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Date: 4 June 2024

Dear Member

**PENSION BOARD - TUESDAY, 11 JUNE 2024**

I am now able to enclose, for consideration at next Tuesday, 11 June 2024 meeting of the Pension Board, the following report that was unavailable when the agenda was published.

**Agenda Item No**

6 **Governance Update (to follow)** (Pages 1 - 10)

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ben Watts', is written over a faint circular stamp.

Benjamin Watts  
General Counsel

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To:	Kent Pension Board – 11 June 2024
To:	Chairman – Kent Pension Board Acting Corporate Director of Finance
Subject:	Governance updates
Classification:	Unrestricted

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**Summary:**

To provide an update all Governance matters. This includes any updated policies and strategies, and changes in legislation or regulation that will impact on the Fund. The paper considers the latest position in several areas and members are asked to consider and comment on these updates.

**Recommendation:**

The Board is asked to note and comment upon the report.

**FOR INFORMATION**

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**1. Business Plan and Budget update**

- 1.1 The Fund's three-year Business Plan including draft budgets was presented to the Board at the last meeting, ahead of being agreed by the Pension Fund Committee at their meeting on 26 March 2024.
- 1.2 It is intended to give both the Board and Committee a detailed update on the progress made against the Key Tasks for the three-year period at regular intervals, and whilst it is less than three months since the plan was agreed there are some actions that are well underway, if not yet quite complete. The are detailed in the following paragraphs.
- 1.3 *Implement changes to investment strategy and review intra asset class portfolio construction* – This task is well underway with the first element completed in May 2024.
- 1.4 *Interim funding review* – this task was completed in March 2024, albeit will be repeated in a couple of years' time.
- 1.5 *Implement telephony solution to improve customer call experience* – This task is well underway with the new telephony solution due to be implemented in the second half of 2024.
- 1.6 *Promote digital offering...* - This task is well underway, and the updated member version of the Fund's website was launched in May.

### Budget Outturn 2023-24

- 1.7 The accounts for 2023-24 have now been reconciled, finalised and the outturn statement produced, and a more detailed analysis will be shared at the meeting. A summary of the position is shown below:

	2023-24 Budget	2023-24 Actuals	Variance
<b>Administration Expenses</b>	<b>4,487,000</b>	<b>5,159,672</b>	<b>672,672</b>
<b>External Advice</b>	<b>488,000</b>	<b>740,291</b>	<b>252,291</b>
<b>Governance and Oversight Expenses</b>	<b>1,073,000</b>	<b>1,157,626</b>	<b>84,626</b>
<b>Investment Management Costs</b>	<b>31,646,000</b>	<b>27,622,995</b>	<b>-4,023,005</b>
<b>Audit fee</b>	<b>43,000</b>	<b>96,033</b>	<b>53,033</b>
<b>Total</b>	<b>37,737,000</b>	<b>34,776,616</b>	<b>-2,960,384</b>

- 1.8 The cost of running the Fund in 2023-24 was £34.78m, which represents an underspend of £2.96m versus the budget. The underspend can largely be attributed to investment management costs, which were lower than estimated at the start of the year. Significant variances are considered in the following paragraphs.
- 1.9 An overspend of £0.67m on administration expenses is largely attributable to IT expenses (£0.32m), administration costs (£0.26m) and the Data Rectification Project (£0.08m).
- IT Expenses: As reported to the Board in March, IT costs were ahead of budget due to additional charges arising during the year relating to GMP rectification, member self-service and dashboard implementation. Additional costs of (£0.14m) relating to pensions administration software were also incurred which were omitted during budget setting.
  - Administration Expenses: Most of this overspend is explained by an over-accrual of income in 2022/23 of £0.20m. This income was included twice in 2022/23 and therefore needed reversing in 2023/24 resulting in this apparent increased cost for the year.
  - Data Rectification Project: This cost (£0.08m) was not known at the time of budget setting but was incurred during the year. The expenditure is non-discretionary in nature.
- 1.10 External Advice purchased by the Fund amounted to £0.74m compared to a budget of £0.49m.
- Actuarial fees: As previously reported to the Board, gross actuarial fees were higher than anticipated, primarily due to an increase in employer-related activity. Employer-related costs are recovered from employers, resulting in a large underspend on the recovery of professional charges.
  - Investment consultancy: costs were £0.21m higher than budgeted due to additional non-recurring expending resulting from implementing changes to the Fund's investment strategy. These costs were incorporated into the Fund's investment decision making process.
- 1.11 In 2023-24, officers recognised that there was scope to improve the Pension Fund budget-setting, monitoring and reporting process to support financial control and to provide the Board and Committee with meaningful performance information.
- 1.12 As part of this exercise, officers have sought to ensure that all costs associated with the running of the Fund are incorporated into the budget. A number of significant variances have arisen during 2023-24, which in some

cases are due to changes in spending agreed after budget-setting, but in other cases relate to the inclusion of expenditure items that were originally omitted from the budget.

