

To: Pension Fund Committee – 23 June 2026

From: Chair Pension Fund Committee
Corporate Director - Finance

Subject: Fund Governance

Classification: Unrestricted

Executive Summary:

This report brings together a number of issues that fall under the broad category of Governance for the whole Fund and some of the key issues for consideration this time are noted below:

- The Fund's budget outturn for 2025/2026 is predicting a net overspend of circa £10m due to higher investment management costs (£12.8m), with underspend in other areas.
- Policy updates are being made to reflect KPF branding. Material changes to policies may be required when regulatory and statutory guidance is released by the government.
- Resourcing challenges continue to be felt in the Pensions Administration section, where a balanced approach to the impact of buddying and support to new starters has been taken.
- External Audit is in progress. Draft Internal Audit opinion on Debt Recovery Management was 'Substantial', with 'Very Good' prospects for improvement identified. No 'high' or 'medium' risk issues were identified in the Internal Audit.

The Committee is recommended to:

- **DELEGATE responsibility to the Head of Pensions & Treasury to lead the selection process for the Independent Person for Pension Fund Committee, in consultation with the Chair of Pension Fund Committee.**
- **NOTE and comment on the report.**

FOR DECISION

1 **Draft Budget Outturn 2025/26**

- 1.1 The Fund's outturn has been compared against the budget for 2025/26 in **Appendix One** of this report, these figures are draft and subject to audit and pending any final adjustments identified. The outturn is projecting an increase in costs against budget of £10m due to higher investment management costs (£12.8m), which are both unpredictable but also positively correlated to investment activity and growth and reflect better fund performance. The Fund is however managing operational costs and projecting underspend in other operational areas. The main variances can be explained as follows:
- 1.2 **Administration Staffing** - costs have an underspend due to the budget being set anticipating vacancies being filled, however, where recruitment campaigns have been completed and vacancies filled, some have come from internal candidates which leave backfill vacancies outstanding.
- 1.3 **The Data Rectification project** - this is a multi-year exercise and is progressing, but the invoicing is dependent on progress made. Progress has been impacted by issues relating to system access and ensuring accurate data has been received from employers. It is expected that, to fulfil the contract, activity will increase in 2026/27 and therefore we anticipate an increase in costs next year.
- 1.4 **Actuarial Fees** – these are dependent on activity undertaken throughout the year, this year being a valuation year has added a level of complexity when setting the budget. The estimated cost of the valuation was £55,000 less than the actual spent.
- 1.5 **Investment Consultancy** – the budget was set in line with previous activity; however, this year fund activity has been more focused on pooling. This has impacted the ability to commission budgeted work on Investment Strategy, Responsible Investment & Risk Management which has seen a reduction in costs.
- 1.6 **Pooling (selection and joining) advice** – Due to the Government consultation and need to move swiftly an estimate of the support needed was made in the budget. However, actual costs associated with pooling advice incurred are significantly lower than anticipated as the Fund has worked collaboratively with other funds when seeking advice, which helped us manage the costs.
- 1.7 **Governance Staffing** - costs appear to be higher than the estimate, however this includes a reorganisation of staff and includes some costs that were originally accounted for in Administration section.
- 1.8 **KCC Overheads Recharges** – costs are higher as cost for treasury services for the pension fund were higher than budgeted as the cost is dependent on the cash balances of the Pension Fund account which was higher than anticipated.

- 1.9 **Pooling Costs** – ACCESS pool costs incurred were considerably lower than budgeted as the focus of the pool shifted from building a pool company to facilitating an orderly wind down. Some initial costs of Border to Coast pool have been included in this item.
- 1.10 **Fund Manager Fees** - have increased significantly when compared to the budget due to fund values growing at a quicker pace than forecast, especially in the equities asset class. As fees are paid on the value of asset under management, this has led to an increase in fees.
- 1.11 **Transaction costs** - are always impossible to accurately estimate as they relate to individual transactions and transitions undertaken by investment managers in response to evolving market conditions, and these cannot be known when setting the budget, hence an average is estimated. The higher level of costs in 2025-26 relate to two property purchases that took place in December to increase property allocation to strategic target. In addition, due to the transition to Border to Coast it is likely there will be higher than average transaction costs over the next year or two, however officers are working with Border to Coast to ensure these are managed.

