Kent County Council
kent.gov.uk

AGENDA

PENSION BOARD

Tuesday, 11th June, 2024, at 10.00 am		Ask for:	**James Clapson**
Council Chamber, Sessions House, County Hall, Maidstone		Telephone	**03000 417 387**

Membership

Scheme Employer Representatives (4)

Kent County Council (2)	Mr R Thomas (Chair) and Mr D Jeffrey
District/Medway Council (1)	Cllr R Carnac
Police/Fire & Rescue (1)	Ms A Kilpatrick

Scheme Member Representatives (4)

Active Scheme Member Representative	Ms K King, Kent County Council
Unison Representative	Mr J Parsons, Medway Council (Vice-Chair)
Pensioner Representatives	Mrs A Mings, Mr G Ward

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Apologies and Substitutes

2. Declarations of Interest by Board members on items on the agenda for this meeting

3. Minutes of the meeting held on 12 March 2024 (Pages 1 - 6)

4. Future Meeting Dates

To note that meetings of Pension Board will take place at 10.00 am on the following dates:

3 September 2024
21 November 2024
25 February 2025
3 June 2025

5. Update from the Chairman of the Pension Fund Committee

6. Governance Update (to follow)

7. Kent Pension Fund Audit Plan (Pages 7 - 36)

8. Pensions Administration (Pages 37 - 62)

9. Investment Update (Pages 63 - 96)

Motion to exclude the press and public for exempt business

That, under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information)

EXEMPT ITEMS

(During these items the meeting is likely NOT to be open to the press and public)

10. Cyber Security (Pages 97 - 140)

11. Risk Register (Pages 141 - 176)

12. Employer Governance Matters (Pages 177 - 230)

13. ACCESS Pooling Update (Pages 231 - 236)

14. McCloud & Data Rectification Update (Pages 237 - 244)

Benjamin Watts
General Counsel
03000 416814

Monday, 3 June 2024

KENT COUNTY COUNCIL

PENSION BOARD

MINUTES of a meeting of the Pension Board held in the Council Chamber, Sessions House, County Hall, Maidstone on Tuesday, 12 March 2024.

PRESENT: Mr R J Thomas (Chair), Cllr R Carnac, Mr D Jeffrey, Ms K King, Mrs A Mings and Mr J Parsons

ALSO PRESENT: Mr C Simkins (Chairman of the Pension Fund Committee)

IN ATTENDANCE: Mr N Buckland (Head of Pensions and Treasury), Mr J Graham (Pension Fund and Treasury Investments Manager), Mrs C Chambers (Pensions Manager), Mrs E Green (Senior Pensions Programme Manager), Mr S Tagg (Senior Accountant - Employer Governance and Compliance), Mrs A Jupp (Communication and Support Team Manager) and Mr M Dentten (Democratic Services Officer)

UNRESTRICTED ITEMS

69. Apologies and Substitutes
(Item 1)

Apologies for absence were received from Alison Hartley and Grahame Ward.

70. Declarations of Interest by Board members on items on the agenda for this meeting
(Item 2)

No declarations were made.

71. Minutes of the meeting held on 28 November 2023
(Item 3)

RESOLVED that the minutes of the meeting held on 28 November 2023 are correctly recorded and that they be signed by the Chair.

72. Update from the Chairman of the Pension Fund Committee
(Item 5)

1. Mr Simkins gave a verbal update on the work of the Pension Fund Committee and its most recent meeting on 12 December 2023, highlighting the following:

    a. that the Committee agreed its implementation plan for the revised investment strategy, including the creation of an index-linked gilts portfolio, which would account for 7% of the Fund and which was implemented in February 2024; a revised equity protection mandate; and the movement of assets from UK equity to emerging market equity, with UK equities reducing from 23% to 10% as a result, with implementation of the change ongoing;

b. that the Committee agreed a 2050 Net Zero target for the Fund's investment portfolio, including a 43% reduction in emissions relating to the equity portfolio by 2030 and a 69% reduction by 2040;

c. that it had also considered the initial outcomes of the Government's LGPS: Next steps on investments consultation; and

d. that the Committee would be considering emerging market equities and private equity investment at its 26 March 2024 meeting, to ensure that the strategy is able to deliver the long-term funding goals which have been set out.

RESOLVED to note the verbal update.

73. Governance updates including Draft Business Plan for 2024/25 - 2026/27
(Item 6)

1. Mr Buckland introduced the report which detailed the Fund's draft Business Plan for 2024/25 - 2026/27, updates to key policies and changes in regulation that would impact on the Fund. He explained that following the issue of The Pensions Regulator's General Code, officers and advisers were investigating its implications on the Fund, which would be shared at a future meeting. Concerning the Economic Activities of Public Bodies (Overseas Matters) Bill, he stated that whilst the impact on the Fund was expected to be minimal its full implications would also be assessed.

2. Mr Buckland gave a presentation on the draft Business Plan. The contents of the presentation included:

    a. that the Fund's vision and long-term plan were unchanged;

    b. the governance, administration and investment and funding priority tasks, aligned to the Fund's strategies;

    c. additional pressures, in the form of regulatory changes, continued change and a continued focus on delivery for members; and

    d. the Fund's draft Budget for 2024/25 - 2026/27.

3. Mr Buckland gave assurance that the Fund's risk register would be reported to the Board's next meeting.

4. Following a question from a Member, Mr Buckland confirmed that the Fund membership would be updated to reflect the latest membership, ahead of consideration and approval by the Committee.

5. In response to a request from a Member, Mr Buckland agreed to provide the Board with a Pensions team structure chart.

RESOLVED to note the report.

74. Communication Policy
(Item 7)

1. Mrs Jupp introduced the report which gave an overview of the changes proposed to the Fund's communication policy, which reflected the Fund's move to "Digital by Default" and would be considered for approval by the Committee on 26 March 2024. It was explained that the under the Digital by Default objective the Fund had undertaken a mailing preference exercise to notify active and deferred members that future Annual Benefit Illustrations (ABI) would be published on member self-service as opposed to being sent out as hard copies in the post. She confirmed that active members would receive their 2024 ABI electronically via member self-service and would receive an email notification advising them how to logon or register, whilst deferred members would receive their final digital notification with their 2024 ABI and the 2025 ABI would be issued electronically via member self-service. She explained that employers had been made aware of these proposed changes.

2. Mrs Jupp confirmed, following a question from the Chair, that approximately 60 of the Fund's over 170,000 members had opted out of Digital by Default.

3. Following a question from a Member, Mrs Jupp explained that scheme documents were currently under review and would be available on member self-service shortly.

RESOLVED to note the report.

75. Member Training
(Item 8)

1. Mrs Green introduced the report which detailed proposed changes to the Fund's Training Strategy. She explained that the changes included the incorporation of current practice; clarity on the training expectations of Members of Pension Board and Pension Fund Committee; the potential consequences of persistent non-compliance; and clarification of the approach for reporting individual training attendance. She noted that following endorsement by Pension Board, the Strategy would be presented to the Pension Fund Committee for approval.

2. The Chair commended the Board's use of the training offered and compliance with the existing Strategy.

3. A Member commented that concentrated training following the May 2025 local election should be prioritised, to ensure that new Members have an adequate understanding of the Board and Committee's responsibilities. Mr Buckland gave assurance that the induction programme for new Members would be refreshed to provide the necessary training and support.

4. Following a question from a Member on the impact of The Pensions Regulators General Code and whether its impact would be included in future training, Mr Buckland agreed to provide the Board with an update at the Board's June meeting.

5. In response to a question from a Member, Mr Buckland agreed to continue to make Members aware of future external training options.

RESOLVED to endorse the updated Training Strategy, intended to supersede the current Training Strategy (2022).

76. Pensions Administration
(Item 9)

1. Mrs Chambers introduced the report which updated the Board on the administration of the Kent Pension Fund from 1 November 2023 to 31 January 2024, including: performance; recruitment; breaches of law; complaints, compliments and comments; project updates; overpayment recovery and write off limits; communications and support; technical developments; training; and development. She noted that completed cases were at their highest in a year and that there was the ambition to further improve performance for low priority cases. Regarding the abolition of the lifetime allowance, she confirmed that training had been organised with external providers to ensure that the service understood the change's implications. Technological developments including a new telephony system with new call flow models and member self-service were detailed.

2. Following a question from the Chair, Mrs Chambers confirmed that the internal secondments had been from within the Pensions team and that there had been a 100% success rate of secondees receiving permanent positions.

3. In response to a question from a Member, Mrs Jupp confirmed that member self-service had been promoted through webinars open to scheme members as well as advertising in the newsletter and on Fund's website.

77. Employer Governance
(Item 10)

1. Mr Tagg introduced the report which updated Board Members on Fund employers for the 3 months ending 31 December 2023, employer admissions agreed by the Committee at its last meeting and the actuarial procurement project. He highlighted recent strong performance with the Key Performance Indicator (KPI) for the percentage of contributions received on time by value met every month April to December as well as the KPI for the percentage of contributions received on time by employers met every month April to December 2023, except for May 2023. Regarding the actuarial procurement, he confirmed that Barnett Waddingham, being the Fund actuary since 2009, were reappointed on 1 February 2024 for 6 years with a possible 3-year extension.

2. The Chair asked whether any other proactive measures could be put in place to support the timely admission of new employers. Mr Tagg explained that since a change in regulations in May 2018 backdated admissions to the Fund were permitted, with the intention of improving flexibility. He noted that the change meant that the Fund was often only made aware of required admissions after contracts had began, which could delay members benefits

until the legal documents are in place. He gave assurance that the Fund continued to work hard with employers to avoid any delays and that the Fund actively engaged employers where issues were identified.

3. A Member asked whether late admissions affected the Fund's ability to earn returns on delayed contributions. Mr Tagg explained that the regulations allowed for the Fund to charge an interest payment on late contributions. He added that in practice interest on employer contributions was sometimes charged but had not been charged on employee contributions.

4. Following a question from the Chair, Mr Buckland explained that the impact of late joiners to the Fund ahead of the triennial evaluation would be neutral.

RESOLVED to note the report.

78. Investment Update
(Item 11)

1. Mr Graham introduced the report which provided the Board with an update on the Fund's investment activity and performance as well as responsible investment developments since the Board's last meeting. He confirmed that as of 31 January 2024, the Fund's value was £7.84bn and had returned 1.42% in the three months to 31 December 2023, compared to the benchmark return of 3.05%, with an annual return at year end of 2.98% against a benchmark of 8.65%. He confirmed that the Committee had approved an updated Investment Strategy Statement, as a result of the investment strategy review and new strategic asset allocation. He noted that the Committee had held an investment strategy development day with the Fund's investment advisor, which was attended by the Chair of Pension Board, and considered responsible investment, including the implications of climate change on risk management and clean energy investment opportunities.

2. In response to a question from a Member on whether the actuary's interim assessment of funding levels would affect employer contribution rates, Mr Buckland explained that it would not and that the review was purely for information ahead of the Fund's next triannual evaluation in September 2025, at which point employer contribution rates would be determined.

3. The Chair asked whether tracking of the Fund's progress against its net zero target had been considered. Mr Graham confirmed that the target had been communicated to the Fund's investment managers as well as the ACCESS pool and that progress would be considered as part of the Committee's review of mandates.

RESOLVED to note the report.

Motion to Exclude the Press and Public

RESOLVED that the Press and Public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS
(Open access to minutes)

79. CEM Benchmarking
(Item 12)

David Jennings (CEM) and John Simmonds (CEM) were in attendance for this item.

1. Mr Jennings and Mr Simmonds gave a presentation which outlined the findings of CEM's benchmarking assessment of Kent Pension Fund's administration services as at 31 March 2023.

2. Board Members asked questions, which were responded to by officers and CEM, on the adoption of best practice from other high performing funds; importance of considering the benchmarking results during the development of the Fund's next administration strategy; development of online capabilities; and the importance of external assurance.

RESOLVED to note the report and presentation delivered by CEM during the Pension Board meeting on key findings.

80. ACCESS
(Item 13)

1. Mr Graham introduced the report which summarised the activities of the ACCESS pool since the last meeting of the Board, including the business transacted at the Joint Committee's 4 March meeting.

RESOLVED to note the report.

81. McCloud
(Item 14)

1. Mrs Green introduced the report which updated the Board on the measures in place, including the procurement of ITM to support the data rectification project, and progress made by the Kent Pension Fund in obtaining data from scheme employers as well as the challenges faced.

2. Board Members asked questions on support for organisations and individuals submitting their data and measures to increase response rates amongst smaller employers in the Fund.

RESOLVED to note the report.

82. Cyber Security
(Item 15)

1. Mrs Green introduced the report which provided an update on the cyber security work being undertaken by the Fund.

RESOLVED to note the report.

From:	Chairman Kent Pension Board Acting Corporate Director - Finance
To:	Kent Pension Board – 11 June 2024
Subject:	External Audit Plan 2023-24
Classification:	Unrestricted

Summary:

To provide an update on the external audit plan for financial year 2023-24.

Recommendation:

The Board is asked to note the report.

FOR INFORMATION

1. Introduction

1.1 In 2023, the Public Sector Audit Appointments (PSAA) appointed Grant Thornton as auditors for the Kent Pension Fund for a further period of 5 years from 2023-24.

1.2 Grant Thornton have prepared an audit plan which provides an overview of the planned scope and timing of the Statutory audit of the Kent Pension Fund for those charged with Governance.

1.3 As a sperate reporting authority from the Kent County Council the Pension Fund is required to prepare a separate set of Annual Report and Accounts and requires a separate audit and reporting arrangements.

1.4 The plan outlines the context, the key risks and considerations, operational plans as well as well as fees in relation to the audit and will be presented verbally at the meeting by the auditors.

1.5 The audit plan has been agreed with the Acting Corporate Director of Finance and by the Governance and Audit Committee of Kent County Council on 16 May 2024.

