



# Kent Pension Fund

17<sup>th</sup> July 2024

Invicta House,  
County Hall,  
Maidstone,  
Kent,  
ME14 1XX

Michelle Warbis,  
Deputy Director  
Ministry for Housing, Communities and Local Government  
2 Marsham Street  
London  
SW1P 4DF

Cc: Teresa Clay  
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Dear Ms Warbis

## **Efficiencies in Local Government and the management of Local Government Pension Scheme (LGPS) funds**

We are writing in response to the letter sent by former Minister for Local Government Simon Hoare to LGPS Funds on 15<sup>th</sup> May 2024, asking for responses on asset pooling and efficiency, including in relation to governance and benefits of greater scale. Authority to respond to the letter was delegated by the Kent Pension Fund Committee to the Head of Pensions and Treasury and the Committee Chairman.

### **Background**

The Kent Pension Fund is administered by Kent County Council and has more than 150,000 members, with assets of circa £8.2 Billion. Kent is a founding member of the ACCESS pool and has been integral to its development over recent years.

We are grateful for the opportunity to offer our thoughts, and have looked to address the specific questions asked in the following paragraphs:

1. **How we will complete the process of pension asset pooling to deliver the benefits of scale.**

### **Pooling progress**

- As at 31 March 2024 the Kent Pension Fund has £3.7 Billion invested via ACCESS. This represents 60% of the Fund's listed assets and 45% of total assets. The Fund recently concluded a full review of Investment strategy at an asset class level and is now reviewing the make-up of each asset class. The conclusions of



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this review are likely to lead to additional listed assets transitioning to ACCESS over the coming twelve months.

- At present the Fund has a strategic allocation of 25% to unlisted assets, including direct property. The Direct property portfolio is unlikely to be pooled due to characteristics of the asset class, and the award winning performance over the long term ([MSCI awards](#)). The Fund also invests in Private Equity and Infrastructure, and ACCESS is developing solutions in this area. Whilst it will take time to transition assets in this area, the Fund plans to allocate to the solutions once available.

## Investment Advice

- The ACCESS pool does not have the ability to offer advice on Investment strategy, and the Kent Pension Fund does not believe that it should. It is our view that it is important that setting Investment Strategy remains a local decision, taking appropriate advice that is specific to the Fund, and its underlying demographics and liability profile. It is key that this advice is bespoke to the Fund and avoids any conflict of interest by being provided by an investment pool. In addition, we were unhappy with the use of the phrase “waste and duplication” in the question, as the inference can be seen as offensive.
- The Fund believes in ensuring that we take proper regulated investment advice, as specified in legislation, when setting investment strategy. We are careful to ensure that the advice is appropriate and bespoke to the Kent Pension Fund, and only commissioned when necessary. Over the last three years the Kent Pension Fund spent an average of £210,000 per annum on investment advice, which equates to less than 0.003% of assets over which advice is being taken.

## Pool Governance

- The ACCESS Governance structure both necessitates and promotes engagement by stakeholders throughout Authorities. Building on commonalities and dialogue ACCESS Authorities made the strategic choice to use an independent, third party FCA regulated ACS operator, third party Investment Manager for passive investments and a third-party Implementation Adviser for non-listed assets. For all of these suppliers, ACCESS has the option to retest the market and re-procure at regular intervals.
- In turn these strategic partners have delivered a full range of active listed sub-funds and passive mandates at a discount to market equating to 9bps along with the establishment of best in class offers across alternatives. This is supplemented by market tested RI and legal advice.
- Use of third parties selected and re-procured at regular intervals for these functions is an effective and modern approach to pool governance and oversight with a number of distinct advantages relative to the “built” pool model. For example:
  - Third parties can be market tested and reprocured at regular intervals to ensure service, performance, risk management, business continuity provisions, systems and processes for regulatory oversight of suppliers (e.g.



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investment managers, custodian and fund administration) remain best in class over time;

- This model avoids conflicts of concern to the FCA. For example, one role of the operator is due diligence and ongoing monitoring and oversight of investment managers appointed to the ACS sub-funds. Investment managers (in the private and public sectors) with in-house operator functions face conflicts in this regulatory function since the operator is responsible for the appointment and firing of investment managers for reasons of underperformance or other ongoing due diligence concerns. An independent operator using third party managers does not face these conflicts.
- The day-to-day operational activity undertaken by the ASU is overseen by the subject matter experts of the Officer Working Group who meet monthly and support the s151 Officers Group and the Joint Committee who meet around six times a year with special meetings, as necessary. It is a cohesive structure that delegates tactical matters, ensures timely and effective decision making and enables Authorities appropriate monitoring and oversight of the delivery by strategic partners.
- In 2023, the ACCESS pool commissioned an independent review of all aspects of its governance. The recommendations of the review are now being implemented. It is expected that the pool will repeat this exercise periodically to ensure that its governance structure remains effective and modern.

## **2. How do we ensure our LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale**

- In 2021 the Kent Pension Fund undertook a comprehensive independent review of its governance and since then have addressed all of the findings. The review included assessment against the recommendations of the Scheme Advisory Board's Good Governance review, and so we feel well placed for future challenges, and able to ensure we are holding providers to account effectively.
- In addition to this the Fund has invested in its Administration service in the last two years to ensure that we remain fit for the future and able to deliver the high-quality service that the 150,000 members should be able to expect. This investment has included some additional resource, but also increasing the use of technology to support the service.
- Implementing the changes needed for McCloud remedy is proving financially very costly, even if the impact on liabilities has not been significant. Administering an increasingly complex and changing scheme and remains a significant challenge.
- To ensure that the Fund is focussing on the critical areas we joined the CEM benchmarking group to assess the cost and quality of the service we were providing to members as at 31 March 2023. This assessment supported our view that work needed doing, and that the investment we were making would bring us closer to the best in class, which is our overall ambition. Despite this investment our cost per member remains lower than the peer group median. The analysis supported and complemented the work that we had already commenced in transforming the service. The work continues.



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- Given the above we believe that the most impactful thing that the Department could do to improve the efficient and effective managing of the scheme would be to continue, without delay, the implementation of the Scheme Advisory Board's Good Governance recommendations. The necessary policy discussions have already taken place, and this could be implemented within a matter of months.
- Given the Kent Fund is one of the largest LGPS funds in the country we do not believe that we could achieve significant efficiencies by merging with other Funds. However, we do always believe that they are opportunities for collaboration and efficiencies by working closely with LGPS colleagues, and have been doing this for many years, and will continue to do so.
- Any ambition for the achievement of long-term savings and efficiencies through consolidation does not come without significant operational risks, particularly affecting scheme members but also employers. These risks need to be properly understood and appropriately managed. We would welcome an open discussion about the possible benefits - and limitations - of scale, and the role of local accountability in the management of the scheme.

Yours sincerely

Nick Buckland  
Head of Kent Pension Fund

Councillor Charlie Simkins  
Chairman – Kent Pension Fund Committee