

◉ The impact mindset

How applying impact thinking can help the LGPS achieve its local investment goals



**BETTER
SOCIETY
CAPITAL**

October 2026

The LGPS has a once-in-a-generation mandate to invest locally.

But investing in place is only one part of the puzzle. What really matters is whether it changes the lives of the people who live in that place. By bringing an intentional impact mindset to your local investment allocation, you can construct a portfolio which meets your risk-return requirements while also delivering meaningfully for people in your area.

The policy imperative and delivery question

The Pension Schemes Act 2026 sets out local investment as a core responsibility of the LGPS. Alongside this, associated Fit for the Future Regulations state that:

- Scheme managers are obliged to identify and invest in opportunities in, or for the benefit of, persons living or working in the fund or pool area¹
- Administering authorities must provide an Investment Strategy Statement proposing an approach and target range for investments within the local area of the fund or pool² by March 2027

However, LGPS funds and pools are now facing the question of how to actually set their local investment strategies in practice. Where to begin? What lenses to apply?

This paper draws on our investment experience to demonstrate how LGPS pools that apply an impact mindset, to at least a proportion of their local investment strategies, can improve ultimate outcomes for members.

In doing so, it complements existing guidance and case studies published on how to approach local investment³, and the hard-won learnings of the many pioneering LGPS funds that have been investing locally for decades.

What does 'bringing an impact mindset' mean?

- Investing within your risk and return parameters while explicitly targeting local issues
- Supporting solutions that benefit the lives of the full range of people living in your area, including those most disadvantaged
- Generating positive change in your region

How bringing an impact mindset can help you achieve your goals

Local investment with an impact mindset can not only deliver better outcomes for society; it can mean better outcomes for the pension scheme and its members. Here are three reasons why this is the case.



Bringing an impact mindset supports the identification of sometimes overlooked investment opportunities that sit in the “sweet spot” where local impact, attractive financials and scale potential meet

Impact investing spans a number of core asset classes which have intrinsic characteristics that make them a natural fit for local investment. They address needs that are structural and vast in scale – requiring billions of pounds of investment – yet the impact they deliver is felt locally.

From a financial perspective, many impact investments provide government-backed or inflation-linked revenue streams, providing lower-risk income over the long term. In addition, because returns are typically driven by outcomes or government commitments rather than market performance, these assets are diversified from traditional economic cycles and can play a valuable role building resilient portfolios.

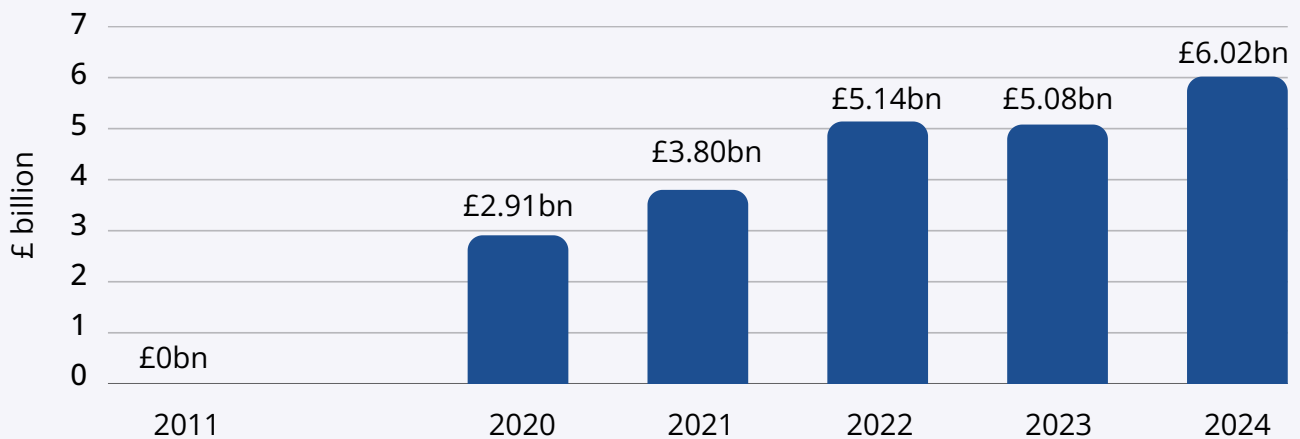
¹Pension Schemes Act 2026 <https://www.legislation.gov.uk/ukpga/2026/22/enacted>