1.6 The Board is asked to note the External Audit Plan.

Appendix 1 – External Audit Plan

Sangeeta Surana (Investments, Accounting and Pooling Manager)

T: 03000 416738

E: sangeeta.surana@kent.gov.uk

28 May 2024

Indicative External Audit Plan

Year ending 31 March 2024

Kent Pension Fund

May 2024

Contents

Your key Grant Thornton team members are:

Parris Williams
Key Audit Partner
T +44 (0)20 7728 2542
E Parris.Williams@uk.gt.com

Samantha Morgan
Audit Manager
T +44 (0)20 7728 3251
E Samantha.A.Morgan@uk.gt.com

Jack Coe
In-charge Associate
T +44 (0)20 7728 2929
E jack.coe@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

National context

The national and international economic context continues to present challenges for pension funds. Inflationary pressures at home and abroad and wider geo-political issues mean there is volatility in global markets with a consequential impact on the investments held by pension funds.

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of local government pension funds and set employer contribution rates in each Fund for the period from 1 April 2023 to 31 March 2026. For Kent Pension Fund, the valuation was undertaken by Barnett Waddingham, and showed that the Fund had a funding level of 102% i.e. the value of assets for funding purposes was 102% of the value that they would need to pay for the benefits accrued to that date. This corresponds to a surplus of £181m.

In November 2023, the Department for Levelling Up, Housing and Communities (DLUHC) published the outcome of their consultation on local government pension scheme investments. The government will now implement proposals which include revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025 on a comply or explain basis, regulation to require funds to set a plan to invest up to 5% of assets in levelling up the UK and revised investment strategy statement guidance to require funds to consider investments to meet the government's ambition of a 10 % allocation to private equity. The Chancellor has also outlined plans that local government pension funds will be invested in pools of £200bn or more by 2040.

DLUHC have also consulted on proposals to require local government pension scheme administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). It has been confirmed that disclosure requirements will not be mandated for the 2023/24 financial year with the earliest starting point being the 2024/25 financial year but this is likely to require regulations to be in place by December 2024. We note that the Pension Fund has decided not to early adopt the recommendation, but are aware of it for the following financial period.

In April 2024 DLUHC, in association with the Scheme Advisory Board and CIPFA, published updated guidance on preparing the pension fund Annual Report. This guidance applies to 2023/24 annual reports and later years but for annual reports covering 2023/24, funds are required to only use their best endeavours to comply fully with this guidance. We are also aware that administration teams will be tasked with implementing the McCloud remedy for qualifying members' pensions which came into force from 1 October 2023.

As part of our planning assessment, we will take account of this national and international context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters - continued

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our repot About time? In March 2023 which explored the reasons for delayed publication of audited local authority accounts.

Local authorities which administer local government pension funds are required to publish full pension fund accounts in the same document as their local authority accounts. This requirement means that the audited accounts of the host authority and related fund cannot be finalised until both audits have been completed. This co-dependency has compounded delays in the conclusion of pension fund audits and publication of audited accounts and annual reports.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters - continued

Our Responses

- The contract with PSAA for Kent Pension Fund was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors for the next five years. As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan, will be agreed with the Director of Finance. Page 19 of this Audit Plan, sets out the four contractual stage payments for this fee, with payment based on delivery of specified audit milestones.
- To ensure close working with our local audited bodies and an efficient audit process, our preference as a firm is to work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- At an appropriate point within the audit, we may request to meet informally with the Chair of your Governance and Audit Committee, to brief them on the status and progress of the audit work to date.
- We will continue to provide the Corporate Director of Finance, Head of Pensions and Treasury and your Governance and Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Governance and Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- We have identified a significant audit risk relating to the valuation of level 3 investments and valuation of direct property on page 10.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. This indicative audit plan sets out the implications of the revised Code on this audit. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as your auditor. We draw your attention to these documents;

NAO Code of Audit Practice

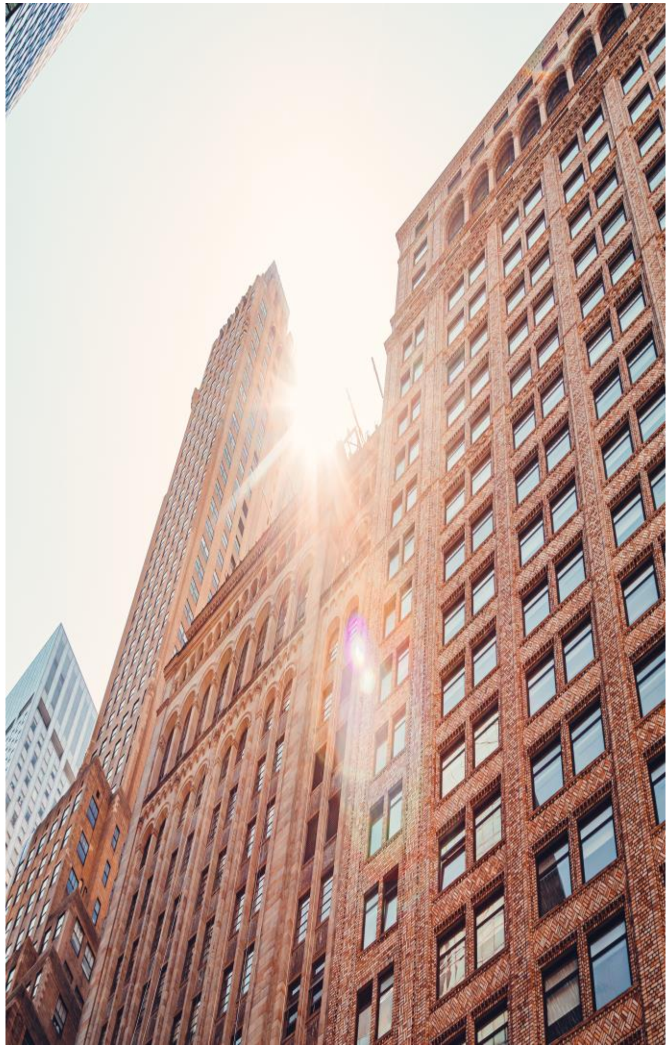
PSAA Terms of Appointment - July 2021

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Governance and Audit Committee).

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of Level 3 Investments
- Valuation of Directly Held Property
- The revenue cycle includes fraudulent transactions – this has been rebutted on page 8

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £118.3m (PY £115.6m) for the Pension Fund, which equates to 1.5% of your gross investment assets as at 31 March 2023.

We have determined a lower specific planning materiality for the Fund Account of £31.85m which equates to 10% of prior year gross expenditure on the fund account, (PY £24m, based on 7.5% of gross expenditure).

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Triviality has been set at £5.9m (PY £5.7m). We have set our performance materiality at 75% of headline materiality, £88.75m (PY £86.7m).

We will revisit our determination of materiality after receipt of your draft financial statements. If we make a revision to materiality we will communicate this to you in our audit findings report.

Audit logistics

Our planning visit took take place in April and our final visit will take place in July – September. Our key deliverables are this Audit Plan and our Audit Findings Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £112,629 (PY: £67,661)for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

Our understanding is that the Custodian independently values the Pension Fund's Level 1 and some of Level 2 Level Investments, this means we will be able to triangulate some of the valuations included in the financial statements for these investments to custodian and investment manager confirmations. However, for those not independently valued we will carry out further audit procedures to gain assurance over the valuations of these investments, for instance for Level 2 investments we will agree these to available market information where available and we will supplement this with other information (e.g. the financial statements for pooled property funds) where market information is not readily available.

See page 10 for further details regarding our approach to auditing the valuation of Level 3 and Direct Property Investments.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Pension Fund faces external scrutiny of its spreading and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states that the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition for public sector bodies.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition (and expenditure under PN 10) can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Kent Pension Fund, mean that all forms of fraud are seen as unacceptable **Therefore, we do not consider this to be a significant risk for the Kent Pension Fund.**

Page 17

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 Investments	You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date. By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £115.7 million) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as of 31 March. We therefore have identified Valuation of Level 3 Investments as a significant risk.	We will: • Evaluate management's processes and design & implementation of relevant controls for valuing Level 3 investments. • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met. • Independently request year-end confirmations from investment managers and the custodian. • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports as at that date. Reconcile those values to the values on 31 March 2024 with reference to known movements in the intervening period. • in the absence of available audited accounts, evaluate the competence, capabilities and objectivity of the valuation expert; and, • Where available review investment manager service auditor report on design and operating effectiveness of relevant internal controls

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Directly Held Property	The pension fund has directly held property within its Level 2 investment portfolio. A full valuation is carried out by management's expert on an annual basis as at 31 December, and monthly indexation is applied to ensure that the fair value of these properties are materially accurate between the valuation date and the financial reporting date. The valuation represents a significant estimate by management in the financial statements, due to the size of the asset values involved and sensitivity to changes in assumptions applied.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and the custodian • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding , and • test, on a sample basis, revaluations made during the year to ensure they have been recorded accurately within Kent Pension Fund's financial records.

Other matters

Other work

The Pension Fund is administered by Kent County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2023/24 financial statements, consider and decide upon any objections received in relation to the 2023/24 financial statements;
  - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Page 20

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality by applying a reasonable measurement percentage to an appropriate benchmark. Materiality at the planning stage of our audit is £118.3m, which equates to 1.5% of your gross investment assets as at 31 March 2023.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements. – ensure that we are able to provide IAS 19 assurances to admitted bodies at the appropriate precision level.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have determined a lower specific planning materiality for the Fund Account of £31.85m (PY £24m), which equates to 10% of prior year gross expenditure on the fund account. The lower specific materiality for the fund account will be applied to the audit of all fund account transactions, except for investment transactions, for which materiality for the financial statements as a whole will be applied.

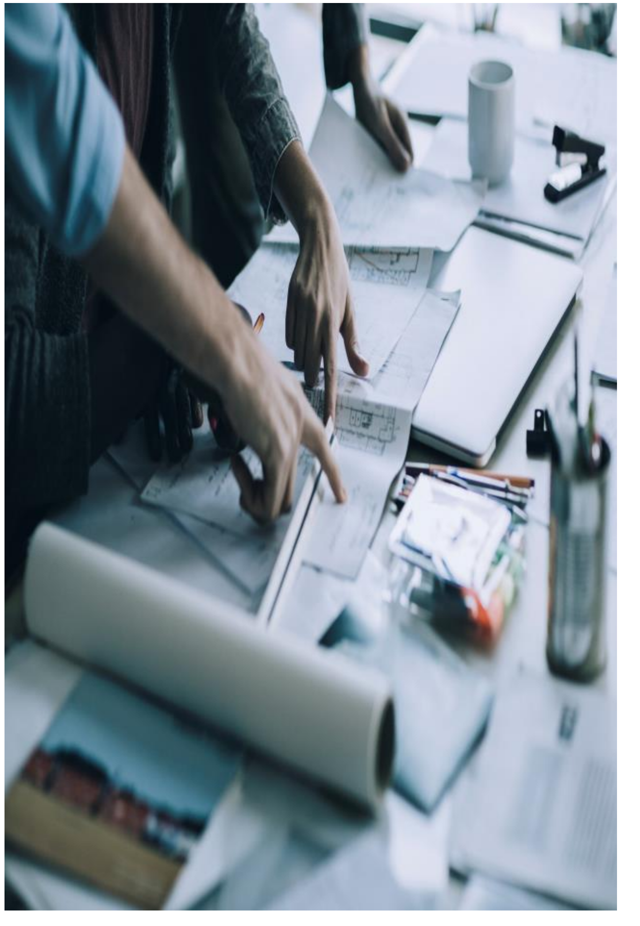
Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. We also re-evaluate materiality based on the materiality levels set by admitted bodies audited by Grant Thornton for 2023/24. Our preliminary materiality is based on an evaluation of materiality levels of admitted bodies set in 2022/23.
4	**Other communications relating to materiality we will report to the Governance and Audit Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Governance and Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £5.9m (PY £5.7m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	118.3m	Headline materiality equates to approximately 1.5% of your gross investment assets as at 31 March 2023. In determining this threshold, we have considered the nature of the pension fund, including the types of complex investments held that could impact upon the gross asset figures within the financial statements. As well as any other risks or matters identified from our risk assessment and planning performed to date that could have a significant and/or pervasive impact upon the accounts, including the pensions funds going concern basis.
Materiality for the fund account	31.85m	This equates to approximately 10% of prior year gross expenditure on the fund account. We have determined a lower specific materiality for the fund account for the audit of the pension fund on the basis that this area of the accounts is deemed of high interest and could reasonably be expected to influence the economic decisions of financial statement users.



IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 17.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle	Financial reporting	• Detailed ITGC assessment (design effectiveness only)*
Pension Administration System - Altair	Member data	• Detailed ITGC assessment (design effectiveness only)

* The financial reporting system is hosted by the administrating authority (The County Council) of whom Grant Thornton are also the auditors for and will perform a review of, this review will be used for the pension fund audit.

ISA315 Revised

ISA 315 (revised July 2020) takes effect for accounting periods starting on or after the 15th December 2021. This ISA deals with the auditor's responsibility to identify and assess the risks of material misstatement in the financial statements. The revisions made in the ISA have increased the level of work required of auditors and detail of this extra work is set out below.

Area	What's changed?	Impact on the audit
Information Technology Environment	The new requirement states certain aspects of the IT environment must be understood and documented for each significant classes of transactions, account balances and disclosures (SCOT+). The auditor is required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response.	The audit team will be required to: • perform walkthroughs of the IT environment; • identify and review relevant controls within the IT environment to ensure they are operational; • obtain details of the relevant IT / technical infrastructure (i.e., server location, database type); and • obtain details of the processes that operate within the IT environment (i.e., process to manage user access or manage a program or IT environment change).
Considering IT risks related to internal controls relevant to the audit.	The auditor is required to identify controls within a business process and identify which of those controls are controls relevant to the audit. For each internal control relevant to the audit, the auditor is required to evaluate the design of the control and evidence effective implementation of the control. The auditor is required to evaluate the design and determine the implementation of the general IT controls (ITGCs) that address the risks arising from the use of IT.	This requirement will lead to a significant change in practice, to the level of detail in which we will be required to understand the risks arising from the use of IT and associated general IT controls (ITGCs). There has been a significant increase in the number of detailed ITGC assessments required.
Control reliance	In previous years, where we had performed a walkthrough of your controls (such as operating expenditure), we were able to use the review of these controls to obtain comfort over the design effectiveness of your system. This would usually result in smaller sample sizes. The changes made to the ISA mean that design effectiveness will no longer grant a benefit when determining sample sizes.	There will be larger sample sizes across a number of areas. Key areas where we will likely see the biggest increase are: • operating expenditure and payables; • property, plant and equipment; • non-contract income. This is not a complete list but these will be the areas we expect to be most affected.

