EXPLANATORY MEMORANDUM TO

THE LOCAL GOVERNMENT PENSION SCHEME (POOLING, MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2026

2026 No. 544

1. Introduction

1.1 This Explanatory Memorandum has been prepared by the Ministry of Housing, Communities and Local Government (MHCLG) and is laid before Parliament by Command of His Majesty.

1.2 This memorandum contains information for the Joint Committee on Statutory Instruments.

2. Declaration

2.1 Alison McGovern MP, Minister of State for Local Government and Homelessness at MHCLG confirms that this Explanatory Memorandum meets the required standard.

2.2 Michelle Warbis, Deputy Director for Local Taxation and Pensions at MHCLG confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Rachel Howcroft at MHCLG can be contacted by email at the following address with any queries regarding the instrument: lgpensions@communities.gov.uk. Alternatively, the department can be contacted by telephone: 0303 444 0000.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 The instrument makes changes to the way that investments are managed in the Local Government Pension Scheme in England and Wales (the LGPS). It introduces requirements for all LGPS administering authorities to participate in an asset pool company, for all LGPS investments to be managed by an asset pool company, for asset pool companies to be authorised by the Financial Conduct Authority, and for LGPS administering authorities to set an investment strategy for their fund which is to be implemented by their asset pool company. The instrument also requires LGPS administering authorities to cooperate with strategic authorities to identify and develop local investment opportunities, and requires them to have regard to local economic priorities when setting their investment strategy.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales.

5. Policy Context

What is being done and why?

5.1 The LGPS is a funded defined benefit pension scheme that is administered locally by 86 administering authorities. Since 2015 these administering authorities have begun to move towards managing their investments through asset pools. These asset pools have been set up with differing operating models and administering authorities vary in the degree to which their assets are under the management of their pools.

5.2 The measures introduced by this statutory instrument are designed to increase the consolidation of investment in the scheme in order to harness the benefits of scale. These benefits include greater economies, efficiencies and reduced risks, as well as greater expertise and diversification in investments which can deliver better long-term returns to the benefit of taxpayers. The measures also aim to increase the resilience of the scheme and put it on the strongest possible footing for the future.

5.3 This instrument achieves this consolidation by making it mandatory for all LGPS investments to be managed by asset pool companies. The role of administering authorities in the management of investments is limited to a strategic one, setting the investment strategy for the fund in the interests of scheme members and employers. The implementation of that investment strategy is fully delegated to the asset pool, allowing for streamlined decision making and reduced duplication.

5.4 Asset pool companies will be established on a consistent basis, being required to be authorised and regulated by the Financial Conduct Authority (FCA). This enables pools to provide in-house expertise, capacity and resilience on a non-profit basis and to develop in-house investment management to reduce costs. FCA authorisation and supervision will also provide vital assurance to members and employers that very large pools of capital are being properly managed.

5.5 Direction powers are included in the regulations in order to ensure the Secretary of State is able to fulfil their stewardship role in relation to the scheme.

What was the previous policy, how is this different?

5.6 Under previous policy, asset pooling was on a non-statutory basis, albeit strongly encouraged by government. Asset pools were allowed to set up using operating models of their choice, with some becoming authorised investment management companies in their own right and others outsourcing all investment management to external providers.

5.7 Administering authorities have differed in their commitment to asset pooling. Many retained significant control of the implementation of their investment strategy, which has led to asset pools developing large numbers of sub-funds for administering authorities to choose between, significantly undermining the benefits of scale that can be derived from consolidating investments. Many administering authorities also continued to make new investments outside their pool.

5.8 By requiring all LGPS assets to be managed by asset pool companies and clearly delineating the roles of administering authorities and asset pool companies in managing investments, the current policy will significantly increase consolidation of LGPS investments. This is expected to bring significant value for money benefits and make the scheme more resilient for the future. It will also ensure that the significant assets of the LGPS, worth £402 billion at 31 March 2025, are appropriately managed by professional investment management companies regulated by the FCA.

5.9 There was no prior policy on local investment in the LGPS. The measures aimed at supporting local investment by the LGPS have been introduced to ensure that the scheme retains and builds upon its track record of investing in local communities with the move to asset pooling. The locally managed nature of the scheme gives the LGPS potential to make a distinctive contribution to UK and local economic growth. By strengthening the relationship between the LGPS and strategic authorities and requiring investment strategies to have regard to local growth plans the measures to maximise the role the scheme plays as an institutional investor in local regions and communities.

6. Legislative and Legal Context

How has the law changed?

6.1 The instrument relies on powers to make "scheme regulations" (regulations about the LGPS) in the Public Service Pensions Act 2013, and powers in the Pension Schemes Act 2026 for regulations to make provision about asset pool companies and participation in them by administering authorities (which are the "Scheme managers" for the purposes of those Acts). The instrument revokes the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 – replicating (with minor tweaks) the provisions in regulations 3 to 6 of those regulations and replacing the remaining provisions with the policy changes outlined above.

6.2 The instrument is being laid at the same time as Local Government Pension Scheme (Amendment) (Governance) Regulations 2026, which amend the Local Government Pension Scheme Regulations 2013.

Why was this approach taken to change the law?

6.3 The option of amending the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 was considered, however the legislative changes required were substantial enough that revoking these and replacing them with a new free-standing instrument was considered more appropriate.

7. Consultation

Summary of consultation outcome and methodology

7.1 A public consultation on the policy proposals[1] was open between 14 November 2024 and 16 January 2025. The government's response[2] was published on 29 May 2025.