²The Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026 <https://www.legislation.gov.uk/uksi/2026/544/made>

³The Good Economy ‘Scaling-Up Local Investing for Place-Based Impact’ <https://thegoodeconomy.co.uk/place-based-impact-investing/white-paper>; Impact Investing Institute ‘Place-based impact investing in practice – pension funds’ <https://www.impactinvest.org.uk/learning-hub/place-based-impact-investing/place-based-impact-investing-in-practice/>; Investors for Purpose Impact Lens Research <https://www.investorsforpurpose.com/ImpactLens/>

Case study: the growth of the social and affordable housing market

Chart shows the annual market size for social and affordable housing funds in the UK⁴



Source: Better Society Capital 2024 Market Sizing

Impact asset classes have historically been under-represented in institutional portfolios but are now at an inflection point. Their business models have been tested and their track records built by impact investors. They now face substantial structural demand with clear room to grow. Affordable housing is a case in point: largely seeded by impact-driven investors fifteen years ago, it is now being widely embraced by institutions, including the LGPS. Social Outcomes Partnerships are on a similar path, with the testing phase complete and growth momentum building, primed by a £500m commitment from government.

- ✓ **Bringing an impact mindset connects investment opportunities to the priorities of your administering authority, generating savings and benefits for local people**

By focusing in on these impact asset classes, LGPS funds and pools can develop investment strategies that address the social challenges placing greatest pressure on their administering authorities, while delivering sustainable returns. The communities that face high deprivation, poor health, inadequate housing and limited economic opportunity often generate the greatest demand for public services – and the fastest-rising costs.

Child social care, for example, is one of the largest line items in most council budgets⁵, while the costs of temporary accommodation are well documented at £2.8bn p.a. for English councils alone⁶.

Impact investments have shown they can deliver meaningful savings to local government by tackling these issues early. ATQ consultants' report shows that Social Outcomes Partnerships, focused on preventing complex social issues, can generate nearly £9 of public value for every £1 spent, including £3 of fiscal savings⁷.

Social Outcomes Partnerships, focused on preventing complex social issues, can generate nearly £9 of public value for every £1 spent

By investing in early prevention and targeting the areas of greatest need, the LGPS can ease the long-term cost pressures on administering authorities and, crucially, protect the local services that members, their families and communities depend on every day.

⁴Better Society Capital Market Sizing 2024 <https://betersocietycapital.com/2024-market-sizing/overview/>

⁵Institute for Government, 'Performance Tracker 2025: children's social care' <https://www.instituteforgovernment.org.uk/publication/performance-tracker-2025/local-services/children-social-care>

⁶Inside Housing 2025 <https://www.insidehousing.co.uk/news/english-councils-temporary-accommodation-bill-rises-to-28bn-93832>

⁷ATQ The value created by social outcomes contracts in the UK <https://www.atqconsultants.co.uk/wp-content/uploads/2024/11/VF1-SOC-Social-Value-report-update.pdf>

✓ **An impact mindset connects your investments directly to your members' lives**

Investing in impactful solutions has a direct, positive effect on the lives of millions of people across the UK, including those with their pensions in the local government scheme. More than 1 in 5 people in the UK live in poverty⁸, and more than 1 in 4 say they or someone close to them has experienced housing insecurity in the past five years⁹. Many of those people will be LGPS members. Whether it is better live-in care in retirement, affordable childcare for their families, or decent homes to live in, impact-led solutions deliver a tangible, measurable benefit to the people living in the pool area.