Page 25

Audit logistics and team

Planning and risk assessment

Planning Visit
April 2024

Governance and Audit Committee
May 2024

Audit Plan

Year end audit
July – September 2024

Governance and Audit Committee
September

Audit Findings Report

Audit opinion

Parris Williams, Key Audit Partner

Parris is responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Governance and Audit Committee, and the Executive Director of Strategy & Resources. He will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Governance and Audit Committee.

Page 26

Samantha Morgan, Audit Manager

Samantha is responsible for overall audit management, quality assurance of audit work and output, and liaison with the Governance and Audit Committee and finance team. She will undertake reviews of the team's work and draft reports, ensuring they remain clear, concise and understandable

Jack Coe, In-Charge Associate

Jack will lead the onsite team and will be the day to day contact for the audit. Jack will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Jack will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes and the Annual Report
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit (as per our responses to key matters set out on slide 3)
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors for the next five years. The scale fee set out in the PSAA contract for the 2023/24 audit is £105,099.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year (exception for new clients in 2023/24 only)
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Kent Pension Fund Audit	£105,099
ISA 315*	£7,530
IAS 19 letters for employer body auditors**	£1,100
Total audit fees (excluding VAT)	**£113,729**

Page 28

*ISA 315 is not included within the published 2023/24 scale fees. The £7,530 is therefore a fee variation that is subject to PSAA approval.

**Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work. The £1,100 are planned assurances to the NAO for Ebbsfleet Development Corporation.

Previous year

In 2022/23 the scale fee set by PSAA was £45,411. The actual fee charged for the audit was £67,661.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Other services

No other services provided by Grant Thornton were identified.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director(s) to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Governance and Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Governance and Audit Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Addressing the local audit backlog - consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:

Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – 'true and fair')
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit and Risk Management Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government's response to the consultation. We will discuss next steps including any implications for your audit once we have further information.

Grant Thornton

grantthornton.co.uk

This page is intentionally left blank

From: Chairman – Kent Pension Board
Acting Corporate Director of Finance

To: Kent Pension Board – 11 June 2024

Subject: Pensions Administration

Classification: Unrestricted

Summary:

This report brings Members up to date with a range of matters concerning the administration of the Kent Pension Fund for the period 1 February to 30 April 2024. The report covers the following areas:

1. Casework Performance
2. Recruitment
3. Complaints, Compliments and Comments
4. Project Updates
5. Overpayment Recovery and Write Off Limits
6. Communications and Support Update
7. Technical and Training Updates

Recommendations:
The Board is recommended to note the report.

FOR INFORMATION

1. Casework Performance

1.1 Details of the administration casework performance can be found at **Appendix 1.** Members will note this contains less data than previous reports due to issues that have been discovered with the accuracy of some of the reports as part of the investigative work being carried out in order to build a new style performance report and dashboard. Therefore, until this is rectified, only data where the accuracy can be guaranteed will be reported.

1.2 During the period 1 February to 30 April 2024 a total 12,944 cases were completed. With the average performance across all casework increasing from 79% to 85%. Performance has been categorised into red (below 80% SLA), amber (80-90% SLA) and green (above 90% SLA) in order to help Members and Officers identify where performance improvements are required.

1.3 Members will note that performance on the priority cases (Deaths, Retirements and Refunds) is of a high standard, however performance on lower priority areas such as Deferred Benefits and Transfers/Interfunds requires improvement. Officers are confident that performance will improve as bulk processing increases, member self-service processes are embedded, and outstanding vacancies are filled.

1.4 The changes to the Lifetime Allowance have impacted on performance due to the manual checks and calculations that are now required whilst legislation is clarified, and the administration system is updated to automate these additional checks.

1.5 Officers reported to Members at the last meeting of the Board that three projects regarding the recording and reporting of service levels/performance had commenced. Below is an update on these three projects:

i) The review of all Workflow task creation, service level targets and completion has been finalised. This project revealed that not all Administrators are using the system in a consistent and accurate manner and highlighted the need for training. Bite size videos are currently being produced by the Project Manager for Continuous Service Improvement.

ii) The transition of the current style performance report from the current manual method to an automated method within the Heywood's reporting tool (Insights) is still in progress. This project has also highlighted issues with the way in which the system is being used to manage casework, specifically around instances where additional information is being sought before cases can be progressed. This has resulted in cases being missed from the performance report and therefore inaccurately reporting demand on the team. Again, training is being provided to ensure a consistent and accurate approach to casework management.

iii) The development of a standard performance dashboard which presents information to Members including trends is being developed and will be finalised once step 2 above has been completed. The Continuous Service Improvement team are investigating ways of automating the production of this report.

2. Recruitment

2.1 A summary of the recruitment activity over the period (including those due to start in new roles after 30 April) is show below:

Position	**Team**	**Start Date**	**Number**	**External/ Internal**
Pensions Administrator	Administration Team	01/04/2024	3	Internal promotion following successful

				secondment
Deputy Team Manager	Administration Team	01/05/2024	1	Internal promotion following successful secondment
Technical and Compliance Lead Manager	Technical and Training Team	01/06/2024	1	Internal promotion to newly created role

2.2 In addition to the above, there are current recruitment campaigns to strengthen the Communications and Support Team in order to support the ongoing requirement for cleansing data. Plus, two Senior Pensions Administrators and two Pensions Officers within the Administration Team to backfill vacancies and help cope with the additional demands as a result of the McCloud Remedy and other legislative changes. There will be further campaigns at the end of the Summer to recruit a Deputy Team Manager and Pensions Assistants on the Administration Team, plus a Technical Officer on the Technical and Training Team. All of these roles will help to improve the service offering to scheme members and employers, increase resilience and future proof the team.

3. Complaints, Compliments and Comments

3.1 For the period 1 February to 30 April 2024 a total of 4 complaints, 17 compliments and 16 comments were received into the corporate system called iCasework. These have been summarised below:

	Complaints	**Compliments**	**Comments**
February	1 – poor communication	2 – good communication	5 – poor communication (x2), service delivery from third party/contracted service provider (x1), disagreement with decisions or policies (x”)
March	2 – service delivery (third party supplier, contracted service provider)	4 – helpful staff (x2), good communication (x2)	4 – poor communication
April	1 – disagreement with decisions or policies made	11 – good communication	7 – good communication (x2), poor communication (x5)

4. Project Updates

4.1 **Voice of the Customer** – this project relates to gathering customer feedback on various aspects of work carried out by Kent Pension Fund. The first survey that has been issued is for Employers to gather their feedback on how they have found the overall service Kent Pension Fund has provided to them. Planned surveys for telephony once the new system is in place, and member experience of various administration processes will follow later in the year. Results from the surveys will be included in the new Performance Dashboard that is being developed.

4.2 **MyPension Online** – this project relates to an upgrade to the Member Self Service offering to provide a number of new features for scheme members. After an extended period of testing and refinement with the service providers at Heywood, Member Self Service has been re-branded as MyPension Online and upgraded to the new platform effective from 13 May 2024.

4.3 **Telephony** – the fund's work as early adopters of this new system for Kent County Council has continued. Despite delays arising from work required between the system designers at Resonate and ICT administrators at Cantium Business Solutions, the project is progressing rapidly. Training is being delivered to a cohort of champions who will aid colleagues in the transition, and User Acceptance Testing is expected to begin imminently.

4.4 **Training support videos for colleagues** – this project relates to providing support to administration staff for various aspects of their work, including the Workflow system within Altair, to ensure that they have the tools available to be able to use the system efficiently.

4.5 **Service Improvement Plan** - a service improvement plan is being developed to show where the Fund is now, how demands have changed over the last 10 years, and where the Fund aims to be in the future, so that the digital by default ethos is fully adopted.

4.6 **Performance Dashboard** - by refining the ways performance data is collected and pooling this into a single Business Intelligence system, this project aims to gather meaningful insights into performance across several areas and produce a single dashboard from which all elements can be tracked. The project is currently in the design & data-gathering stages, and it is hoped to have initial reports ready in the near future.

4.7 **Enhanced Admin to Pay and Immediate Payments** – this project automates benefit payments and the calculation of pension arrears, streamlining processes. Implementation and UAT is to begin late May/early June.

4.8 **Process Improvements and Automations in Altair** - Heywood's have introduced many new automation facilities within their Workflow system, the Fund are now starting to look at implementing these changes and incorporating them into the workflows.

4.9 **Overseas Proof of Life Verification** - approximately 80% have been completed via digital authentication and 20% via paper 'wet signature' format.

Around 90 pensioners that have not responded to letters and emails have been suspended, as they have not completed the verification process.

5. Overpayment Recovery and Write Off Limits

5.1 The number of pension overpayment write offs for the period 1 February to 30 April 2024 are set out below:

	February 2024		March 2024		April 2024	
	Number	**Total**	**Number**	**Total**	**Number**	**Total**
£200-£5,000	-	-	5	£1,244.85	21	£6,118.93
£5,000-£50,000	-	-	-	-	-	-
£50,000+	-	-	-	-	-	-

5.2 As detailed in previous Board reports, Officers have now drafted a Pension Overpayment and Write Off Policy (see **Appendix 2**).

5.3 The policy objectives aim to ensure the Fund:

- has robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- manages the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- ensures benefits are paid to, and income collected from, the right people at the right time with the right amount.
- identifies errors as soon as possible.
- rectifies overpayments with the co-operation of the individual.
- encourages individuals to take an active role in checking payslips/payments for obvious errors.
- avoids the Internal Dispute Resolution Procedure (IDRP), where possible, by managing the process effectively.

5.4 The policy is designed to provide assurance to the Fund's stakeholders that:

- all overpayments are treated in a fair and equitable manner.
- the Fund seeks to recover overpayments that have occurred but acknowledges that there may be legal reasons and/or other circumstances which mean that an overpayment may not, in practice, be able to be recovered (in whole or in part).
- has steps in place to prevent and also investigate potentially fraudulent activity.

5.5 The draft policy will be taken to the June Pension Fund Committee for approval.

6. Communications and Support (C&S) Update

6.1 ITM have now started contacting scheme employers requesting any missing/erroneous **McCloud** data.

6.2 The switch to **MyPension Online** (MyPension Online - Kent Pension Fund) has now been completed and the team are dealing with a large number of enquiries resulting from this transition.

6.3 The team are continuing to offer and deliver **training** to employers and their payroll providers.

6.4 The **End of Year** process is now well underway. 562 End of Year returns are expected, the majority of which have now been received and are being processed. Those that are still outstanding are being chased on a regular basis and escalated where necessary.

6.5 As part of the year end exercise, the team have started the project of **'Remuneration Comparison'** which aims to ensure that the Whole Time Equivalent Pay provided by employers on their year-end returns looks reasonable compared to previous years. This task is vital to ensure Annual Benefit Statements are accurate.

6.6 Preparations have started for the next **Employer Forum** which is being held via MS Teams on 13 June.

6.7 Capita have now been fully onboarded to **iConnect**. As one of the largest payroll providers, this will have a significantly positive impact on the collection of accurate data. Leigh Academy Trust (one of the largest Trusts) and Kent Fire and Rescue are in the pipeline to onboard in the next few months.

6.8 A number of **webinars** have been arranged regarding various subjects and are being advertised via the Kent Pension Fund website (Webinars for members - Kent Pension Fund).

6.9 Preparations have commenced for the next scheme member **newsletter**, which is published to coincide with the Annual Benefit Statements. All newsletters are published on the Kent Pension Fund website (News - Kent Pension Fund).

6.10 Work has begun on the **Teachers Excess Service** project whereby there are approximately 100 employers the team will need to contact to collect data from for over 500 employees and create pension records for them.

6.11 The digital **pensioner payslips and P60s** have now been amended to incorporate the new Kent Pension Fund branding. Payslips are currently published online and P60s will go live next year.

7. Technical and Training Updates

7.1 **Abolition of the Lifetime Allowance (LTA) -** the Government issued legislation in late February 2024 to fully abolish the LTA from 6th April 2024. The LTA has been replaced by a new pension tax regime from this date.

The Technical Team have reviewed the new legislation along with supporting information issued by HM Revenue and Customs and the Local Government Association. Due to the complexity and late roll out, implementation of these changes has taken a considerable of time.

To implement the change, staff training has recently been carried out. It has also been necessary to review all processes and literature that have any relation to a relevant tax-free payment to ensure the correct application of the new tax rules.

There are several issues that require further correcting legislation to be issued, and the team are continuing to review information issued by HMRC, as further clarification is still being given in some areas.

7.2 **McCloud ruling and remedy in the LGPS** – following the team training day that took place on 8 February, the Technical Team have continued to work on the implementation of the McCloud Remedy.

The specification of the remediation exercise has been reviewed and fed back to ITM.

In addition, the team are continuing to deal with one-off cases that require review against the new McCloud methodology until the permanent remediation exercise is completed.

7.3 **National LGPS qualification led by the LGA -** in late April, two staff from the Kent Pension Fund enrolled onto the 'Award in Pension Essentials' qualification (level 2). They will be studying over the next 12 months towards this.

This level 2 qualification is part of a pilot, which has been set up by the LGA. The Technical Team have also been involved in recent meetings around the creation of a level 3 qualification that is due to come online from April 2025.

The introduction of these qualifications is a response to administering authorities feedback on staff recruitment and retention.

7.4 **Annual Allowance exercise -** work has started on the yearly Annual Allowance exercise, in which pension accrual is measured against the limits in place for the tax year.

The Technical Team will be reviewing accrual for all scheme members for the 2023/24 tax year.

There have been changes to the limits for this tax year, which will require some changes to processes. Account has also had to be made for the fact more employers are submitting data for their annual returns through iConnect, and new processes are being developed to validate this data.