2 **Legislation Update**

The Pensions Bill is now the Pensions Schemes Act which paves the way for the government to make regulations for the LGPS. On 21 May 2026, the government published its response to the technical consultation on the regulatory aspects of the Fit for the Future reforms. The governments responses can be found here:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-in-england-and-wales-fit-for-the-future-technical-consultation/outcome/technical-consultation-summary-of-responses-and-government-response#local-government-pension-scheme-amendment-governance-regulations-2026>

- 2.1 ‘The LGPS (Pooling, Management and Investment of Funds) Regulations 2026’ and ‘The LGPS (Amendment) (Governance) Regulations 2026’ were laid in Parliament on 21 May and will come into force on 30 June 2026. Officers are awaiting the finalised statutory guidance, which will provide the detail to support the interpretation of the legislation, but this is expected before 30 June 2026.
- 2.2 The government’s response highlights the following key milestones:
- a fund’s assets must be under pool management within three months of their first participation in the pool, subject to such further transitional periods as the asset pool company may agree on a case-by-case basis where it is not reasonably practicable to have assets under pool management within the three-month deadline

- where an administering authority is moving asset pools, they will be exempt from the requirement to participate only in one pool for a period of three months
- where an administering authority is participating in their old pool solely for the purpose of winding down that pool, they will be exempt from the requirement to participate only in one pool until the wind-down process is complete
- administering authorities must appoint an LGPS Senior Officer and an Independent Person within six months of the regulations coming into force (i.e. by 31 December 2026)
- the first investment strategy statement (ISS) under the new requirements must be published by 31 March 2027.

2.3 Recent changes in pension administration legislation are outlined in the Pensions Administration paper.

3 Governance Review Checklist (Checklist provided by Barnett Waddingham in March 2026)

3.1 Members will recall at the last meeting, Alison Murray from Barnett Waddingham presented an assessment of the work needed to comply with the proposed regulatory changes to the governance of the LGPS. As noted above the regulations have now been laid before Parliament and will come into force on 30 June 2026.

3.2 Whilst statutory guidance is still missing, this now means the Fund can start to progress those items set out by Barnett Waddingham in their report. The checklist is attached at **Appendix Two**, with notes on any progress made. It is worth noting that a lot of the items need the statutory guidance before substantive progress is made.

3.3 One of the items on the Checklist refers to the appointment of an Independent Person for Pension Fund Committee. The background to this role is set out in the Barnett Waddingham report presented at the last meeting, and the key points from the draft statutory guidance are set out in the following paragraphs.

Independent Person

3.4 Responsibilities

The draft guidance explains that the role of the independent person is to help the committee to scrutinise and challenge the advice they receive.

It also suggests that the role is similar to that of a Non-Executive Director or Professional Trustee and specifies that the independent person role should include all functions of the pension committee. In particular:

- Investment strategy, with their duties including scrutiny of advice from the pool and of performance against the fund's strategies

- Governance, with their duties including supporting on any action plan arising from the Independent Governance Review and on scrutiny of administration performance
- The administering authority's role as a shareholder or client with its asset pool company

The independent person should also support the chair of the Local Pension Board to help it ensure the administering authority is fulfilling its statutory duties with regards to effective governance and administration of the fund.

Other provisions:

- the independent person must be a non-voting member of the Committee or Sub-Committee
- the senior LGPS officer should have a direct relationship with the Independent Person
- the same person can be the independent person across multiple administering authorities so long as those administering authorities are satisfied the independent person can devote sufficient time to each administering authority
- it is likely to be a legally defined as a politically restricted post
- pension committees should regularly review the contribution of the independent person

3.5 Furthermore, it is understood the revised guidance, when issued, is likely to say the Independent Person may be an individual or a firm, subject to there being a named individual at the firm who can be supported by other experts at that firm.

3.6 Given all 86 LGPS Administering Authorities will need to make appointments, the Fund is keen to ensure that we make early progress on this, with only a handful of Funds having already started their recruitment. It is therefore recommended that the Committee delegates responsibility to the Head of Pensions and Treasury, in consultation with the Chair to devise the process for appointment, and progress promptly once the final guidance is issued. It is hoped that an appointment could be made ahead of the next meeting of the Committee in September 2026, and that the outcome of the process can be reported.

4 Policy updates

4.1 Work on the Fund's policies has been undertaken as follows. As these changes are not material and are mainly branding updates to ensure consistency on the KPF website, they are not being taken to Committee for approval. However, in due course, the policies will be reviewed in light of the new legislation framework and statutory guidance and any material changes to the policies will be brought to Committee for approval.

