surplus

- To ensure the pooling process is carried out with maximum efficacy and impact, government should extend the deadline to 2027 and provide clear guidance for investments which are linked with national missions and highlight the importance of social returns.

- ° New guidance and regulations should take an open-minded view on the LGPS surplus and lower contributions. Central government must offer explicit guidance to LGPS fund managers on how they can invest locally in housing while still fulfilling their fiduciary responsibilities, including a distinction between required assets and surplus assets. This should reassure them that local investment in well-structured projects is compatible with their duties.

- ° Central government should promote the use and development of metrics that properly evaluate the broader social and environmental impact of investments in social and genuinely affordable housing, alongside financial returns on fund assets.

- ° As part of the accelerated pooling process, government should review the allocations individual funds currently hold towards social and genuinely affordable housing in the UK, as well as providing guidance on the pooling of illiquid assets in general.

- ° A deferral of the pooling until 2027 would allow pension funds to prioritise the 2025 actuarial valuation into decisions on employer contributions and investment risks in 2025/26.

- ° The LGPS pools should be encouraged to hold information sessions with their scheme members and scheme employers about the social impact of their funds investment and their maintenance of fiduciary duty.

- In the case of a pension fund choosing to lower its contribution rates in order to provide cash savings for its employers, local authority employers could be mandated to use a proportion of the savings made from contribution reductions as a revenue contribution to capital expenditure. This proportion should be calculated based on the rate of contribution reduction, so that administering authorities will still be incentivised to cut rates and make initial cash savings, but those that are enjoying larger funding surpluses will be able to divert cash into more upstream investments.

1. Unlocking social and genuinely affordable housing investment

- The government should consider the case for reclassifying social housing as significant national infrastructure to unlock more capital funding and align it with other priority infrastructure investments.

- ° The provision of social housing would therefore fall under the remit of NISTA and the government's 10-year infrastructure strategy.

- ° The National Wealth Fund should also have its mandate extended to include the provision of social housing as significant national infrastructure.

- To make sustained investment in new development possible, government must also provide a long-term deal for the financing of capital backlogs in the local authority HRAs and Housing Associations.

° The capital works backlogs faced by local authorities and Housing Associations stands as a major barrier to investing in new social and genuinely affordable housing. Establishing a long-term financing arrangement as a means of alleviating rising maintenance and service costs, or protection from inflationary pressures on existing developments, could ensure that institutional investors do not neglect their physical assets.

- Policy should encourage and facilitate the creation of joint ventures and partnerships between local authorities, housing associations, LGPS pools and others to develop housing projects, sharing risks and expertise.

° In the case of an administering authority diverting capital into either a Special Purpose Vehicle earmarked for housebuilding or a joint venture scheme, then all parties involved need to have the stability that will only exist if the administering authority has the capacity to engage with expert insight. Consequently, the success of any initiative which requires administering authority involvement will rely on sufficient capacity funding.

1. Creating a pipeline

- Government should actively work to help local authorities and housing associations create credible and scalable pipelines of social and genuinely affordable housing projects that meet the investment criteria of institutional investors like LGPS funds. This includes addressing issues of local authority capacity.

° In order to manage the risk/return profile of affordable housing investment, there is a role for central government to extend grant provision for affordable housing development beyond its current commitments, with grants available for all stages of development, from pre-planning to construction.

° A regulatory tie-in for stakeholders in affordable housing developments will be required to ensure that ownership means responsibility, especially in the case of ongoing maintenance needs.

° Maintaining high standards in the social housing sector through well-funded regulation is crucial for LGPS funds to have confidence that their investment will lead to positive social outcomes.

- The government should ensure that statutory local growth plans and spatial development strategies produced by strategic authorities effectively align and synchronise an infrastructure pipeline and align with LGPS local investment strategies. These plans need sufficient central government support and resources to be credible and effective.

° Collaboration between strategic authorities, housing associations and regional Homes England teams will be essential in developing credible strategies.

° Given that social and genuinely affordable housing may offer lower returns compared to other real estate assets, prospectuses must provide clear incentives and support mechanisms, lowering risk and making these investments more attractive to LGPS funds while respecting their fiduciary duty.

- Homes England is positioned well to provide central oversight of the national affordable housing development pipeline. As such, it could feasibly package the affordable housing offering across the nation into a single, or at least less fragmented, investible proposition, which would leverage its scalability to provide an attractive environment for the involvement of institutional investors.

° Homes England should also offer investment expertise, or otherwise, resourcing to encourage in-house expertise in LGPS pools, with the goal of encouraging pool decision-makers to take on more diverse investment strategies for housing – such as thinking about the potential for investing in hybrid property funds, or models with different durations of asset ownership.

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