

Are devolution and local investment a silver bullet for the UK's growth problem?

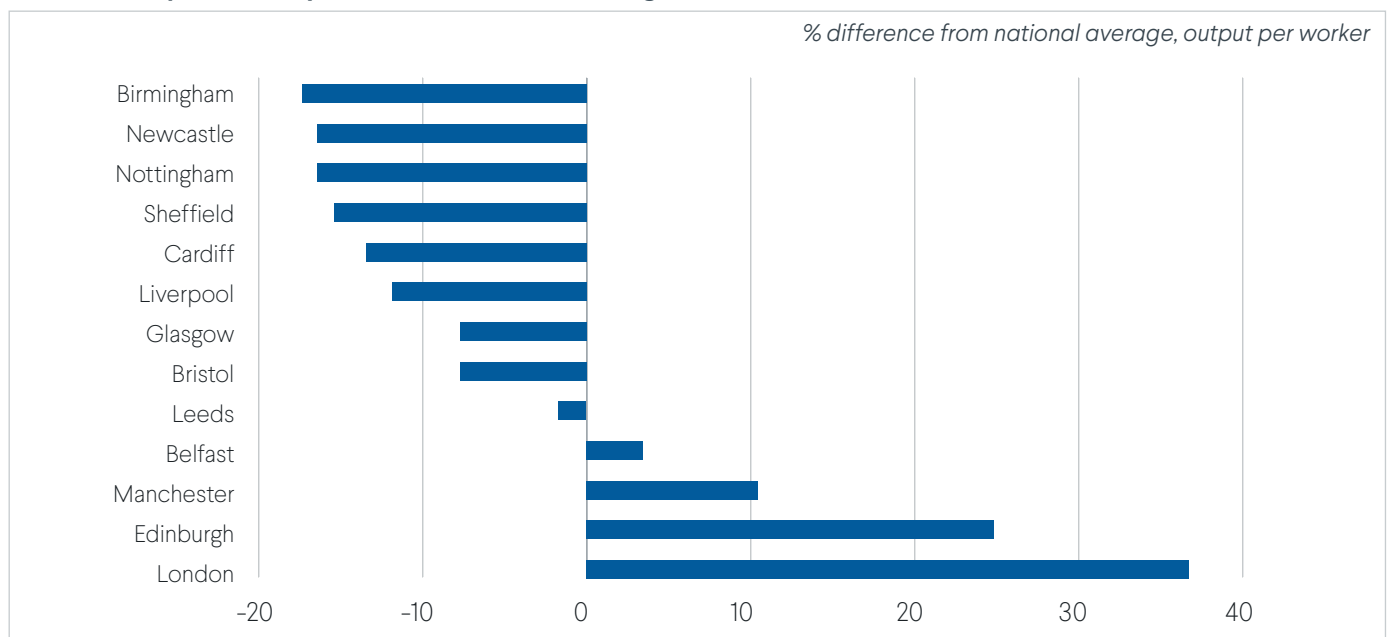
Since taking office on 20 July, Andy Burnham has made no secret of his desire to revitalise neglected areas of the UK, vowing “good growth in every postcode”. The prime minister sees devolution as a route to tackling productivity and investment gaps, with the view that the country's pension funds provide a ready route to a large pool of patient capital. But it's no easy task.

Can Number 10's new broom sweep in a widespread economic boom, and what are the risks and opportunities for pension scheme investors that are hoping to step up to the local investment plate?