- 1.13 Officers will evaluate the findings of the outturn reporting exercise in the context of the Fund’s budget for 2024-25 and the medium term and report any necessary changes to this year’s budget to the Board at its next meeting.

## 2 Fund Policies

### Overpayment and Write Off Policy

- 2.1 A formal policy considering how the Fund deals with the need to manage over-payments and debt write off has been prepared. The policy documents the Fund processes and is considered elsewhere on today’s agenda.

### Cyber Security Policy

- 2.2 Cyber Security is considered elsewhere on today’s agenda and a Policy that details the Fund approach to mitigating Cyber risk and looks to manage situations if they arise.

### Responsible Investment Policy

- 2.3 The Responsible Investment Working Group has been developing an updated policy which will be presented to the Pension Fund Committee in June 2024 for their approval. The Policy is elsewhere on today’s agenda.

Policy	Last reviewed by the Committee	Next update and review due	Responsibility
Funding Strategy Statement (FSS)	March 2023	March 2025	Nick Buckland
Investment Strategy Statement (ISS)	December 2023	December 2026	James Graham
Governance policy and compliance statement	September 2022	September 2024	Nick Buckland
Responsible Investment policy (RI Policy)	September 2022	June 2024	James Graham
Communications policy	March 2024	March 2025	Clare Chambers
Administration Strategy	March 2023	March 2025	Clare Chambers
Conflicts of Interests Policy	December 2022	December 2024	Nick Buckland
Breaches of the Law policy	December 2022	December 2024	Nick Buckland
Discretions policy	December 2022	December 2024	Clare Chambers
Abatements policy	December 2022	December 2024	Clare Chambers
Training Strategy	March 2024	March 2026	Emma Green
Cyber Security policy	n/a	June 2024	Nick Buckland

Data Quality policy	June 2023	June 2025	Clare Chambers
Overpayments and Write-offs policy	n/a	June 2024	Clare Chambers
Escalations policy	n/a	New policy, tbc	Clare Chambers
Privacy Notice	n/a	New policy, tbc	Clare Chambers

### 3 Action Log

- 3.1 In line with the Pension Fund Committee procedure, an Action Log has been added to Board papers to reflect any questions or actions from previous meetings. The table in **Appendix 1** shows any actions noted, and an update on progress made. An updated log will be brought to every meeting to ensure any actions are not lost.

### 4 The Pensions Regulators General Code

- 4.1 In January 2024 the Pensions regulator issued its long awaited General Code, the full version can be found here – [General Code](#). The Code is expected to come into force on 27 March 2024.
- 4.2 The Fund has engaged Barnett Waddingham who are undertaking a review of KPF’s policies, documents and processes to check compliance with the Pension Regulator’s General Code of Practice.
- 4.3 The initial stage is a desktop review i.e. a review of all the documents they can find online and should be completed before the end of June. They will then share the results of that analysis with the Fund and anticipate that they will need some assistance in finding any missing policies etc, before preparing a final version.
- 4.4 The review will be set out in table form which will include a summary of the Code’s expectations (including whether the expectation is a “must” or “good practice” requirement) with a commentary on whether the Fund meets that expectation and, if it does, how it meets it, but if it does not, it will include a clear steer on what needs to be done to ensure compliance. It will also include additional commentary on how the Code’s expectations might be potentially impacted by the Good Governance Project.

### 5 Efficiencies in the LGPS – letter from Local Government Minister

- 5.1 On 15 May 2024, Local Government Minister Simon Hoare wrote to all LGPS Administering Authorities asking Fund’s to set out their approach to efficiencies in the management, governance and administration of the LGPS. The full letter is attached as **Appendix 2**.
- 5.2 In his letter the Minister asks Administering Authorities to focus the responses in two areas:
1. *How your fund will complete the process of pension asset pooling to deliver the benefits of scale.*
  2. *How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.*

- 5.3 The minister sets out a number of sub-categories under each area, with the focus it would seem on greater and faster pooling of assets and the consideration of merger of LGPS funds where appropriate.
- 5.4 The minister asked for the response to be set out in no more than two pages and returned by 19 July 2024.
- 5.5 Due to the element of the letter that relates to asset pooling officers have discussed with ACCESS colleagues and concluded that preparing a response to the questions asked in the letter, despite the General election on 4 July, would still be an appropriate thing to do.
- 5.6 The Board will be updated on progress made in this area.