7.5 **Training and Development** – Training figures for the period 01/02/2024 – 30/04/2024:

In house training sessions	50
Sessions led by Training Officers	32
External LGA training courses attended	3 members of staff

7.6 12 training sessions were postponed due to sickness or staff availability. From April 2024 the team have now built in three protected weeks into the schedule therefore any training postponed can now be rescheduled within the protected weeks within the current schedule and staff will not have to wait (potentially up to three months) for training to be rescheduled onto the next schedule.

Clare Chambers – Pensions Administration Manager – Kent Pension Fund

T: 03000 414773
E: clare.chambers@kent.gov.uk

June 2024

Appendix 1 – February to April 2024 Performance Report
Appendix 2 - Pension Overpayment and Write Off Policy (Draft)

	Case Type	Number of cases completed	Number of cases completed within SLA	% of cases completed within SLA	Number of cases completed outside of SLA
Deaths	Initial Death Notification	486	425	87	61
	Survivors Pensions	139	129	93	10
	Death Grant Payment	51	48	94	3
	Balance of Payments/Overpayment Recovery	296	290	98	6
Retirements	Payment of Retirement Benefits	668	650	97	18
	Provision of Retirement Estimates	1346	1058	79	288
Early Leavers	Payment of Refunds	235	227	97	8
	Provision of Deferred Benefit Statements	824	239	29	585
Transfers	LGPS Transfer In Estimates	76	64	84	12
	Aggregation In Estimates	38	20	53	18
	LGPS Transfer Out Estimates	140	39	28	101
	LGPS Transfer In Actuals	42	4	10	38
	Aggregation In Actual	531	155	29	376
	LGPS Transfer Out Actuals	58	7	12	51
	Non LGPS Transfer In Estimates	37	20	54	17
	Non LGPS Transfer Out Estimates	98	43	44	55
	Non LGPS Transfer In Actuals	39	9	23	30
	Non LGPS Transfer Out Actuals	17	8	47	9
Divorces	Pension Sharing on Divorce Estimates	102	101	99	1
	Pension Sharing on Divorce Implementations	3	3	100	0
General	New Starters	4477	4339	97	138
	General Correspondence	1627	1552	95	75
	Change of Details (i.e. address, name, nomination)	1454	1451	100	3
	Opt Outs	50	40	80	10
	Lost Pension	110	106	96	4
Total		12944	11027	85	1917

This page is intentionally left blank

Kent Pension Fund
Delivering an outstanding service

KENT COUNTY COUNCIL

ADMINISTERING AUTHORITY FOR KENT PENSION FUND

PENSION OVERPAYMENT AND WRITE OFF POLICY 2024

MAY 2024

CONTENTS

1 INTRODUCTION

1.1 This is the Pension Overpayment and Write Off Policy for the Kent Pension Fund, which is managed by Kent County Council (the Administering Authority).

1.2 Pension overpayments can occur for a variety of reasons. It is important that the Fund has a clear policy on how pension overpayments are managed once they are identified.

1.3 Kent Pension Fund recognises the need to take a pro-active approach to identifying potentially fraudulent activity and overpayments.

2 POLICY OBJECTIVES

2.1 The policy objectives aim to ensure the Fund:

- has robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- manages the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- ensures benefits are paid to, and income collected from, the right people at the right time with the right amount.
- identifies errors as soon as possible.
- rectifies overpayments with the co-operation of the individual.
- encourages individuals to take an active role in checking payslips/payments for obvious errors.
- avoids the Internal Dispute Resolution Procedure (IDRP), where possible, by managing the process effectively.

3 PURPOSE OF THE POLICY

3.1 The policy is designed to provide assurance to the Fund's stakeholders that:

- all overpayments are treated in a fair and equitable manner.
- the Fund seeks to recover overpayments that have occurred but acknowledges that there may be legal reasons and/or other circumstances which mean that an overpayment may not, in practice, be able to be recovered (in whole or in part).
- has steps in place to prevent and also investigate potentially fraudulent activity.

4 EFFECTIVE DATE AND REVIEWS

4.1

Version	Policy effective date
1 – draft	

4.2 This policy will be reviewed every three years, and if necessary, more frequently to ensure it remains accurate and relevant.

5 SCOPE

5.1 The policy applies to:

- all members and former members, which in this policy includes survivor and pension credit members of the Kent Pension Fund who have received one or more payments from that Fund.
- executors of the estates of deceased Kent Pension Fund members.
- beneficiaries of Kent Pension Fund members where those beneficiaries have received one or more payments from that Fund.
- administrators of the scheme.
- the Pension Fund Committee.

6 MANAGING OVERPAYMENTS OF PENSION ON THE DEATH OF A SCHEME MEMBER

6.1 Understandably, notification of a death of a pensioner member of the scheme does not always happen immediately and as such it is not always possible to stop payment of the pension after a point in the payroll month and so an overpayment can occur.

6.2 Should an overpayment of pension occur following the death of a scheme member, the Fund will generally seek to recover overpayments that are greater than £200.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less in the instance of the death of a scheme member has been deemed by the Fund as uneconomical to pursue.

6.3 All correspondence regarding an overpayment will be handled sensitively in the initial stages due to the circumstances surrounding how the overpayment has occurred.

7 MANAGING OVERPAYMENTS OF CHILDREN'S PENSIONS FAILING TO CEASE AT THE APPROPRIATE TIME

7.1 An eligible child as defined by the LGPS Regulations 2013, is entitled to receive a pension until such a time as their circumstances change and they are no longer eligible to receive a pension from the Fund.

7.2 In these cases, the individual in receipt of the pension is responsible for informing the Pensions Section of a change in circumstances to ensure the pension is ceased at the appropriate time, failure to do so would result in an overpayment. The relevant change in circumstances would be when the individual reaches age 18 or age 23 or ceases full time education.

7.3 Should an overpayment of pension occur as a result of a late notification of change of circumstances, the Fund will generally seek to recover overpayments that are greater than £200.00 (gross) in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less has been deemed by the Fund as uneconomical to pursue.

8 MANAGING OVERPAYMENTS OF PENSION ENTITLEMENT FOLLOWING INCORRECT INFORMATION SUPPLIED BY THE EMPLOYER IN RESPECT OF THE SCHEME MEMBER

8.1 Should an overpayment of pension occur as a result of inaccurate information provided by the scheme member's employer on retirement, the Fund will generally seek to recover monies that are greater than £200.00 in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 (gross) or less has been deemed by the Fund uneconomical to pursue due to the administrative time involved.

8.2 Overpayments that are greater than £200.00 in value will generally be recovered through the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will be reduced to the correct level for the next available monthly pension payment after a 6 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

8.3 Where there is no ongoing pension from which to deduct the overpaid amount, repayment will be requested by the Fund to recover any overpayment which is greater than £200.00 in value.

8.4 Where an overpayment of the lump sum has occurred following inaccurate information provided by the employer, a letter requesting repayment will be sent by the Fund to recover any overpayment which is over £200.00 in value.

9 MANAGING OVERPAYMENTS OF PENSION AS A RESULT OF THE INCORRECT RATE OF PENSION PAID BY THE FUND AND THE MEMBER CAN BE SAID TO BE REASONABLY AWARE OF THE OVERPAYMENT.

9.1 There are a number of reasons why a pension could be paid at an incorrect higher rate. The most common reasons are detailed in the table below, but it should be noted that this is not an exhaustive list.

Type of overpayment	How overpayment has occurred
Administration error upon creation of payroll record	Incorrect (overstated) rate of pension inputted onto payroll record, but member informed in writing of the correct rate of pension to be paid.
Administration error upon calculation/payment of pension scheme lump sum	Incorrect (miscalculated/overstated) lump sum paid to member, but member informed in writing of the correct value of the lump sum to be paid.
Entitlement to current rate of pension ceasing	A Pension Sharing Order or Earmarking Order being received after the implementation date meaning that the pension has been overpaid since that implementation date.
Failure to action an alteration to the payroll record/reduction in pension	Failing to implement the change from the higher short term dependents pension to the lower long-term rate.

9.2 If the scheme member has been notified of the correct rate of pension and/or lump sum in writing and is receiving/ has received a higher amount, it can be said that the member can reasonably be aware that they are being/ have been overpaid as the scheme member has been notified of the correct rate in writing.

9.3 The Fund will therefore generally seek to recover monies that are greater than £200.00 gross in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less has been deemed by the Fund as uneconomical to pursue due to the administrative time involved.

9.4 The amount of overpaid pension will generally be recovered from the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will also be reduced to the correct level for the next available monthly pension payment after a 6 week notice period and will be notified in writing of the error and the course of action to be taken.

9.5 Where there is no ongoing pension from which to deduct the overpaid amount, OR the pension scheme lump sum has been overpaid, a letter requesting repayment will be sent by the Fund to recover the overpayment which is greater than £200.00 in value.

10 MANAGING OVERPAYMENTS OF PENSION FOLLOWING AN INCORRECT RATE OF PENSION ENTITLEMENT BEING PAID BY THE FUND AND IT CAN BE SAID THAT THE MEMBER CANNOT HAVE KNOWN OF THE OVERPAYMENT

10.1 The table below illustrates how an overpayment of a member's pension can occur without the member being aware. It should be noted that the table below is not an exhaustive list:

Type of overpayment	How overpayment has occurred
Administration error upon calculation and notification of benefit entitlement (includes dependants' pensions and Pension Credit members)	Incorrect (overstated) rate of pension inputted onto payroll record and member informed in writing of the, incorrect, rate of pension to be paid.
Administration error upon calculation and notification of pension scheme lump sum entitlement	Incorrect (overstated) pension scheme lump sum paid to the member and member informed in writing of the incorrect lump sum to be paid
Pensions Increase	Pensions Increase inaccurately applied to the elements of a pension in payment.

10.2 In these circumstances the Fund will generally seek to recover monies that are greater than £200.00 gross in value unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part). A value of £200.00 or less has been deemed by the Fund as uneconomical to pursue due to the administrative time involved.

10.3 The amount will be recovered from the scheme member's ongoing pension as this allows for the appropriate adjustment for tax. The pension will also be reduced to the correct level for the next available monthly pension payment after a 6 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

10.4 Where there is no ongoing pension from which to deduct the overpaid amount, or an overstated pension scheme lump sum has been paid, a letter requesting repayment will be sent by the Fund to recover any overpayment which is greater than £200.00 in value.

11 OVERPAYMENTS RESULTING FROM AN ERROR WITH GUARANTEED MINIMUM PENSION (GMP)

11.1 Overpayments can also occur as a result of an incorrect or non-application of the GMP element of a member's pension as detailed in the table below.

1	**GMP not included in the pension being paid**	New information from HMRC or a review of the member's record shows that a GMP should have been included within the pension but has not. Due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.

2	**Incorrect level of GMP being paid**	New information from HMRC or a review of the member's record leads to a revised rate of GMP to be used which, due to the different way cost of living increases are applied to GMP and the excess over GMP, means that, overall, a lower level of pensions increase should have been paid.
3	**GMP not accurately split between pre 88 and post 88**	New information from HMRC or a review of the member's record shows that a GMP has not been apportioned correctly. Due to the different way cost of living increases are applied to pre 88 GMP and post 88 GMP, means that, overall, a lower level of pensions increase should have been paid.

11.2 The application of GMP to a member's pension requires a high degree of technical understanding that can only reasonably be expected of a pensions practitioner. As such, and where there has been no explicit communication to the member that would mean that they could have known that their pension was being paid incorrectly as a result of the non or misapplication of GMP, the overpayment of any value should be written off without the requirement for authorisation as detailed in 17.1.

11.3 The pension will be reduced to the correct level for the next available monthly pension payment after a 6 week notice period. The scheme member will be notified in writing of the error and the course of action to be taken.

12 DISCRETION TO WRITE OFF OVERPAYMENTS

12.1 For all scenarios mentioned above, Officers have the ability to exercise discretion in the event of legal reasons and/or exceptional circumstances and to ensure no individual is unfairly treated. If the pursuing recovery of an overpayment were to cause significant distress and/or if there are legal reasons as to why the overpayment may not be recovered (in whole or in part) this would be considered as would the cost effectiveness of recovery. All applications made to write off of an overpayment will be investigated on a case-by-case basis and final decision will be made by the appropriate officer listed in paragraph 17 dependent upon the amount potentially being written off.

12.2 The Kent Pension Fund has authority to automatically write off any amount up to £200.00 in line with HM Revenue and Customs authorised payments limits and analysis of the cost effectiveness of pursuing amounts up to this value.

13 RECOVERY

13.1 The Limitation Act 1980 states that "*An action founded on simple contract shall not be brought after the expiration of six years from the date on which the cause of action accrued*". However, section 32(1) of the Act effectively 'postpones' the date by which an administering authority may make a claim to recover monies in certain circumstances. It states, "*the period of limitation shall not begin to run until the plaintiff has discovered the fraud, concealment or mistake (as the case may be) or could with reasonable diligence have discovered it*". The potential effect of section 32(1) in relation to any overpayment and its recovery will be considered on a case-by-case basis.

13.2 Therefore the Fund will generally seek to recover overpayments that have been discovered within the last 6 years with the relevant postponement applied if applicable in line with the Limitation

Act unless there are legal reasons and/or other circumstances which mean that the overpayment may not, in practice, be able to be recovered (in whole or in part).

13.3 Examples of limitation periods and how they operate in relation to overpayments are included in appendix 1 of this policy.

13.4 It should be borne in mind that where the Fund seeks to recover overpayments, there may be arguments raised as to why the overpayment should not be recovered (in whole or in part). These will need to be considered on a case-by-case basis and, if successful, may affect the ability of the Fund to recover the overpayment (in whole or in part).

14 LENGTH OF TIME TO RECOVER OVERPAYMENT

14.1 The Fund will allow a pension overpayment to be recovered over the same amount of time as the overpayment occurred. For example, if overpayments were made over a 3-month period, the recovery period to repay the overpayment will be over 3 months. In the event that reasonable arguments are advanced that the recovery period should be extended, the Fund can at its discretion allow an extension based on the individual's circumstances.

15 CLAIMS OF INABILITY TO REPAY OVERPAYMENTS

15.1 In cases where it is claimed that an overpayment cannot be repaid, officers of the Fund will enter into negotiations with the scheme member/next of kin and an analysis of the cost effectiveness of pursuing the overpayment will be undertaken on a case-by-case basis. For large overpayments, where appropriate the Fund will seek legal advice. This approach will reduce the number of Internal Dispute Resolution Procedures applications and referrals to the Pensions Ombudsman. For any cases that do reach the Pensions Ombudsman, Kent Pension Fund would have demonstrated engagement and negotiation with the complainant.