Policy	Developments since March 2026	Next steps
Funding Strategy Statement	Approved by Committee in March 2026 and published on Fund website on 1 April replacing the older version.	Next due for review in March 2029
Investment Strategy Statement	Guidance delayed.	See Investments paper being taken to PFC September 2026.
Governance Policy & Compliance Statement	Guidance delayed.	Full review required when guidance released.
Responsible Investment Policy		Next due for review June 2027 but may review before then due to move to BCPP
Communication Policy	Approved by Committee in March 2026. Has replaced older version on KPF website.	Next due for review in March 2029
Administration Strategy	Work in progress: application of KPF branding. Guidance delayed.	Full review required when guidance released.
Conflict of Interest Policy	Work in progress: application of KPF branding. Guidance delayed.	Full review required when guidance released.
Breaches of Law Policy	Work in progress: application of KPF branding. Minor updates re. contact details of KCC's new S.151 Officer and Monitoring Officer. Guidance and regs delayed.	Full review required when guidance released.
Discretions Policy	Work in progress: application of KPF branding. Guidance delayed.	Full review required when guidance released.
Abatements Policy	Work in progress: application of KPF branding. Reviewed, no material content changes.	Latest version to be added to KPF website.
Training Strategy	Work in progress: application of KPF branding. Guidance delayed.	Full review required when guidance released.
Data Quality Policy	Approved by Committee in March 2026. Has replaced older version on KPF website.	Next due for review in March 2029
Data Matching and Criteria Policy	Approved by Committee in March 2026. Not put on KPF website due to security concerns.	Next due for review in March 2029
Cyber Security Policy &		Regularly reviewed and

Incident Response Plan (Not on KPF website due to security concerns)		updated to ensure contact details are correct.
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5 Officer Resourcing

5.1 Resourcing updates since March 2026, across the Fund:

	Total	Details
Leavers	4	1 x end of secondment (Governance & Projects) 1 x resignation (Pensions Admin) 1 x retirement (Pensions Admin) 1 x sabbatical (Investments)
New starters (external)	2	1 x Pension Fund & Investments Officer (secondment) 1 x return of colleague to KPF
Recruitment campaigns in progress	3	3 x Pensions Assistants (due to internal promotions) Pensions Training Officer (due to internal promotion) Engagement & Systems Senior Officer (due to retirement)
New roles currently being considered to help meet business demand (currently being grade evaluated by KCC's HR Team)	2	Business Support Assistant LGR Programme Manager

5.2 Recruitment Update for Fund (appointments):

Position	Team	Start Date	Number	External/Internal
Pensions Assistant	Operations	05/01/2026	1	External (6-month fixed term contract)
Deputy Team Manager	Engagement & Systems	01/01/2026	1	Secondment made permanent
Pensions Assistant Training Officer	Technical & Training	01/02/2026	1	Acting up secondment
Deputy Team Manager	Operations	01/03/2026 01/04/2026	1 1	Secondment made permanent
Pensions Administrator	Operations	01/03/2026 01/06/2026	1 2	Acting up secondment
Senior Pensions Administrator	Operations	01/04/2026	5	Internal promotion
Lead Manager	Technical & Training	01/07/2026	1	Acting up made permanent
Technical & Training	Technical &	06/07/2026	1	Return of ex KPF

Consultant	Training			colleague
Pension Fund Accounts and Investment Officer	Treasury & Investments	01/04/2026	1	Acting up secondment
Pension Fund & Investments Officer (secondment)	Treasury & Investments	1/6/2026	1	External
Training & Development Manager	Technical & Training	TBC	1	Internal promotion

5.3 Current Vacancies across the Fund, not currently being advertised, in order to balance business needs with buddy support:

Position	Team	Quantity
Team Manager	Operations	1
Pensions Administrator	Operations	7
Pensions Officer	Operations	3
Pensions Assistant	Engagement & Systems	3
Engagement & Systems Officer	Engagement & Systems	1

5.4 A number of appointments and role changes have taken place across pensions admin so far in 2026. Overall, the changes reported demonstrate a strong focus on internal development and career progression, supported by selective external recruitment and the retention or return of experienced staff.

5.5 Please see the latest structure charts (last updated April 2026) on the Member portal, including where vacancies held.

6 Audits

6.1 **External Audit** - Work has progressed on the 2025/26 External Audit of Accounts. Officers have been providing the auditors with requested information/evidence. The 2025/26 Annual Report and Accounts along with the audit findings will be shared in September.

6.2 **Internal Audit** - An Internal Audit on debt recovery has been completed and a draft report has been provided. Copies have been sent to the Chairs and Vice Chairs of the Pension Board and Pension Fund Committee. Internal Audit reviewed KPF's processes for identifying, monitoring and recovering pension overpayments, including compliance with policy and effectiveness of controls. The internal audit included testing of overpayments, write offs, reporting, and governance arrangements, alongside benchmarking with other LGPS funds. A 'Substantial' audit opinion was given, with 'Very Good' prospects for improvement identified. No 'high' or 'medium' risk issues were identified. Two 'low risk' improvement areas were recommended which are being considered by Officers:

- Introduce formal review schedule and ownership for procedures (target September 2026)
- Enhance reporting to include recoveries and write offs (target December 2026)

7 Conclusion

7.1 Further updates to be provided to the Committee in due course.

Appendices:

Appendix One: Draft Budget Outturn 2025/26

Appendix Two: Governance Review Checklist updates

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