Evidence also shows that impact stories connect well with people. The Centre for Inclusive Money's research with pension savers, run with LGIM, found that savers respond most strongly to communications showing their money proactively doing good - with specific examples and local, rather than global, impact. For savers who care about these issues, responsible investment can increase engagement and build trust in their scheme¹⁰. LGPS funds are also seeing this among their own members.

"Members increasingly want to understand not only how their pension is performing financially, but also how their money is contributing to housing, jobs, regeneration and community outcomes." – Andrew Hall, Greater Manchester Pension Fund¹¹

Impact data can give you real transparency into how your capital is flowing to those issues and areas, as well as the lever for holding your fund managers accountable for delivering it.

At BSC, for example, we hold annual 'impact conversations' with fund managers based on their progress against their impact KPIs, to understand what is driving areas of strength and weakness, with those underperforming placed on an 'impact watchlist' for further scrutiny. This could also be applied as a tool to ensure managers are living up to their local investment goals.

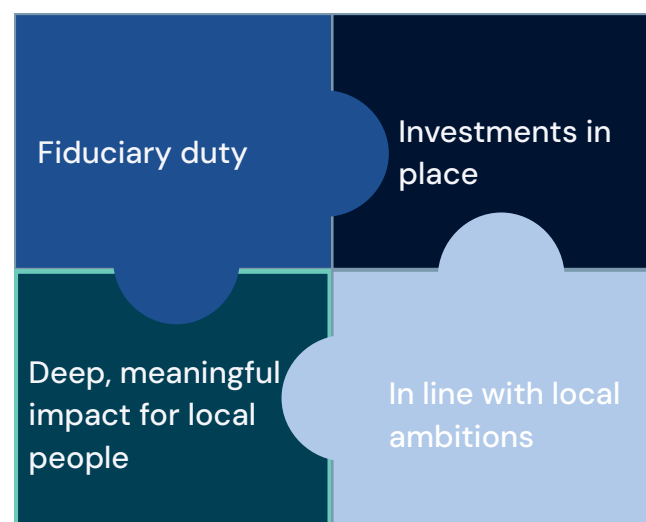
How to bring an impact mindset in practice

We recognise the challenge in balancing investments that can absorb capital at scale with those that sufficiently target local geographies and deliver for local people.

We have therefore sought to provide some practical suggestions as to how impact thinking can be applied in practice in a way that helps you meet both needs.

In all of this, it's important to note that impact thinking is just one piece of the puzzle. You can think of your local allocation as a jigsaw, comprised of larger-scale, place-based assets, together with deep impact focused investments as the pieces that make local impact on people tangible and deliverable.

The jigsaw of local allocation considerations



Applying an impact lens should complement and add to a thorough assessment of financial risk and return, not compete with it.

So how and where should you start, to make that ambition a reality? Below we outline three practical ways to begin bringing an impact mindset today.

⁸Joseph Rowntree Foundation UK Poverty 2025 Report <https://www.jrf.org.uk/uk-poverty-2025-the-essential-guide-to-understanding-poverty-in-the-uk>

⁹Better Society Index 2026 <https://betersocietycapital.com/latest/better-society-index-homelessness/>

¹⁰Centre for Inclusive Money at Nest (formerly Nest Insight), 'Responsible investment as a motivator of pension engagement' 2020 <https://www.nestinsight.org.uk/research-projects/engagement-in-pensions/esg-and-member-behaviour/>

¹¹<https://betersocietycapital.com/latest/gmpf-how-sops-support-strategy/>

1. Invest in a broader portfolio of impact investments as a route to optimising scale and local impact

Impact investments fall within broader asset class brackets (Real Estate, Venture, Private Credit etc.) but provide more intentional targeting towards key issues and groups of people, aligning well with the imperatives of local investing.

Social and affordable housing is increasingly becoming understood as a core element of a local investment strategy, but there is a wider opportunity set available. We believe a portfolio including these investments can offer the strongest route to balancing local targeting with scale and portfolio contribution.