16 MONITORING REPAYMENTS

16.1 In cases where recovery is not being made through the payroll and a recovery letter has been issued, the responsibility for chasing the payment rests with Kent Pension Fund. If a final reminder is issued, officers are notified and the Head of Pensions will decide whether to take legal action if no payment is forthcoming, taking into consideration the amount owed, the amount outstanding, the circumstances of the debtor, the cost of legal action and the likelihood of legal action being successful.

17 AUTHORITY TO WRITE OFF OVERPAYMENTS

17.1 In line with Kent County Council's Scheme of Delegation, the Fund will apply the following levels of authority when writing off overpayments:

Total value of overpayment*	Authority to write off overpayment
No more than £200.00 (gross) on death of a pensioner and any other overpayment type	Pensioner Payroll
Up to no more than £4,999 (gross)	Pensions Administration Manager (in the absence of the Pensions Administration Manager authority will move to the Operations and Performance Manager)
Up to no more than £49,999 (gross)	Head of Pensions & Treasury
£50,000+ (gross)	Director of Corporate Finance/S151 Officer
***Subject to a full evidence-based report produced by Officers of the Fund**	

18 REPORTING TO THE HM REVENUE AND CUSTOMS AND EFFECTS ON THE FUND AND INDIVIDUAL

Part 4, Chapter 3 of the Finance Act 2004 also sets out a list of the payments which a registered pension scheme is authorised to make to members. Payments which do not fall within the list will become unauthorised payments and could result in up to three tax charges applying: 1) an authorised payments charge on the recipient of the payment; 2) an unauthorised payments surcharge on that recipient; and 3) a scheme sanction charge on the scheme.

18.1 Administering authorities are obliged to correct any error they discover within a reasonable period of time. To do otherwise could render payments unauthorised under Part 2 of the Registered Pension Scheme (Authorised Payments) Regulations 2009. The HM Revenue and Customs have a clear steer with regards to timing, in so much that "*When a scheme discovers an overpayment it immediately becomes unauthorised and is subject to an unauthorised tax charge*".

18.2 Appendix 2 sets out when an error may be regarded as a genuine error under Part 2 of the 2009 Regulations.

18.3 In addition to the above, there is a further exemption where the overpayment is not a 'genuine error', and the aggregate overpayment (paid after 5th April 2006) is less than £200. In such circumstances, if the overpayment is not recovered it remains an unauthorised payment, but it does not have to be reported to HM Revenue and Customs and HM Revenue and Customs will not seek to collect tax charges on it.

18.4 In Appendix 2 of this policy, we set out some examples of HM Revenue and Customs 'genuine errors.

18.5 Payments made in the period between notifying the member of an overpayment and the point at which the correction to the right level of pension is made will be regarded under the above legislation as an unauthorised payment. If the total amount of pension paid at the incorrect rate from point of notification to date of reduction to the correct rate is greater than £200 (gross) it would be subject to tax charges 1) and 3) and possibly 2 as set out in paragraph 18.1.

19 PREVENTION

19.1 The Fund has in place processes in order to minimise the risk of overpayments occurring.

19.2 The National Fraud Initiative is conducted every two years; it compares files of pensioners with the Department for Work and Pensions database of the deceased and highlights matches for investigation. Kent Pension Fund actively participates in this initiative.

19.3 Kent Pension Fund participates in overseas life existence checks to ensure only legitimate pensions are being paid and to reduce the likelihood of fraudulent activity.

19.4 A report is run periodically on the pension administration system to identify individuals in receipt of a child's pension, further investigations are then carried out for children that are identified as over the age of 18 to ensure they are still entitled to receive a pension.

19.5 Kent Pension Fund includes reminders in its correspondence that the Fund must be advised of changes in circumstances or the death of a scheme member. The Fund also investigates any pension payments returned by banks and building societies to ensure the welfare of the scheme member and to protect payment of the Fund's money.

19.6 Fund officers have a robust system in place for identifying changes to the payroll that need to be processed for a particular payroll month. The process incorporates payroll deadlines and ensures changes are made in a correct and timely manner. This would be in circumstances such as a change from a short-term dependant's pension to a long-term pension.

Scenario	Limitation Period	Overpayment Period which can be claimed*
• Overpayments began in April 2013 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in August 2015 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for period between April 2013 and August 2015 • Formal claim** for recovery made in January 2020 (the Cut Off Date as referred to in *Webber v Department for Education*)	• No issues in principle with the Limitation Period as formal claim for recovery commenced within 6-year period after the Discovery Date • Claims are therefore valid and should proceed	• Overpayments back to when they began in April 2013 until August 2015 may be claimed (based on the assumption that the overpayment was discovered in August 2015, if not discovered at this time the overpayment period would be longer).
• Overpayments began in April 2008 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in November 2014 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made from April 2008 to November 2014 • Formal claim for recovery made in December 2016 (the Cut Off Date as referred to in *Webber*)	• No issues in principle with the Limitation Period as formal claim for recovery commenced within 6-year period after the Discovery Date • Claims are therefore valid and should proceed	• Overpayments back to when they began in April 2008 until November 2014 may be claimed (based on the assumption that the overpayment was discovered in November 2014, if not discovered at this time the overpayment period would be longer).

Scenario	Limitation Period	Overpayment Period which can be claimed*
• Overpayments began in January 2004 (the first Mistake Date) • Overpayments discovered or could have been discovered with reasonable due diligence in September 2021 (when the date was received from HM Treasury in relation to the GMP equalisation exercise) (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for the period from January 1999 to September 2021 • Formal claim for recovery made in February 2022 (the Cut Off Date as referred to in *Webber*)	• No issues in principle with the Limitation Period as formal claim for recovery commenced within 6-year period after the Discovery Date • Claims are therefore valid and should proceed	• Overpayments back to when they began in January 2004 until September 2021 may be claimed • (based on the assumption that the overpayment was discovered in September 2021, if not discovered at this time the overpayment period would be longer).
• Overpayments began in April 2011 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in August 2014 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for period between April 2011 and August 2014 • Formal claim for recovery made in January 2022 (the Cut Off Date as referred to in Webber)	• Issue with the Limitation Period as formal claim for recovery commenced more than 6 years after the Discovery Date • Claims are therefore out of time and should not proceed	• Overpayments cannot be claimed back as the formal claim for recovery was made more than 6 years after the Discovery Date (based on the assumption that the overpayment was discovered in August 2014, if discovered after this time a period of reclaim maybe applicable).

Scenario	Limitation Period	Overpayment Period which can be claimed*
• Overpayments began in April 2011 (the first Mistake Date) • Overpayments discovered, or could have been discovered with reasonable due diligence, in August 2014 (the Discovery Date under Section 32 of the Limitation Act 1980) • Overpayments made for period between April 2011 and August 2021 • Formal claim** for recovery made in January 2022 (the Cut Off Date as referred to in *Webber*) •	• Issue with the Limitation Period as formal claim for recovery commenced more than 6 years after the Discovery Date • Claims for overpayments between April 2011 and January 2016 are therefore out of time and should not proceed • However, as each monthly overpayment is a separate overpayment, the effect of the Webber case is that overpayments made in the 6 years prior to the Cut Off Date (i.e. the overpayments made in February 2016 to August 2021) can be recovered	• Overpayments for the period April 2011 to January 2016 cannot be claimed back as the formal claim for recovery was made more than 6 years after the Discovery Date. • Overpayments for the period February 2016 to August 2021 may be reclaimed. • (based on the assumption that the overpayment was discovered in August 2014, of discovered after this time the overpayment period would be longer).

Page 58

* whilst this refers to the period which can be claimed, this is not the same as the period which will definitely be recovered in light of the other defences which are available to scheme members who face such claims for repayments of overpayment.

** reference to formal claim in this appendix means the commencement of formal proceedings to recover the overpayment.

LEGISLATIVE BACKGROUND

Section 164 of the Finance Act 2004 restricts the type of payments that a pension scheme may lawfully make.

The Registered Pension Schemes (Authorised Payments) Regulations 2009/1171 (as amended) allow certain payments that would otherwise be unlawful under section 164 to be treated as lawful payments.

Regulation 4 allows certain payments that may be paid by a pension scheme to be treated as authorised payments payments and a provides that payments that may be made are taxable.

Regulation 13 – allows for certain pension payments paid in error to living recipients to be treated as lawful payments. A pension paid to a living person will be deemed to be paid (lawfully) in error if the scheme administrator making the payment believed that—

(a) the recipient was entitled to the payment, and

(b) the recipient was entitled to it in that amount.

Regulation 14 – allows for certain pension payments paid in error, after discovery of the error, to be treated as lawful payments if:

(a) it is made after there is a payment within regulation 13 to the same person and (apart from the discovery of the error) is of a similar nature to that payment; or

(b) if the error had not been discovered until after the payment, it would have been a payment within regulation 13; and.

the payer took reasonable steps to prevent it being made or it being made in that amount.

Regulation 15 - allows for certain pension payments paid in error to deceased recipients to be treated as lawful payments, if:

the payment is one which is intended to represent the payment of a pension permitted by the pension rules or the pension death benefit rules to or in respect of a member and if—

(a) the payment is made no later than six months after the date of the person's death;

(b) the payment would not have been an unauthorised payment if it had been made on the day before the person died; and either

(a) the scheme administrator (“the payer”) did not know, and could not reasonably have been expected to know, that the person had died before the payment was made; or the payer knew of the person's death before the payment was made, the payer took reasonable steps to prevent the payment's being made or its being made in that amount; or

(b) where the payer knew of the person's death before the payment was made, the payer took reasonable steps to prevent the payment's being made or its being made in that amount.

Regulation 16 - allows for payment of arrears of pension to be paid to a pensioner after death to be treated as a lawful payment, if:

(a) the payment is in respect of a defined benefits arrangement; and

(b) the payment represents accrued arrears of scheme pension the member's entitlement to which the scheme administrator had not established until after the member's death; and

(c) the payment would not have been an unauthorised payment if the payment had been made immediately before the member's death and the member had been entitled to it; and

(d) the scheme administrator could not reasonably have been expected to make the payment before the member's death.

But only to the extent that to so much of the payment as does not exceed the amount accrued during the period—

(a) beginning with the earliest date from which the member could have required the scheme administrator to make the payment if the member had been entitled to it; and

(b) ending with the member's death.

Regulation 17 - allows for the overpayment of a lump sum to a living recipient to be treated as a lawful payment, if:

the lump sum exceeds the permitted maximum only because it has been calculated by reference to the amount of a relevant pension; and

either—

(i) the payment of the pension is a payment within regulation 13 or 14 (1)(b), or

(ii) the lump sum is paid before the pension by reference to which its amount was calculated; or

(iii) the pension is not in the event paid, or paid in the amount originally intended, because an error is discovered; and had the error had not been discovered and the pension had been paid as intended, its payment would have been a payment within regulation 13.

The discovery that the lump sum exceeds the permitted maximum before the payment is made does not prevent the payment's being a lawful payment if the payer took reasonable steps to prevent its being made or its being made in that amount.

Regulation 19 - allows for the overpayment of a lump sum to a deceased recipient to be treated as a lawful payment if:

(a) the payment is in respect of a defined benefits arrangement;

(b) the scheme administrator had not established the member's entitlement to the payment until after the member's death;

(c) the scheme administrator could not reasonably have been expected to make the payment before the member died;

(d) the payment would have been a pension commencement lump sum if it had been made immediately before the member's death and the member had been entitled to it; and

(e) it is made no later than the end of the period of one year beginning with the earlier of—

(i) the day on which the scheme administrator first knew of the member's death, and

(ii) the day on which the scheme administrator could first reasonably be expected to have known of it

GENUINE ERROR - EXAMPLE 1

Pensioner X receives a monthly pension payment 7 days after her death. The pension administrators were informed of the death 3 days after it occurred, took immediate steps to prevent the payment, but it was too late to stop it. Here Regulation 15 is satisfied and so the overpayment is lawful as a genuine error.

GENUINE ERROR - EXAMPLE 2

Pensioner Y, who is living, receives a monthly pension payment which is £500 too high. The pension administrators had the correct monthly amount on their system, but because of human error paid the pensioner too much. Here Regulation 13 is not satisfied, because the pension administrator did not believe that the pensioner was entitled to that amount.

GENUINE ERROR - EXAMPLE 3

Pensioner Z, who is living, receives a lump sum which is wrongly calculated because it is based on data, which has been wrongly recorded on the Pension Administrator’s system because of erroneous data provided by the pensioner’s former employer. The payment is made before the error is discovered. Here Regulation 17 is satisfied and so the overpayment is lawful as a genuine error.

From:	Chairman Kent Pension Board Acting Corporate Director - Finance
To:	Kent Pension Board – 11 June 2024
Subject:	Investment Update (31 March 2024)
Classification:	Unrestricted

Summary:

To provide a summary of the Fund's investment strategy, asset allocation, performance, and responsible investment activity.

Recommendation:

The Board is asked to note the report and to nominate a Board Member to serve as an observer for the Responsible Investment Working Group.

FOR INFORMATION

1. Introduction

1.1 This report provides the Board with an update on the Fund's investment activity and performance, as well as on responsible investment developments that have taken place since the Board's last meeting.

2. Investment Strategy

2.1 As reported to the Board at its last meeting, the Pension Fund Committee agreed an implementation plan at its December 2023 meeting to introduce changes to the portfolio agreed by the Committee as a result of the 2023 investment strategy review.

2.2 Since the Board's last meeting, the implementation plan has been enacted in line with expectations.

Emerging Markets Equities

2.3 A key milestone has involved the identifying the most appropriate investment solution for the Fund's new 5% strategic allocation to Emerging Markets Equities. Under the implementation plan, the Committee agreed to implement the allocation via the ACCESS pool, which has recently created two sub-funds (managed separately by asset managers Columbia Threadneedle and Robeco) via a competitive process for member authorities to access this asset class.