Chronic underinvestment has stymied UK growth

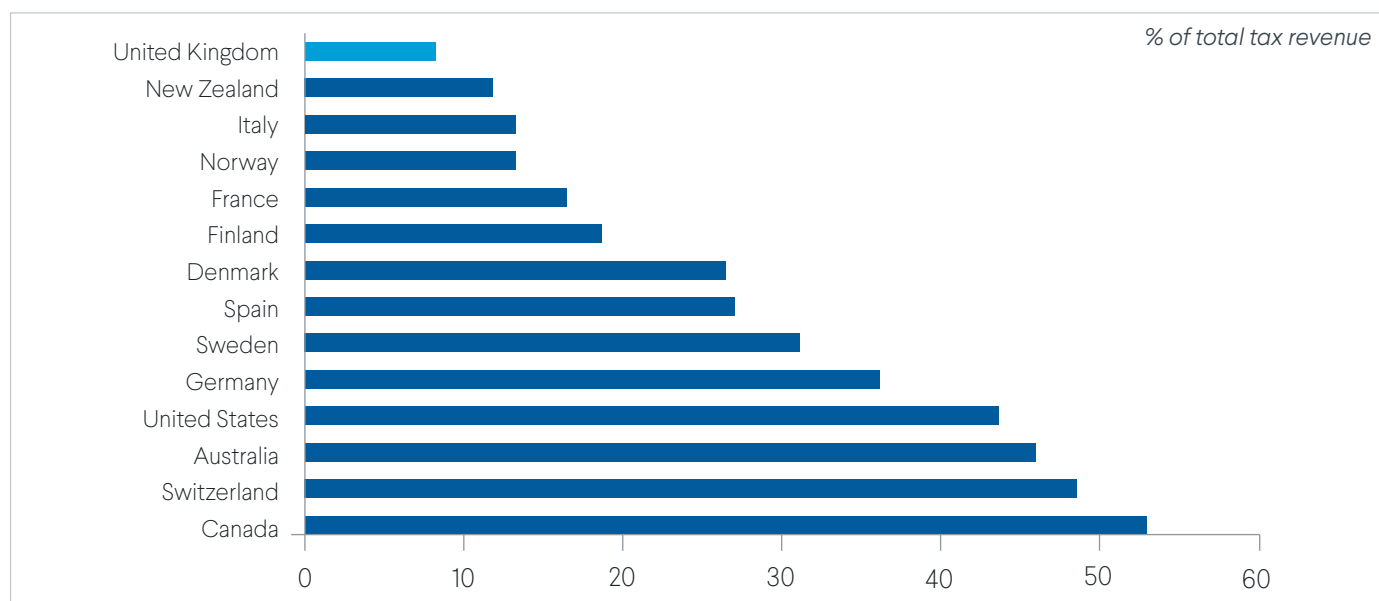
It's well known that pockets of the UK feel 'left behind' (as shown below), a decline that can be traced back to deindustrialisation and flatlining productivity growth in the nation's former industrial and mining heartlands.