The examples below show how investing in impact opportunities can achieve local impact and align with administering authorities and members' priorities, all while fitting within a balanced portfolio.

Opportunity map				
Impact-driven opportunities	Relevance to solving structural inequalities in a place	Cost savings & financial benefits to administering authorities	Direct benefits to scheme members	Portfolio contribution
Social & affordable housing	Stable, affordable homes are the platform from which employment, health, and education outcomes improve	Homelessness and housing insecurity cost councils a significant and growing amount ¹²	1 in 4 people have either experienced housing insecurity or know someone who has ¹³	Significant capital need (£10bn annually ¹⁴); Low-risk, long term cashflows; Security, guarantees & asset-backing
SME lending via Community Development Finance Institutions (CDFIs)	Local SMEs tend to hire locally, which can in turn see more local spending and further rounds of demand generated	UK SMEs contribute c.55% of UK employment and about half of all UK companies' turnover ¹⁵	LGPS members often live and work in the same areas where underserved SMEs operate	Investment structures build in downside protection (e.g. tax relief and guarantees)
Venture targeting impact outcomes	Products and services designed by and for underserved communities can meet needs that incumbent markets ignore	Can address some of the costliest issues for councils (e.g. ill health, mental health, skills gaps)	Supporting innovation in the NHS and health and social care services members rely on	Highly scalable tech-enabled models; Impact can drive commercial upside
Social Outcomes Partnerships (SOPs)	Brings private capital into public service gaps in areas where public budgets are most stretched	Every £1 spent on SOPs generates nearly £9 of public value ¹⁶	Tackling issues facing members' own children, families and communities, from school attainment to youth employment	Portfolio diversification; Government-backed payments; Scale potential with new £500m Better Futures Fund ¹⁷

¹²Shelter Bill for homeless accommodation soars by 25%, hitting £2.8bn 2025

https://england.shelter.org.uk/media/press_release/bill_for_homeless_accommodation_soars_by_25_hitting_28_bn

¹³Better Society Index 2026 <https://bettersocietycapital.com/latest/better-society-index-homelessness/>

¹⁴L&G BPF Report Delivering a Step Change in Affordable Housing Supply 2022 <https://group.legalandgeneral.com/newsroom/our-research/2022/2/delivering-a-step-change-in-affordable-housing-supply/>

¹⁵BEIS "Business Population Estimates" and Oliver Wyman analysis 2022 <https://www.oliverwyman.com/uk-ireland/our-expertise/insights/2024/mar/financing-small-and-medium-sized-business-across-the-uk.html>

¹⁶ATQ Consultants 'The value created by social outcomes contracts in the UK' 2024 <https://www.atqconsultants.co.uk/wp-content/uploads/2024/11/VF1-SOC-Social-Value-report-update.pdf>

¹⁷DCMS Better Futures Fund 2026 <https://www.gov.uk/guidance/better-futures-fund>

2. Include criteria in your local investment frameworks which align with your administering authority's priorities

Every local investing strategy will need frameworks for implementation: new local investment-specific factors integrated into, or alongside, your usual DD questionnaires, monitoring and scoring templates. These should reflect both the priorities of the LGPS investor and its administering authority, where possible. How can that be done in practice?

2.1 Define your geographic targets and set clear goals around these, including against deprivation measures

One place to start is geography: using deprivation indices to ensure capital reaches the most left-behind places and people. Many Local Growth Plans already reference tackling inequalities, and with the UK one of the most unequal countries in Europe, it will likely continue to be a priority for many administering authorities as they further develop their strategies. Mapping where investment opportunities do or will reach against the Index of Multiple Deprivation (IMD) or Income Deprivation Affecting Children Index (IDACI) enables you to actively target inequality.

2.2 Adopt the Equity Impact Project framework and metrics for affordable housing investments

Housing is another priority named regularly in Local Growth Plans. Assessing whether new or acquired affordable housing is really making a difference locally is a difficult, nuanced calculation. To help with this, Better Society Capital and The Good Economy developed the 'Equity Impact Project', a set of impact measurement principles and a framework for social and affordable housing providers¹⁸.