2.4 Over Q1 2024, officers worked with the ACCESS pool operator (Waystone) and the Fund's Investment Consultant (Mercer) to identify the best implementation route, using products available on the pool. As a further part of the Fund's due diligence, the Chairman and Vice Chairman of the Committee, alongside officers, met with both Robeco and Columbia Threadneedle in March 2024.

2.5 As a result of this exercise, the Committee agreed to implement an equal-weighted (50/50) investment in both the Columbia Threadneedle and Robeco managed sub-funds at its meeting in March. The Committee had already agreed in December, to fund the emerging markets allocation by redeeming sufficient assets from the WS ACCESS UK Equity Fund, which would reduce the overweight exposure to UK Equities.

2.6 The Committee delegated authority to manage the transition arrangements to the Head of Pensions and Treasury in consultation with the Chairman. A transition timetable was subsequently devised by officers with trading taking place over April and May 2024. The transition was completed in full on 16 May and a total of £400m of assets was removed from UK Equities and invested in the two Emerging Markets Equities sub-funds (£200m each).

Private Equity and Infrastructure

2.7 The Committee also reviewed a commitment analysis for the Fund's infrastructure and private equity allocations at its March meeting. As previously reported to the Board, transfers into and out of these asset classes cannot be enacted instantaneously given their illiquid nature and the Fund's current approach to accessing private equity and infrastructure exposure is via regular commitments to "closed end" funds. Closed-end funds are common investment vehicles in illiquid asset classes. They involve upfront commitments of capital from investors which are subsequently drawn down over time during an investment phase. Capital (including returns) is then returned to investors as the funds mature and, eventually, expire. A natural feature of investment strategies involving closed end funds is that investors need to make regular commitments to ensure actual investment exposure remains consistent with the investor's target weight for the asset class. Such an approach also builds in "vintage" diversification, which is an important risk consideration in alternative asset classes where timing can have a significant impact on realised performance.

2.8 As a result of the commitment analysis, and in respect of private equity, the Committee agreed to commit a $160m to the HarbourVest Global Fund 2024. HarvourVest manages the majority of the Fund's existing exposure, and this decision represents a pragmatic solution to help to ensure that the Fund's actual exposure to private equity remained close to the Fund's 5% target for this asset class in the near to medium term.

2.9 For infrastructure, the commitment analysis indicated that the Fund has a less pressing need to make additional commitments immediately, and officers recommended that further work be undertaken to identify the future optimum investment arrangements for this asset class.

Risk Management Framework

2.10 Another key component of the investment strategy review is the renewal of the equity protection programme and the establishment of the Risk Management Framework. In broad terms, this exercise has involved the replacement of the legacy "static" equity protection programme with a new "systematic" equity protection programme and simultaneously the introduction of a new allocation to index linked gilts, which will serve a dual role as both collateral for the equity protection programme and as an outright investment allocation.

2.11 Given the implicit complexity of this aspect of the implementation plan, the Committee delegated some decisions of a more technical and operational nature to the Head of Pensions and Treasury in consultation with the Risk Management Group to ensure the necessary and appropriate governance and oversight took place. All activity surrounding the design and construction of the Risk Management Framework has involved dedicated support from the Investment Consultant.

2.12 The RMG has met on three occasions over 2024 to date and the implementation has proceeded as planned. The legacy equity protection programme was gradually wound down between January and April 2024 and the replacement systematic equity programme was incrementally established on the same timescale, with implementation complete by 15 April 2024. In addition, the new index linked gilts portfolio was designed and constructed during Q1 2024 and was fully implemented by 21 February 2024. In total, £532m was invested in gilts, funded from existing collateral assets held in either cash or near-cash instruments.

Stage 2 – Intra Asset Class Review

2.13 The recent transactions surrounding Emerging Markets Equities and the Risk Management Framework concluded the major actions needed to bring the Fund's actual asset allocation into alignment with its (target) strategic asset allocation.

2.14 As reported to the Board at its last meeting, as an important second order consideration, officers plan for the Committee to review the underlying portfolio composition within each asset class. This will help ensure that individual mandates continue to remain consistent with the Fund's investment strategy and also help identify further opportunities to progress the pooling of assets. The key parameters of the review are as follows:

- Performance evaluation
- Opportunities for progressing pooling
- Passive vs active implementation
- Mandate size
- Diversification
- Style biases
- Sustainability and positioning for the climate transition
- Impact

2.15 Officers have now commenced the review on asset class by asset class basis and starting with the Equities allocation (which dominates the Fund's risk and return profile) in Q2. This work will be followed by a review of the fixed income mandates and will then conclude with the alternative asset classes. Further details and a progress update will be brought to future meetings of the Board.

3. Fund value and asset allocation

3.1 As of 30 April 2024 (the latest available data), the Fund's value was £8.07bn compared to £7.84bn as at 31 December 2023, the position previously reported to the Board. The table below sets out the current asset allocation versus the Fund's new strategic asset allocation and its revised rebalancing policy.

Asset Class	Strategic Asset Allocation (%)	Tolerance Band (%)	Current Asset Allocation (%)	Variance	Status
Equities	**53**	**+/- 10**	**53**	**1**	**In range**
UK Equities	10	+/- 2.5	12	2	In range
Global Equities	38	+/- 5	39	1	In range
Emerging Market Equities	5	+/- 2.5	3	-2	In range
Fixed Income	**22**	**+/- 5**	**23**	**-1**	**In range**
Credit	15	+/- 5	15	0	In range
RMF (Index Linked Gilts)	7	-	6	-1	N/A
Alternatives	**25**	**+/- 10**	**24**	**-1**	**In range**
Absolute Return	5	-	5	0	N/A
Infrastructure	5	-	5	0	N/A
Private Equity	5	-	5	0	N/A
Property	10	-	9	-1	N/A
Cash	**0**	**5**	**1**	**1**	**In range**
Total	**100**		**100**		

3.2 The current asset allocation is broadly aligned with the new strategic asset allocation, allowing for approved tolerance bands. The UK Equities and Emerging Market Equities allocations are marginally overweight and underweight, respectively. As noted above (para. 2.6), the transition between these two asset classes was not completed until 16 May 2024 (at which point, the allocations achieved their target weightings). Given the current asset allocation is within tolerance, officers will not be recommending to the Committee that any rebalancing is undertaken at its meeting in June.

4. Investment performance: quarter to 31 March 2024

4.1 The Fund's investments returned 2.0% in the three months to 31 March 2024, compared to the benchmark return of 4.3%. The relative negative return vs the benchmark is largely attributed to the Fund's equity protection programme, which detracted (as expected) during another strong quarter for global equities. The programme reduces the overall volatility associated with equities by limiting losses and gains vs the benchmark.

4.2 ***UK equities*** generated lower returns than other regions with the FTSE All Share index gaining 3.8% over the quarter. The Fund's UK equity manager, Schroders, trailed the benchmark during the quarter with a return of 2.7% (versus the benchmark return of 3.8%).

4.3 ***Global equities*** performance was positive over the quarter, returning 9.2%. Commodities stocks benefited from renewed optimism in the economic outlook and cyclical assets outperformed during the quarter on expectations that a sharp recession may have been averted. Developed markets continued to outperform emerging markets and the US and Japan indices posted the best returns with 11.3% and 11.6% in sterling terms, respectively. Emerging markets returned a relatively low 3.4% despite a rebound in Chinese stocks as well as good performance in South Korea, Taiwan, and Saudi Arabia stocks.

4.4 Four out of five of the Fund's active global equity managers underperformed their benchmark this quarter. The exception to this was the Fund's global active value manager, Schroders who returned 9.5%.

4.5 The increase in the global equity valuations meant that the value of the Fund's equity protection assets decreased by £168m during the quarter, as expected.

4.6 ***Fixed income***. Bond yields were higher over the quarter (meaning bond values declined) as market expectations of imminent cuts in interest rates faded following higher than expected growth and inflation data. The Fund's fixed income managers all outperformed their benchmarks during the quarter, with M&G Alpha Opportunities having the highest outperformance with a return of 3.5% vs the benchmark return of 2.3%. As part of implementation of the new Strategic Asset Allocation, the newly established index linked gilts portfolio, managed by Insight, contributed £38m to the Risk Management Framework which equates to a gain of 6.6%.

4.7 ***Property*** returns of 0.4% were an improvement from the -1.2% in the previous quarter and were led by the retail and industrial sectors whilst the office sector detracted from performance. The DTZ direct property portfolio, where most of the Fund's property assets are invested, achieved a slightly better return than the benchmark of 0.5%.

4.8 Both ***absolute return*** managers were negatively impacted by the rise in bond yields which was marginally offset by gains from equities. Pyrford returned a positive 0.6% although it underperformed the RPI + 5% benchmark of 2.3%. Ruffer produced a negative performance of -0.7%.

4.9 The ***private equity*** mandate also benefitting from improved valuations this quarter although the ***infrastructure*** mandate detracted.

5. Longer term performance

5.1 For the year ended 31 March 2024, the Fund achieved a return of 3.7% against a benchmark return of 10.4%, an underperformance of 6.9%.

5.2 Against a backdrop of gradual disinflation and renewed expectations of interest rate cuts, bonds have performed well over the last year. All the Fund's bond managers have significantly outperformed the cash benchmark in the 1-year period. CQS were the best performing manager with a return of 13.7% against a benchmark of 9.2%, followed by the M&G Alpha Opportunities fund, which returned 12.4%.

5.3 Equities have also rallied with several major indices reaching record highs. However, the fund's active managers have underperformed the benchmark. Much of this underperformance by the Fund's active managers can be attributed to an underweight holding of the “Magnificent-7” tech stocks, which have driven the concentrated rally in the global equities, although the rally has become broader based in the most recent quarter with commodities benefiting from the improved economic backdrop. Given the rally in global equities over the past 12 months, the equity protection programme has detracted from overall Fund returns.

5.4 Relative performance from the absolute return managers against their inflation plus 5% target over the past 12 months has been negative, which is in part explained by the relatively high level of inflation that has persisted over the period. Ruffer detracted more significantly than Pyrford with a return of -5.9% (Pyrford: 4.9%). Property as an asset class has had a challenging year with benchmark returns being negative, and the Fund’s property managers have largely produced negative returns. The DTZ directly managed portfolio returned -0.9% against a bespoke benchmark of -0.3% over the year.

5.5 For the three-year period, the Fund achieved a return of 2.6% compared to its strategic benchmark of 6.6%, an underperformance of 4.0%.

5.6 Benchmark equity returns have been strong during the three-year period with UK and Global equity indices returning 8.6% and 10.1% respectively. The Fund’s value-style managers, Schroders and M&G, have outperformed the benchmark with 10.5% and 10.2% returns, respectively whilst the Fund’s growth-style manager, Baillie Gifford, significantly underperformed with a return of -5.4% against a regional benchmark return of 8.7%. As noted in section 2 above, officers have commenced a review of the equities portfolio to ensure it remains aligned with the Fund’s long term investment objectives.

5.7 The equity protection programme has detracted from performance over this period too, as equities have rallied. As noted above, the program reduces the overall volatility associated with equities by limiting losses and gains vs the benchmark.

5.8 The private equity and investment allocations have been the best performers in the three-year period while the absolute return managers have struggled against their inflation-linked benchmarks, given elevated levels of inflation over the performance horizon as noted above.

6. Responsible Investment Update

6.1 The Responsible Investment Working Group (RIWG) has met three times since the last Board meeting, on 6 March 2024, 30 April 2024 and 30 May 2024.

Responsible Investment Policy

6.2 Since the Board’s last meeting, officers have been working to update the Fund’s Responsible Investment (RI) Policy. At its meeting on 6 March, officers presented the RIWG with a gap analysis comparing several LGPS peers’ RI policies against the current RI Policy, along with recommendations from the Principles for Responsible Investment (PRI) for drafting a successful RI Policy. This exercise demonstrated that there were several opportunities to update the policy to bring it into alignment with best practice and to better reflect the Fund’s current RI practices (which have evolved since the original RI Policy was established in 2020, not least since the introduction of the Fund’s net zero commitment in December 2023. The exercise also provided an opportunity to incorporate the outcomes of the RI beliefs session held at the Committee's strategy development meeting in February 2024).

6.3 An initial draft revised RI Policy was reviewed by the RIWG at its meeting on 30 April. Following feedback from the group, officers incorporated suggested changes and presented a second draft at the RIWG's May meeting. Officers also took input from the Investment Consultant and the Pool's RI advisers, PIRC, in preparing the revised policy.

6.4 Officers have identified that the Board has an important role in the formulation of the Fund's RI Policy, given that the Board is comprised of scheme member and employer representatives. The Policy set outs the Fund's approach to managing material ESG risks and opportunities, which (if managed inadequately) can potentially have a negative impact on employer contribution levels. The Policy also notes that scheme members are likely to have an interest in enjoying their retirement in a sustainable and healthy economy, now and in the future, and therefore officers believe it is important that the Fund sets out its approach for stakeholders, which also aids transparency.

6.5 The revised RI policy will be presented to the Committee for approval at its meeting on 27 June. If the policy is approved, the final version will be published on the Fund's website and advertised to stakeholders through appropriate communication channels.

Other Matters

6.6 The RI Policy has been a key focus of the RIWG's workstream over recent meetings, but the group has also conducted several other pieces of business.

6.7 At its April meeting the RIWG reviewed the RI workplan for 24/25. The workplan will help guide the Fund's RI activities over the year. Major areas for consideration include the RI Policy (as above), engagement with ACCESS, stewardship activities, exploring impact investing, and building out the Fund's RI reporting approach.

6.8 At its meeting on 30 May 2024, the RIWG approved a more formal terms of reference for the group. The RIWG has operated on an informal basis to date and will continue to do so under the new terms of reference. However, officers recognise that having a documented terms of reference will enhance good governance and will help to ensure the RIWG's contribution continues to be effective. The terms of reference also rationalise the role of the Board in respect of the Group. The terms of reference state:

> "To allow the Pension Board to exercise their oversight role effectively, the Board is invited to nominate a member to attend the group meetings as an observer."

The Board is asked to nominate a member to attend RIWG meetings as an observer.

