

LOCAL GOVERNMENT PENSION SCHEME REFORM – A SINGLE FUND IS A DRIVER FOR GROWTH

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A pension is an employee's deferred wages, to help enable workers to retire in dignity. But in the public sector, pensions can do more. Making the right investments can help local economic growth; add pressure for a fairer world; and ease pressures on essential public services.

In the rest of the pensions industry and across Britain and the worldⁱ, public sector pension schemes have been modernising to get economies of scaleⁱⁱ and benefits in governance. Scotland was once a leader, but the recent pace of change has been 'glacial'ⁱⁱⁱ and the local government pension scheme (LGPS) is outdated and inefficient.

The Scottish government's public sector reform agenda is a cuts agenda. Instead of pursuing a job and service reduction model the Scottish government should be looking for reforms that bring genuine, improved outcomes. Pensions is one area where we could catch up and improve. But this will not happen on its own^{iv}, and we will only reap the benefits with decisive action from the Scottish Government.

UNISON's vision

Our vision is for a single LGPS fund covering all Scotland. This would have the scale to leverage better deals and save money; the capacity for in-house teams to make direct local investments; improved 'ESG' ethical investment; and improved governance with a direct trade union say in decisions.

Background

Uniquely in the public sector, the LGPS is a 'funded' scheme, which means it keeps and invests employers and employees pension contributions. But the way most are run is woefully outdated. Globally, pension funds have merged to get economies of scale, improved governance, and often more in-house capacity.

Across Scotland 11 'Funds' hold the scheme's money. These are based on the 'old' councils established in the 1975 reforms and vary wildly in size^v from Orkney (£532m) to Strathclyde (£32,272m). They were left unchanged in the 1996 reforms, so just 11 of the 32 current councils have any say. A new reorganisation of local authorities would make this even more illogical.

To make investments, most funds simply ask external managers to bid on 'mandates' to invest in certain types of assets. This is expensive^{vi}, but they have no in-house capacity to do this themselves. But experience globally, including in Canada^{vii} and Scotland (Lothian^{viii}), shows in-house teams are much cheaper. In addition, most pensions funds have consolidated to make economies of scale and leverage better deals. In 2015 England and Wales^{ix} required their LGPS Funds set up investment 'pools' at least £25 billion in size. Only one Scottish fund (Strathclyde)

meets this. Bigger funds are also more stable, because if one investment goes wrong then they can spread the impact.

The numbers are big. Consolidating Scotland's 11 LGPS funds into one could save £1 billion over 10 years – money which could support public services and protect jobs. This is not to say that the current funds are in a crisis- overall they are doing well though the 'AI bubble' and international instability always pose risks. Most have reflected this by giving some reduction to employers' pension contributions, although there is little consistency and these vary wildly from fund to fund. But a single fund could do so much better, which is compelling at a time of public spending restraint.

There are other significant benefits to modernisation as well. The lack of in-house teams means that funds don't have the capacity to assess and make 'local' investments which might help grown the economy^x and provide social benefits. Only one Fund is currently structured to do this, but modernisation could extend this capacity to everyone.

The top priority is to pay members' pensions, and decision making needs to keep pace with good practice. Part-time local politicians on pension committees often struggle to constructively challenge investment reports hundreds of pages long. A single council officer often covers council finances and the pension fund, but they should be separate to handle any conflicts of interest.

Members don't have a strong enough voice in what happens to their own pension funds. Union reps don't have a direct say in decisions, and funds don't ask members about their priorities - for example avoiding risky investments in 'climate chaos' companies or politically volatile areas like the occupied Palestinian territories. A single fund could have scale and structures to improve governance and reflect members' values.

For further information please contact:

Simon Watson, Lead Organiser, Pensions S.Watson@unison.co.uk

Susan Galloway, Bargaining & Campaigns team s.galloway@unison.co.uk

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^{vi} <https://www.northerntrust.com/content/dam/northerntrust/pws/nt/documents/asset-servicing/pension-fees-costs.pdf>

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^{viii} https://lgpsab.scot/wp-content/uploads/2019/11/SABConsult_Report_Part-1_Final_04-11.pdf

^{ix} <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>

^x <https://www.gov.uk/government/publications/pensions-investment-review-final-report/pensions-investment-review-final-report>