Chart 1: UK – productivity difference to the UK average, 2025



Sources: Oxford Economics, Office for National Statistics

Chart 2: Global – local tax revenue

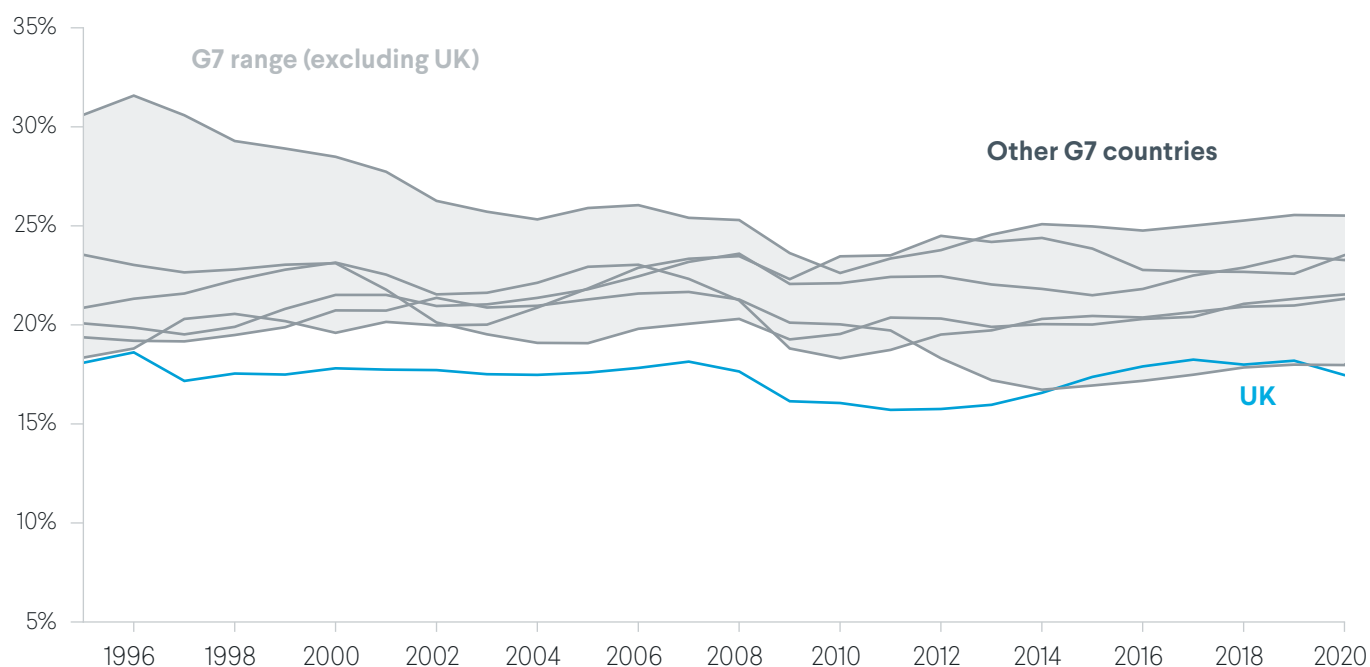


Sources: Oxford Economics, OECD

But if we turn to the data, productivity across the UK as a whole is far from healthy. One key metric, gross fixed capital formation (a measure of total investment), demonstrates this at a UK level. As you can see from the chart below, the UK languishes at the bottom of the G7 league table: we're simply not investing enough in our own future as a nation.

Chart 3: Gross fixed capital formation (GFCF) as a percentage of GDP in G7 countries

Whole economy (public and private)



Source: Institute for Fiscal Studies

Why might institutional capital be part of the solution?

The direction of travel from government is increasingly clear: pension fund capital is being seen not just as a source of retirement income, but as a potential catalyst for long-term UK growth.

The Pension Schemes Act 2026, the Mansion House Accord and the LGPS Fit for the Future reforms all point in the same direction – putting to work pools of capital with the scale, capacity and capability to invest in less liquid, productive, long-term UK assets. The policy logic is sound: if we are to close investment gaps and support regional growth, the UK needs patient capital that can look beyond quarterly market moves. Pension scheme investors are a good fit – their investment horizons are measured in decades, rather than months, and they can invest at scale.

But institutional investors are not being asked to provide a blank cheque for policy goals. Fiduciary duty requires pension fund assets to generate good risk-adjusted returns that support member retirement outcomes and don't put financial futures at risk just because the UK needs investment. The ask is to consider whether UK opportunities – in areas such as housing, infrastructure and early-stage companies – can help deliver both better retirement outcomes and a stronger economy.

A substantial investment opportunity already exists

Of course, none of these ideas are new. Successive governments, policymakers and industry groups have been exploring how institutional capital could support economic growth in the UK for some years. The terminology has changed over time, from productive finance and the Northern Powerhouse agenda, through levelling up, to today's focus on devolution, place-based investing and local growth. But the underlying challenge remains the same. How do we collectively channel long-term capital to opportunities that strengthen the UK's economy while delivering attractive outcomes for institutional investors?

A decent blueprint exists in the form of the Capital Markets Industry Taskforce's [Capital Markets of Tomorrow](#) report. Its authors have identified specific areas where additional capital could support UK growth and productivity, estimating a potential opportunity set of around £100bn pa.