6.9 The RIWG also received a presentation from PIRC at its May meeting. PIRC have been appointed by ACCESS to develop the pool's RI reporting capabilities and output. Given the critical role that ACCESS play in facilitating the Kent

Pension Fund's responsible investment activities and reporting, officers have identified engagement with ACCESS as an important theme for the Fund's RI workplan. Key elements of PIRC's work with ACCESS were presented to the RIWG, which are summarised below:

- PIRC have undertaken a detailed review and gap analysis of the pool's current RI arrangements, comparing practices against other LGPS pools' arrangements. This analysis has identified several areas for consideration, including the potential need for dedicated in-house ESG/RI expertise, pool-led engagement activities and the option of using a voting and engagement provider. These areas are now being explored within ACCESS's governance framework.

- with support from the ACCESS ESG working group, PIRC have also been working on an inaugural Stewardship Code submission on behalf of the pool ahead of the Financial Reporting Council's October deadline. The draft submission will be reviewed in September, when the ESG working group will evaluate the likelihood of the submission meeting the FRC's reporting expectations.

- PIRC has reviewed the ACCESS Voting Guidelines (formalised in 2018), which has resulted in over 70 recommendations including presentational changes and detailed updates and expanded narrative regarding individual voting positions. PIRC are in the process of drafting revised guidelines following these recommendations.

Appendices

Appendix 1 – Quarterly Performance Report (31 March 2024)

Appendix 2 – Draft Responsible Investment Policy

James Graham, CFA (Pension Fund and Treasury Investments Manager)

Sangeeta Surana (Investments, Accounting and Pooling Manager)

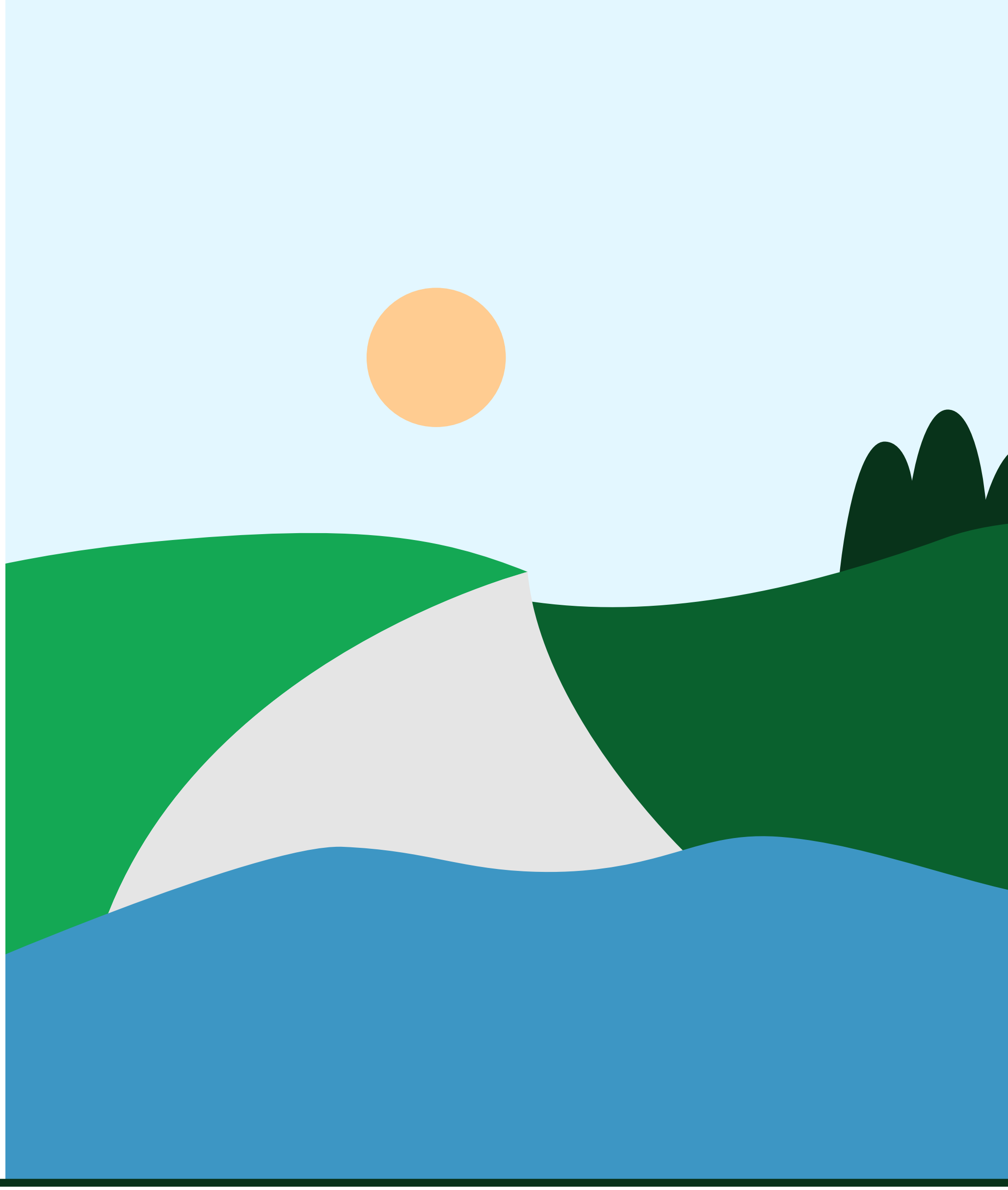
T: 03000 416290 / 03000 416738

E: james.graham@kent.gov.uk / sangeeta.surana@kent.gov.uk

28 May 2024

Kent Pension Fund

Q1 2024 Fund Performance



Market Commentary

- The first quarter of 2024 was characterized by a repricing of interest rate expectations, especially for developed market (DM) central banks. The timing of potential rate cuts by the US Federal Reserve, ECB and BOE were pushed back to the second half of 2024 as growth and inflation data surprised to the upside. Despite rising bond yields, equity markets continued to rally driven by AI enthusiasm, strong corporate earnings and resilient earnings activity. Japanese equities outperformed its peers on the back of solid earnings growth and a weaker yen. Emerging Market equities were held back by weakness in China, although Chinese equities did rally in the second half of the quarter.

- Estimates of US GDP growth indicated the US economy accelerated in Q4 23. US GDP in Q423 grew at an annualized rate of 3.4%. Higher consumer spending, exports and business investment supported the economy. Headline US CPI fell over Q1 2024 decreasing to 3.2% in February from 3.4% at the end of December. Core US inflation has been declining in recent months. The Federal Reserve at its March meeting decided to maintain policy rates at 5.50%. The Fed retained the median projection for interest rates at end-2024, expecting 0.75 percentage points of cuts before the end of the year, likely translating into three 0.25 percentage point cuts.

- The Chinese economy is estimated to grow at 5.3% in Q4 2023 up from 4.9% in Q3 2023. A slight recovery in economic growth is partially influenced partly by base effects but also the recent Lunar New Year. The economy continues to be challenged by a property crisis, deteriorating consumer and business confidence, and increased local government debts. Nonetheless, the recent data indicates some improvements as business surveys are beginning to point towards a broadening out of stronger economic activity. The Peoples Bank of China (PBoC) cut the five-year loan prime rate (LPR) to 3.95% from 4.2%, while the one-year LPR was kept unchanged at 3.45%.

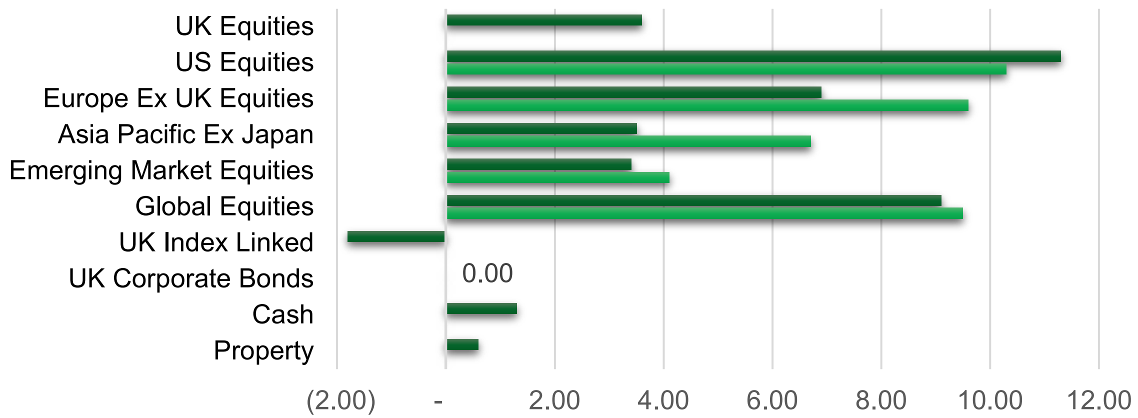
Japan’s GDP expanded at 0.4% y-o-y in Q4 2023. Japan avoided a technical recession during the quarter, primarily due to companies' stronger-than-expected spending on plants and equipment.

Quarter on quarter GDP growth remained flat in the eurozone. Germany posted a 0.3% quarter-on-quarter contraction, whilst narrowly avoiding a technical recession, the economy is stagnating, driven by a stalling manufacturing sector. The French economy was steady in Q4, while Spain expanded by 0.6%. Headline inflation in the eurozone has declined to 2.4% in March from 2.9% in December. The European Central Bank maintained the interest rate on the marginal lending facility at 4.75%.

UK GDP growth is estimated to have declined 0.3% in the fourth quarter of 2023. Headline inflation in the UK fell to 3.4% in February from 4% in December. Base effects played a significant part in inflation declining, however, food and energy costs are also declining sharply. The Bank of England maintained interest rates at 5.25%.

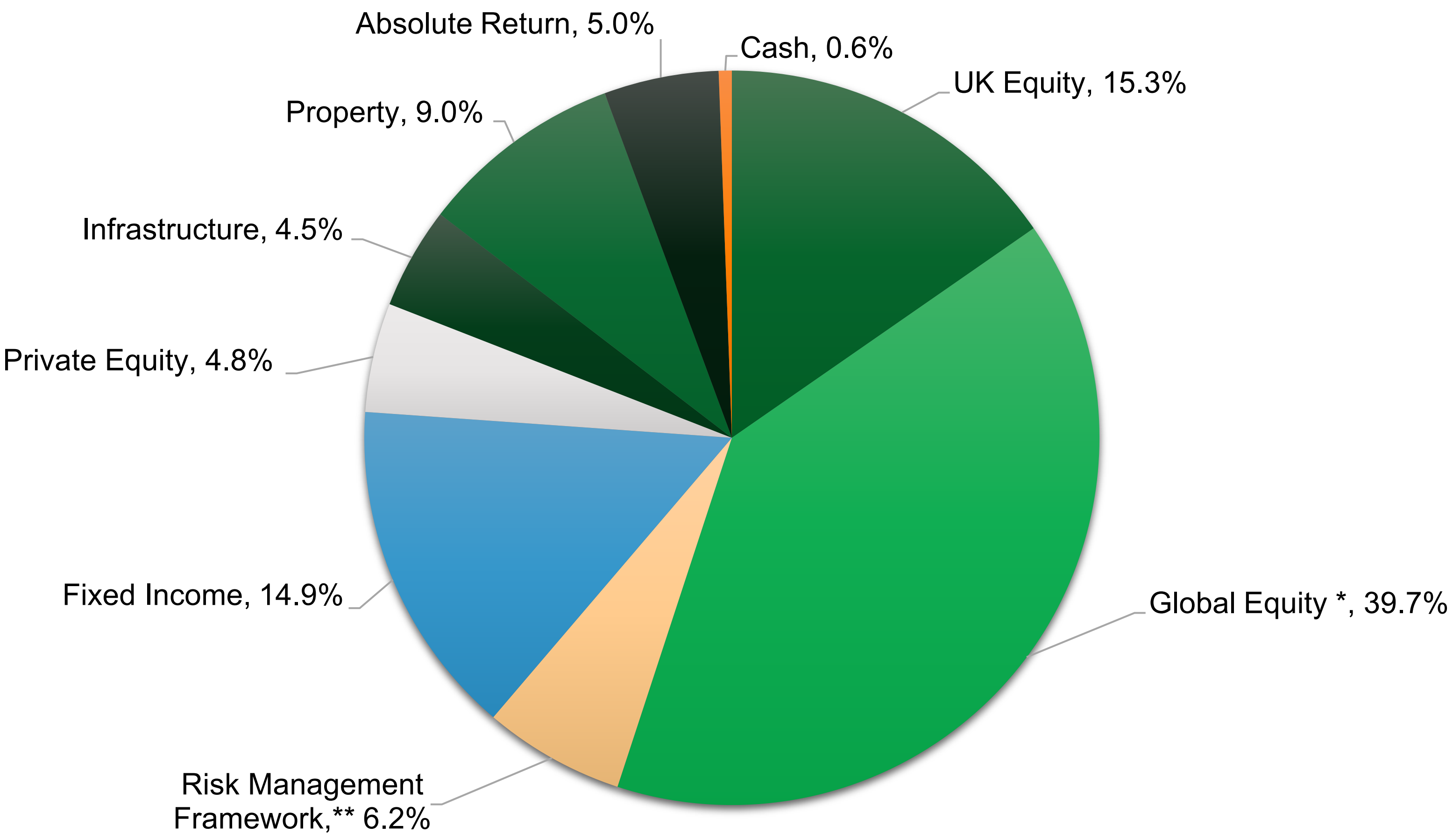
Source: Mercer LLC

Market Returns (%)



Source: Mercer LLC, Refinitiv and Schroders

Asset Allocation – 31 March 2024



Page 73

*Synthetic Equity exposure with Insight is included within Global Equity.
**Risk Management Framework is made up of Gilts, as well as Insight IWS contribution and Equity Protection collateral.