It is already in use with several major real estate fund managers, so should be a familiar ask when setting up or making investments into new funds, even if bespoke to a particular pool or region.

2.3 Use best-practice impact investment frameworks to support local investment reporting

One of the simplest and most effective ways to apply impact thinking is to use the best-practice impact measurement and management frameworks already available. Impact investors have spent years thinking deeply about impact measurement and by incorporating simple, accepted frameworks such as the *Operating Principles for Impact Management*¹⁹ and Impact Frontiers' *five dimensions of impact*²⁰, the LGPS can leverage that work for efficiency and greater reporting robustness.

2.4 Build impact KPIs into your contracts with fund managers early

When local government officials come to assess how far LGPS local investment has matched their priorities, they will ask one thing: has this made a real and meaningful difference to people in our area? Answering it means knowing, in evidenced terms, how your investments are changing lives in your region. That requires access to data that tracks the changes you and your administering authority care about.

So set your impact KPIs with fund managers at the outset rather than the end, and write them into the contract. A simple, repeatable template for capturing targets and consolidating high-level data will keep those questions answerable years down the line.

¹⁸BSC and TGE Equity Impact Project <https://thegoodconomy.co.uk/collaborations/equity-investor-impact-reporting-project/>

¹⁹Operating Principles for Impact Management <https://www.impactprinciples.org/>

²⁰Five Dimensions of Impact <https://impactfrontiers.org/norms/five-dimensions-of-impact/>

3. Use impact data and stories to connect with members

LGPS members often live in the communities their fund invests in. Their pension contributions should be building better lives in those communities. This is now a requirement of LGPS local investment; it must benefit people living in the pool area. Funds should therefore ensure local investment strategies are visible, understood, and valued by members and employers alike.

Aligning with impact management and measurement best practice can help you generate the numbers, stories and case studies

to help members understand what their money is going towards as they save for retirement.

When you are reporting on your impact, a combination of data and human-centred beneficiary stories makes a strong connection. By utilising industry best practice and frameworks, ensuring simplicity of language and message and being transparent about your methodology, you can help members feel genuinely proud of what their savings go towards on the way to retirement. Below is an example from the Schroder BSC Social Impact Trust Impact Report 2025²¹, demonstrating how storytelling can bring local impact to life.

Impact stories from our portfolio



Providing 1.2 million hours of care to over 2,900 people in 2025.

Organisation: Alina Homecare

Via: Bridges Inclusive Growth Fund

Focus: Delivering high quality care to older people and people with disabilities, whilst ensuring a supportive environment for its carers.



Providing 143 homes acquired in an area of high housing unaffordability.

Organisation: Heyford Park housing development

Via: Savills IM Simply Affordable Homes

Focus: Delivering high quality, affordable homes in areas of high unaffordability.



Generating renewable energy for c.4,500 homes.

Organisation: Heart of England Community Energy

Via: Community Investment Fund

Focus: Improving access to affordable energy and energy saving, and additional support for vulnerable households in a deprived area.

²¹Schroder BSC Social Impact Trust plc Impact Report 2025 <https://www.schroders.com/en-gb/uk/individual/funds-and-strategies/investment-trusts/schroder-bsc-social-impact-trust-plc/>

Overcoming barriers to impactful local investment

When looking to execute on local investment, investors are often interested in making a positive impact if they can, but tell us the same practical barriers often get in the way. These include limited internal capacity, gaps in specialist capability, difficulty sourcing suitable local opportunities, and the due diligence burden of less familiar asset classes. There are no easy answers, but in our experience the three approaches below can make a real difference.

Invest in people, culture and training. Impact thinking works best when it is embedded in your team and your committee, not bolted on at the end. A shared language, a common set of frameworks, and focused training for investment officers and pensions committee members is crucial. When under pressure, investing into training might seem challenging, but targeted time can help your team grow significantly in confidence in this area.