Investing to tackle the housing crisis

If institutional capital is being asked to play a greater role in supporting UK growth, housing is one of the obvious places to start. The need for new housing is stark – there aren't enough homes for the UK's growing population. Research from the Centre for Policy Studies suggests a [housing shortfall of 6.5 million homes](#), the second worst in Europe, behind Ireland. Researchers estimate that [565,000 houses](#) will need to be built each year until 2040, if the UK is to fix the housing shortage. The Labour Party has committed to building 1.5 million houses during its five-year parliamentary term – around 300,000 per year. And the capital required to achieve that is substantial – thought to be in the region of [£20–30bn pa](#).

Productive finance and private markets: backing the UK's future innovators

Housing is only one part of the opportunity set. To really ramp up investment for the future, investors will need to deploy capital to the businesses that drive innovation, employment and productivity growth.

This is where private markets and venture capital come into play. Across the UK, early-stage businesses often struggle to access the capital they need to scale. Pension scheme investors can play an important role in bridging that funding gap, helping promising companies to develop new products, employ more people and expand into new markets, all while delivering a financial return on their investment.

For pension schemes, these opportunities are typically less liquid and potentially more volatile than traditional assets. However, they also offer the prospect of higher returns alongside a direct contribution to economic growth. For defined contribution (DC) schemes, open defined benefit (DB) schemes (like the LGPS) or large corporate DB schemes committed to running on, where members have horizons measured in decades, carefully selected private market investments may represent a compelling source of long-term growth.

“Perhaps the most important lesson gleaned from our experience is that relationships matter.”

Comparing the opportunity set

Different opportunities offer different combinations of return, risk and liquidity, but these can also vary significantly across both asset classes and individual investments. Generally speaking, we'd expect investments in housing to offer lower to moderate returns and a corresponding level of risk; a broad spectrum of risks/returns within infrastructure, depending on the stage of development and income generation (with core assets bringing medium returns and risk levels); and private markets/productive finance promising the highest level of return and risk. The consistent feature is low liquidity, meaning investing in these opportunities requires a long-term mindset.

What does 'good' look like in practice?

Over many years, we've worked with clients who have committed capital to UK-focused opportunities, including regional housing and commercial real estate opportunities. In one example, we helped a large public sector investor appoint a specialist local real estate partner with a broad remit to invest across the North West of England. This successful programme has demonstrated that local investment can be delivered at scale when the appropriate structures, governance and expertise are in place.

Perhaps the most important lesson gleaned from our experience is that relationships matter. Identifying attractive opportunities requires more than simply allocating capital. Investors need to understand local markets and build connections with the organisations generating opportunities on the ground. That may mean engaging with local authorities, housing providers, government agencies and specialist investment managers.

There is no free lunch

At this point, it's important to remember the realities of local investment. Some commentators suggest that schemes can 'have their cake and eat it', by investing in these without making any sacrifice in terms of risk, liquidity or expected returns. The reality is more nuanced.

Building houses, financing infrastructure projects and supporting growing businesses is fundamentally different from buying a listed share or a government bond. These projects take time to come to fruition, and they require expertise, due diligence and ongoing oversight. Investors therefore need to enter these opportunities with their eyes open. These investments are typically long term, illiquid and resource intensive – the sleeves need to be rolled up to make them work.

Nor should investment be viewed as a silver bullet for the UK's growth challenge. Investment can help unlock growth, but it sits alongside other important factors, including regulation (eg planning), taxation and labour market policy. Governments – both national and devolved – need to play their part.

Where do we go from here?

Housing, infrastructure and private markets can all support regional growth while delivering long-term investment outcomes. But it's no secret that investors' success will take patience. It'll also depend on asset owners working together to identify opportunities, remove barriers and channel capital effectively.

We can help unearth and explore the best opportunities for you, however you define 'local'. We're passionate about helping institutional assets to make a difference for UK plc.

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Please feel free to get in touch with Ben, or your usual Hymans consultant, for tailored advice on local investment – or simply to talk about local investing in more detail, if this article's piqued your interest!



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General Investment Risk Warning

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