7.2 In accordance with section 21 of the Public Service Pensions Act 2013 the Secretary of State subsequently consulted on the content of the regulations[3]. The consultation

[1] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/local-government-pension-scheme-england-and-wales-fit-for-the-future. Hard copies are available on request from the Ministry of Housing, Communities and Local Government, 2 Marsham Street, London, SW1P 4DF.

[2] https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-fit-for-the-future/outcome/local-government-pension-scheme-england-and-wales-fit-for-the-future-government-response. Hard copies are available on request from the Ministry of Housing, Communities and Local Government, 2 Marsham Street, London, SW1P 4DF.

[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-in-england-and-wales-fit-for-the-future-technical-consultation/local-government-pension-scheme-in-england-and-wales-fit-for-the-future-technical-consultation. Hard copies are available on request from the Ministry of Housing, Communities and Local Government, 2 Marsham Street, London, SW1P 4DF.

was open to the public from 20 November 2025 to 2 January 2026. Responses were accepted via MHCLG's consultation platform Citizen Space or via email.

7.3 Ninety responses were received, of which sixty-four were from LGPS administering authorities, eight from the LGPS asset pools, eight from consultancy or advisory firms, five from industry bodies or LGPS specialists, three from LGPS employers, one from the LGPS scheme advisory board, and one from a mayoral combined authority.

7.4 The main concerns raised were around the deadlines for pension fund assets to be under the management of their asset pool companies, for administering authorities to publish their first investment strategy for their fund, and the time allowed for administering authorities to participate in more than one asset pool company when moving pool. Concerns were also raised about the requirements in the consultation draft of the instrument for asset pool companies to hold specific authorisations from the FCA. The timings have been extended and a different approach taken to authorisation by the FCA in the final version of the instrument in response to these concerns

7.5 The government response to the consultation will be published alongside the laying of the regulations, and available on the consultation webpage[3].

8. Applicable Guidance

8.1 Two pieces of guidance will be published in advance of the coming into force of these Regulations. The first of these are the 'Guidance on preparing and maintaining an investment strategy statement', which will replace the guidance published in September 2016 and revised in July 2017. The second is the 'Guidance on asset pooling', a new piece of guidance for LGPS administering authorities and asset pool companies.

8.2 The 'Guidance on preparing and maintain an investment strategy statement' explains how administering authorities should prepare, publish, implement and keep under review their Investment Strategy Statement (ISS) in line with Part 4 of the statutory instrument. It sets out the respective roles of administering authorities and asset pools and what the strategy should cover. The guidance also provides guidance on the approach to setting and delivering responsible investment and local investment objectives, and covers the ability if the Secretary of State to direct an administering authority to comply with the guidance.

8.3 The 'Guidance on asset pooling' sets out how administering authorities and LGPS asset pool companies are expected to operate under the new pooling framework, including expectations on administering authorities to adequately resource the pools, the respective roles of administering authorities and pools in managing assets, and the governance of the pools. The guidance covers the provision of strategic investment advice by the pool and the circumstances in which it may be appropriate for administering authorities to take supplementary advice from elsewhere. It provides further detail on expectations on local investment, sets out reporting requirements for asset pool companies, and explains how and when the Secretary of State may use direction powers where necessary, including directing compliance with the guidance.

8.4 Drafts of both pieces of guidance were shared with the LGPS Scheme Advisory Board and with all LGPS administering authorities and asset pool companies during their development. Once finalised, both pieces of guidance will be published online on gov.uk (https://www.gov.uk/regional-and-local-government/pensions) and hard copies will be available on request from the Ministry of Housing, Communities and Local Government, 2 Marsham Street, London, SW1P 4DF.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the measures affect the investment of assets by LGPS administering authorities, all of which are public sector organisations and so no impact assessment is required. An impact assessment in relation to the Pension Schemes Act 2026 was updated and published on 5 December 2025[4]. That document remains an accurate assessment of the impacts of this instrument.

9.2 The impact on business, charities or voluntary bodies is on those currently providing advice to LGPS administering authorities on their Investment Strategies. The instrument requires administering authorities to take advice from their asset pool companies and only to take advice from other sources in exceptional circumstances. External providers of advice may therefore see a reduction in business.

9.3 The legislation does not impact small or micro businesses.

9.4 The impact on the public sector is that the costs of implementing the reforms must be met from pension funds, which are funded by investment returns and employer contributions. By capitalising on economies of scale and pool capability, the reforms are expected to have a beneficial impact on costs and investment performance, which are expected to outweigh the costs of implementing the reforms in the longer term.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 The approach to monitoring this legislation is the continuation of regular engagement by MHCLG with asset pool companies, administering authorities, the LGPS Scheme Advisory Board and its subcommittees, and wider stakeholders. The statutory remit of the Scheme Advisory Board includes providing advice to the Secretary of State on the desirability of making changes to the Scheme, which the post-implementation review of changes would be considered part of.

10.2 The instrument does not include a statutory review clause.

[4] Available at: https://bills.parliament.uk/publications/63860/documents/7447. Hard copies are available on request from the Ministry of Housing, Communities and Local Government, 2 Marsham Street, London, SW1P 4DF.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 This instrument represents the first use of powers in the Pension Schemes Act 2026 to make regulations about asset pooling in the LGPS. The instrument sub-delegates powers to the Secretary of State to publish guidance on certain areas, or make directions to asset pool companies or administering authorities, and to allow asset pool companies to determine which transitional arrangements should apply in relation to the transfer of LGPS funds and assets to their management. The Secretary of State has express powers to make provision containing such sub-delegation under section 3(3)(c) of, and paragraph 12(a) of Schedule 3 to, the Public Service Pensions Act 2013 and section 1(2) of the Pension Schemes Act 2026.

12. European Convention on Human Rights

12.1 As the instrument is subject to negative procedure and does not amend primary legislation, no statement is required.

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").