Ask fund managers and intermediaries to innovate. We believe you should not need to build a full origination and underwriting capability in-house to invest locally with an impact lens. Specialist managers have the capability to handle sourcing, structuring, measurement and due diligence on your behalf. While pooling is a new situation for everyone, and getting to the right vehicles to generate meaningful local impact will take innovation and collaboration, the tools are there to be utilised.

Share insights and borrow the evidence base. Pioneering funds and impact investors have spent years building track record, much of it independently evidenced and openly published. Use the frameworks already in circulation, the independent evaluations already commissioned, and the peer networks already convening funds, managers and local authorities.

Work with us: Bring an impact mindset to your local investment strategy

Whether you are a fund working on your Investment Strategy Statement ahead of the March 2027 deadline, or a pool balancing the requirements of your partner funds and developing an overarching local investment approach, we can share our impact learnings with you. Drawing on our experience as a recognised leader in impact investment in the UK, we can help you build your understanding, co-design investment strategies and solutions, or build impact criteria into your existing processes.

About us: Better Society Capital

We are experts in UK private markets and local investment, with over £1 billion committed since 2012, into a portfolio spanning social housing, social infrastructure, social ventures, and blended finance, and a mandate that is explicitly built around targeting disadvantaged and underserved people. We are a B-Corp and have a place on the BlueMark Impact Practice Leaderboard.

With over a decade of hands-on impact investment experience, we help investors design credible impact investment solutions and strategies, to help scale impact and shape markets. Our approach combines deep market knowledge with practical execution support. We can spot opportunities others overlook, help build the capability of your team to source and assess them, and give you practical ways to get started now. That ranges from access to funds too small to reach alone, through to co-investment alongside our own portfolio.

Investing locally: Examples from our experience

Helping enable community lending at scale

BSC helped originate and has invested in the “Community Investment Enterprise Fund” (CIEF) which channels institutional capital through Community Development Finance Institutions, which in turn originate and underwrite loans to small businesses in disadvantaged communities that mainstream lenders cannot serve. Investors gain diversified exposure without building local lending capability themselves.

Catalysing local authority investment into housing

Resonance is a social impact property fund manager which provides life changing homes and solutions for people and communities facing crisis through its social impact residential property funds.

Resonance launched their first, London-focused, homelessness fund in 2013. In December 2015, to encourage more councils to move from intent to action, Resonance launched the National Homelessness Property Fund, in which Better Society Capital invested £15 million of match capital to spur on local authorities' to invest. Oxford, Milton Keynes and Bristol came forward. With the ongoing commitment of Better Society Capital, the Resonance homelessness fund model grew from a then c.£56 million in London to the present day £400 million+ across the country, including investment from a total of 12 Local and Combined Authorities.

In 2024, independent analysis by Alma Economics found that Resonance's homelessness property funds saved local and central government around £140 million over a decade, with every £1 invested into the current fund projected to create £2.30 of financial and social value over ten years²³.

More recently, in January 2026, Alma produced a new, forward-looking estimate: that Resonance's homelessness property funds have the potential to save local authorities £349 million by providing accommodation to tackle homelessness across 2025-2035²⁴.



The Community Investment Enterprise Fund has provided capital for

c.900

small businesses supporting around 11,500 jobs²²



Resonance's homelessness property funds have the potential to save local authorities

