How to unlock a £350 billion pension bonanza to boost UK plc

Jim Armitage April 22 2023, 3.30pm BST

Amid the doom and gloom about cash-strapped Britain, here's a good-news number that may surprise you. There is currently about £350 billion sitting in local government pension funds, savings destined for the retirements of six million employees from dinner ladies to dustmen. Even in the world of pensions, £350 billion is a lot of money — similar to the assets that M&G and Abrdn have under management.

The schemes pushed back, arguing that it would not be right for them to have to back politicians' projects, which may or may not make for decent returns for pensioners.

A compromise was struck whereby England and Wales formed eight pools into which they were told to put a total of at least £25 billion. Eight years on, the take-up has been patchy and the savings less than hoped. Schemes are investing part of their funds in the pool and the rest in their own go-it-alone plans as before.

Rather than fees going down for City investment advisers and fund managers, costs actually seem to be going up. Overheads for local authority pensions have gone from 0.45 per cent of the schemes in 2017 to 0.55 per cent last year.

The Canada Pension Plan — which, at £330 billion, is a similar-sized scheme for Canadian workers — has costs of only 0.27 per cent. As Tracy Blackwell, chief executive of the Pension Insurance Corporation, argues, if the UK schemes were operating at that level of efficiency they would be saving about £1 billion a year. That could be going into schools or social care or reducing council taxes.

Chancellor Jeremy Hunt wants councils to move faster, putting more money into fewer, bigger pools. His spring budget suggested they should invest more in sectors like biotech.

Expect the funds to push back again. They fear the pools will become a tool of the Treasury, railroaded into politically popular investments that might be less safe than their existing strategies. Current local government investments seem fairly tame, including 8.6 per cent in corporate bonds, 9 per cent in gilts.

Some suggest the government should be bolder. Why not go the whole hog and consolidate the schemes into one professionally run and managed fund? The increased size of the pot would mean it could hire the top experts in property, infrastructure or technology investing and do it in-house, rather than paying external fund managers. The Australian and Canadian giants, which have consolidated heavily, already do this, hence their investment in a swathe of UK projects — from Heathrow to the King's Cross redevelopment in London.

This would be unpopular with local government officials — never keen to see their empires diminished. And a structure would be needed under which the better-funded schemes would not be subsidising the poorer ones.

But it would create a true British investment giant with the lower costs, higher returns and economic benefits achieved by sovereign wealth funds. Yes, it would be a huge shake-up, but it would help build a more ambitious Britain.

Who will speak for business now?

It's when the chips are down that you discover who your friends are. As the crisis at the CBI has intensified, it finds itself consigned to leper status. Businesses, politicians and the media have all refused to come to its support.

Its board should not be surprised.

Even before the appalling allegations of recent weeks, the CBI's popularity had waned. The government has never forgiven it for being anti-Brexit; Labour is suspicious of its Tory bent (rumour has it they might build a "red CBI" with pro-Starmer tendencies); the public is suspicious of the corporates it represents; and many businesses — including some members — have long doubted its value for money.

It has now put itself in an induced coma before No 10's big Monday reset of its relationship with business. Few are mourning by its bedside.

Simon Walker, former head of the Institute of Directors, has suggested that the five main business lobby groups should merge to create a single voice.

That may be tempting on a spreadsheet, but it's hard to see it working in practice. The Federation of Small Businesses does a great job for one-man-bands, but often because it lobbies against bigger corporations in the CBI on their behalf. The IoD and British Chambers of Commerce might make easier bedfellows, but the cultures are very different. Besides, combining five into one — with all the job losses, office closures and upset involved — would be a big distraction. It is not what the lobby groups need in the run-up to the next election.

The best option for big business is to set up a new version of the CBI to do its bidding. This could be accomplished from the rootball of the existing organisation, with its dozens of skilled policy wonks — but only if the board is completely replaced and a new culture installed.

Organisations can return from awful events — remember Nestlé's baby milk horror? — but only if they can show that real changes have been made. New chief Rain Newton-Smith has a mountain to climb to convince businesses that they should make friends with the organisation again.

They may yet decide to set up a whole new club to which the CBI is not invited.

jim.armitage@sunday-times.co.uk