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**Nick Buckland**  
**Head of Pensions and Treasury**  
**Kent Pension Fund**

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June 2024

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## Kent Pension Board Action Log

Date of Meeting	Agenda Item	Action/Question	Outcome	Complete (Y/N)
28/11/2023	General	Board access to all Committee papers	Nick Buckland confirmed that Democratic services had agreed that the Board would receive all papers as a matter of course in the future	Y
28/11/2023	Administration	More detail about the overpayments	Clare Chambers circulated analysis of overpayments to Board 13/12/2023	Y
28/11/2023	Administration	Can we work with employers to trace frozen refunds	Clare Chambers to investigate and take forward	N
28/11/2023	Administration	Board to support the introduction of new Member Self Service	Clare Chambers to take this forward when needed later in 2024	N
28/11/2023	Investment Update	Request for Board members to join RI Working group	Terms of reference for RIWG agreed and includes one Board observer	Y
28/11/2023	Investment Update	Will the Investment Strategy Statement (ISS) be available soon	ISS was agreed by Committee in December, and is on agenda for Board at March meetings	Y
12/03/2024	Governance	Business Plan – update membership numbers	Updated ahead of presentation to Committee	Y
12/03/2024	Governance	Business Plan – include structure charts?	Updated ahead of presentation to Committee	Y



12/03/2024	Comms Policy	How to promote the LGPS	Working with employers and nationally to develop approach. Video has been produced by LGPS pool.	Ongoing
12/03/2024	Training policy	Induction plans for new members after elections in 2025	Working on training plans ahead of election	Ongoing
12/03/2024	Training Policy	LGA Fundamentals and other external training availability	Relevant training will be offered to members	Y
12/03/2024	Employer Governance	Provide detail of backdated Admission Agreements	Report presented to June meeting	Y
12/03/2024	CEM Benchmarking	Ensure planning for 2024 reports starts early to include missing data	Planning has started	Y

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## Department for Levelling Up, Housing & Communities

**Simon Hoare MP**  
Minister for Local Government  
2 Marsham Street  
London  
SW1P 4DF

Chief Executives and Section 151 Officers of  
Administering Authorities in England

By email

15  
May 2024

Dear Colleagues,

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

I wrote to all chief executives on 16 April setting out my expectations for the productivity plans to be developed by each authority as announced at the local government finance settlement. In this, I asked for plans covering service transformation, better use of technology and data and reduction of wasteful spend as well as views on barriers which government could remove (letter at annex A).

I am now writing to you to ask you to set out your approach to efficiencies in the management, governance and administration of your LGPS fund and asset pool in a separate letter. I am interested in what is happening across local government to deliver efficiencies in the management of the £359 billion of pension assets you hold, and in your administration of pension benefits for the 6.6 million members.

Since taking on ministerial responsibility for the LGPS I have been grateful for the generous engagement I have received, and I have been struck by the generally strong financial position of the scheme, as well as the strong commitment to serving scheme members. However, it is clear that there is also a need for improvements, including to meet the expectations set out on asset pooling and investments set out at the [Autumn Statement](#). More efficiencies in fund administration and management should also be achieved: across the scheme in 2022-3 investment management costs were £1.7 billion and £280 million on administration and governance.

Your response should consider the following themes on pensions.

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


- What proportion of assets have been pooled in your chosen LGPS asset pool? Is your fund on track to pool all listed assets by March 2025, and if not, what are the barriers to this?
- Is there scope for minimising waste and duplication by making use of your LGPS asset pool's services and expertise in reporting and development of the pensions investment strategy? What is your expenditure on pensions investment consultancy?
- Does your LGPS asset pool have an effective, modern governance structure in place, which is able to deliver timely decisions and ensure proper oversight? If not, what steps are you taking to make your pool's governance more effective?

**2. How you ensure your LGPS fund is efficiently run, including consideration of governance and the benefits of greater scale.**

- Does your LGPS fund have effective and skilled governance in place, which is able to hold officers, service providers and the pool to account on performance and efficiency?
- Would you be likely to achieve long-term savings and efficiencies if your LGPS fund became part of a larger fund through merger or creation of a larger pensions authority?

As set out in my previous letter I do not wish to impose excessive burdens. I expect your letter to be no more than two pages in length. Your plans must be returned by 19 July 2024, by email to [lgpensions@levellingup.gov.uk](mailto:lgpensions@levellingup.gov.uk). We will review your responses and consider the issues emerging and the implications for future national policy.

I look forward to working with you to deliver the best outcomes.

With every good wish.  
Yours,  
  
**SIMON HOARE MP**  
Minister for Local Government