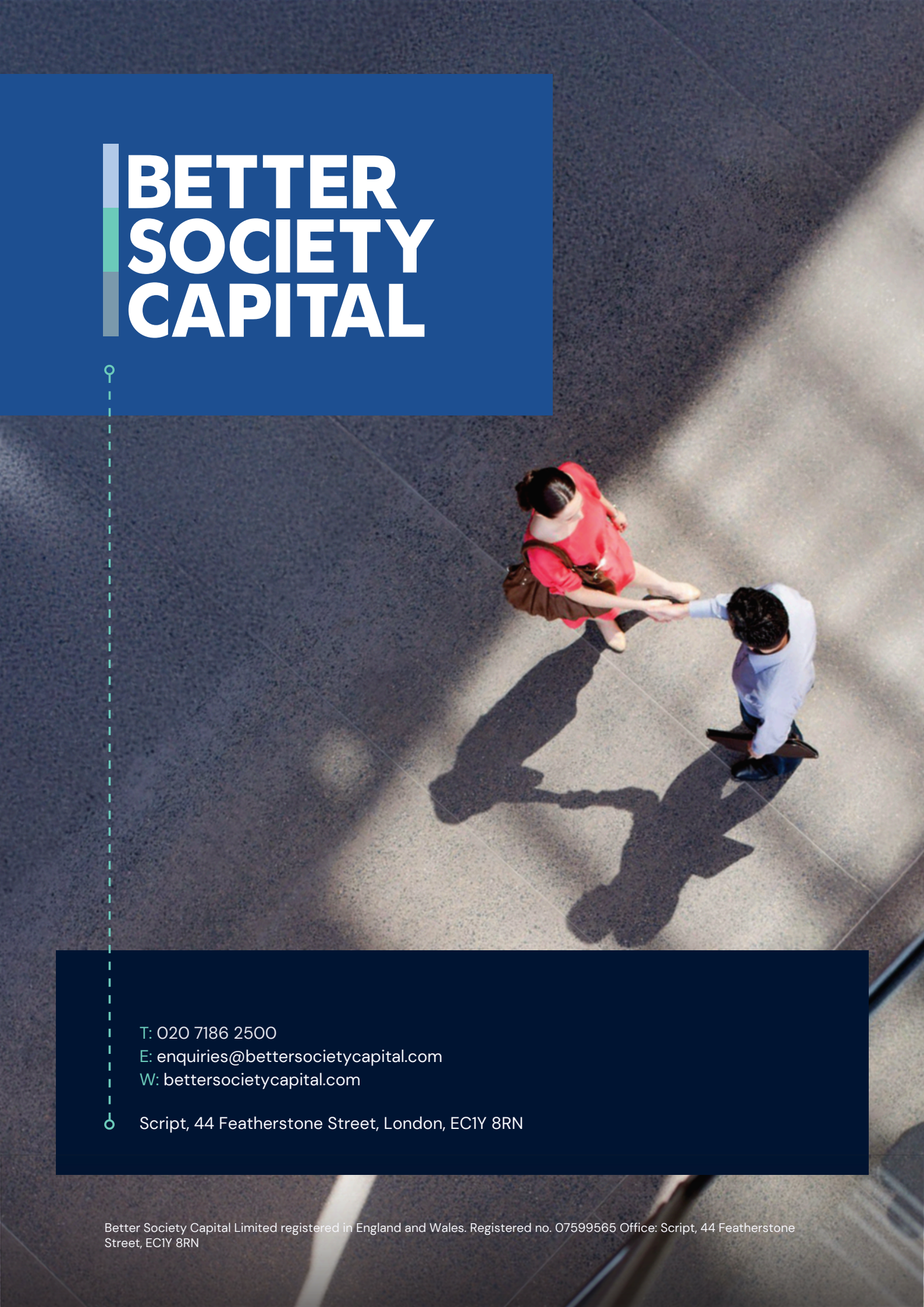
£349 million

by providing accommodation to tackle homelessness²⁴

²²As of 30 June 2026, SIS Impact Report 2026 <https://www.socialinvestmentscotland.com/media/250j0e4w/sis-impact-report-2026.pdf>

²³Financial & social impact of Homelessness Property Funds 2024 <https://resonance.ltd.uk/news/news/big-society-alma-economics-report>

²⁴Resonance Homelessness Property Funds: Financial and Social Impact 2026 <https://resonance.ltd.uk/reports/alma-economics-report-2025>



BETTER SOCIETY CAPITAL

T: 020 7186 2500

E: enquiries@bettersocietycapital.com

W: bettersocietycapital.com

Script, 44 Featherstone Street, London, EC1Y 8RN