Source: Northern Trust, RADAR Reporting

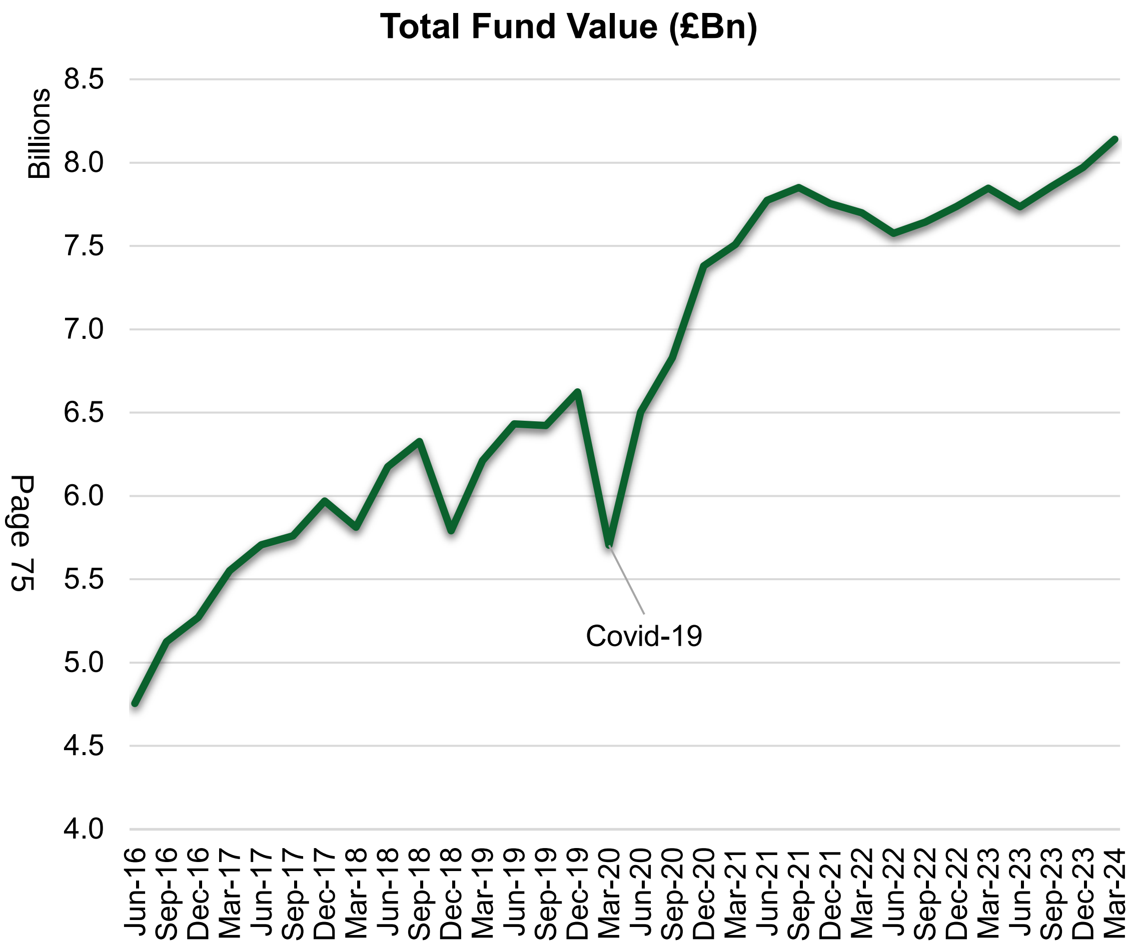
Fund Manager Summary

Asset Class	Fund Manager	Market Value as at 31 March 2024 (£m)	Market Value as at 31 December 2023 (£m)	Change in MV (£m)	% of Total
UK Equity	Schroders UK Equity	1,246	1,214	32	15.3
	Woodford Equity	2	2	0	0.0
Global Equity	Impax	75	72	2	0.9
	Sarasin	426	391	34	5.2
	Baillie Gifford	1,204	1,131	73	14.8
	Schroders Global Active Value	476	435	41	5.8
	M&G Global Dividend Fund	594	562	32	7.3
Equity Protection	Insight	963	900	63	11.8
Fixed Income	CQS	257	249	8	3.2
	Goldman Sachs	418	415	4	5.1
	Schroders Strategic Bond Fund	260	256	4	3.2
	M&G Alpha Opportunities	276	267	9	3.4
Absolute Return	Ruffer	180	181	-1	2.2
	Pyrford*	231	398	-168	2.8
Property	DTZ	462	463	-1	5.7
	DTZ Pooled Property	60	60	0	0.7
	DTZ (previously Aegon)	28	28	-1	0.3
	M&G Residential Property	43	61	-19	0.5
	Fidelity	137	137	0	1.7
Infrastructure	Partners Group	365	346	19	4.5
Private Equity	HarbourVest	307	287	20	3.8
	YFM	84	85	-1	1.0
Cash	Internal Cash	47	30	16	0.6
Total		**8,140**	**7,971**	**170**	**100.0**

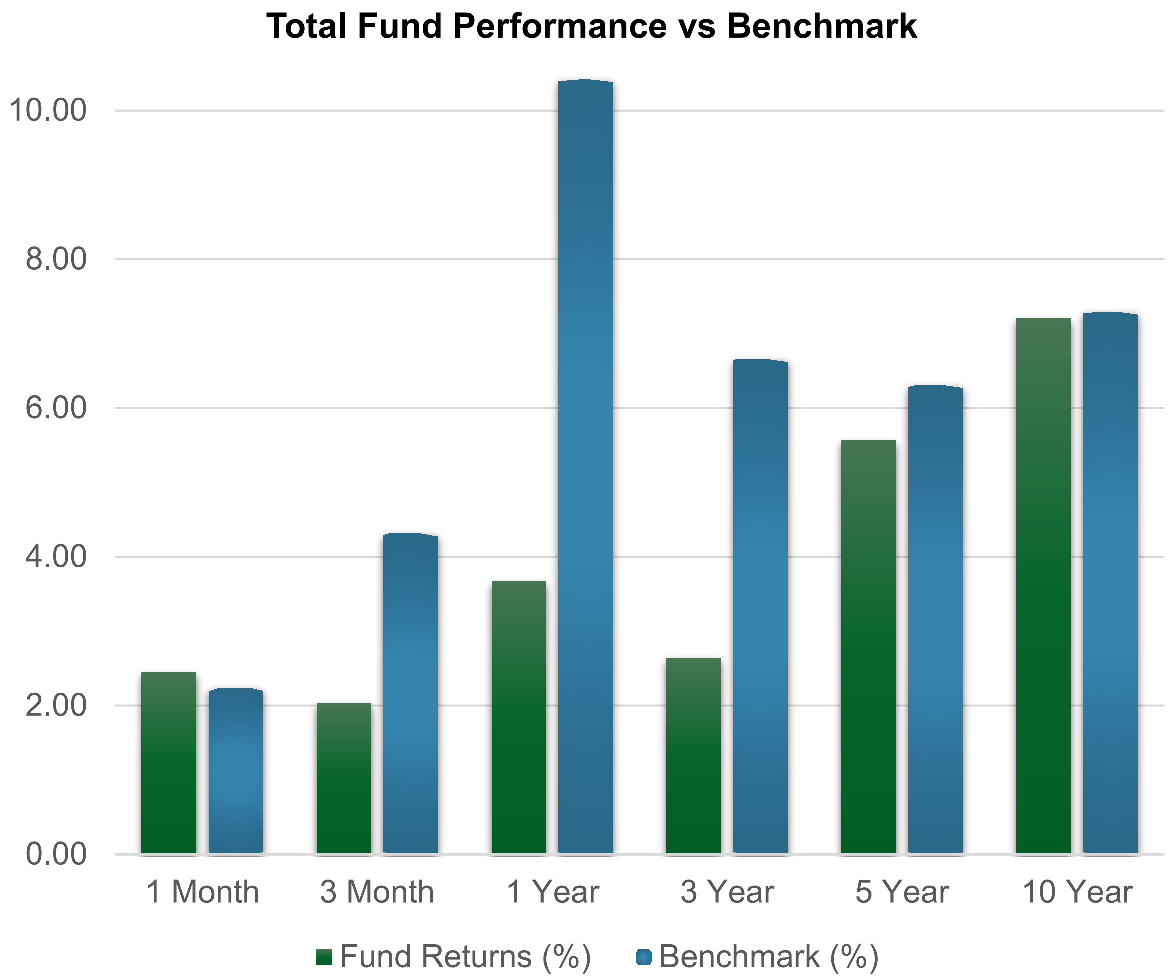
* During the quarter, £167m was redeemed from Pyrford and was transferred to Insight's IWS Fund.

Source: Northern Trust, RADAR Reporting

Historical Performance

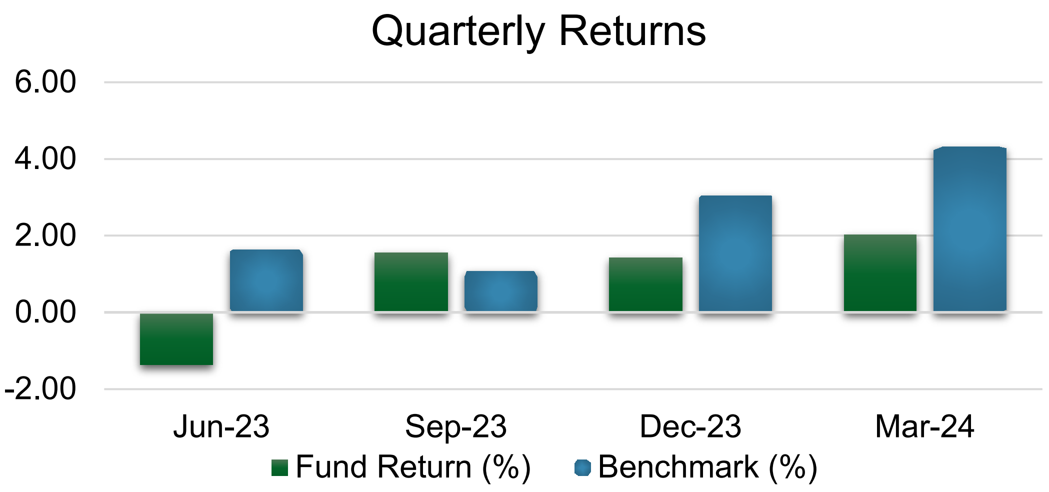


Page 75



Source: Northern Trust, RADAR Reporting

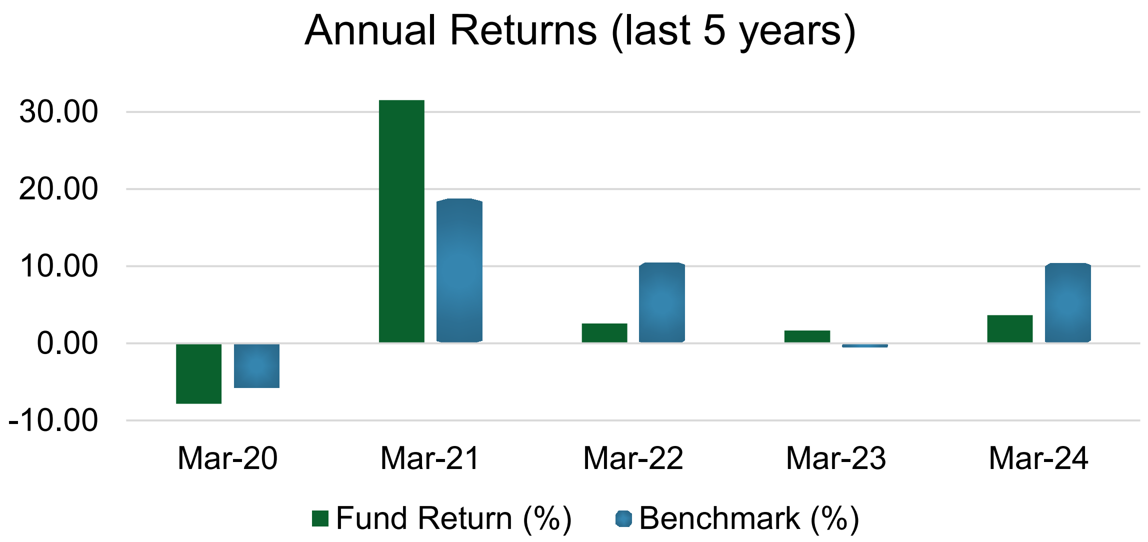
Discrete Performance



- Despite a strong Q1 in terms of valuation, taking the Fund over £8bn, returns remained below the benchmark. This underperformance is largely explained by an underperformance by equity managers as well as the impact of the Equity Protection.

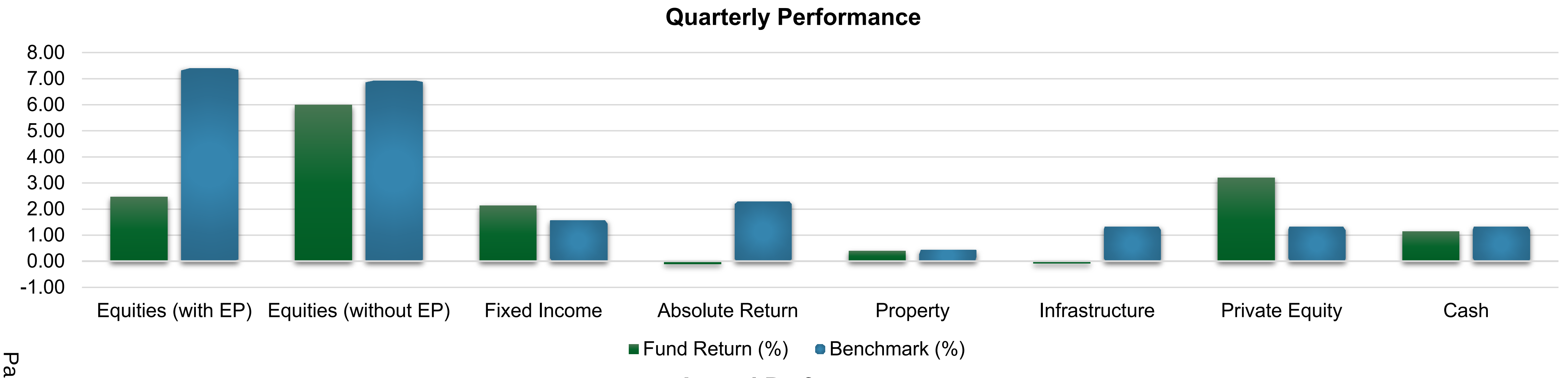
Page 76

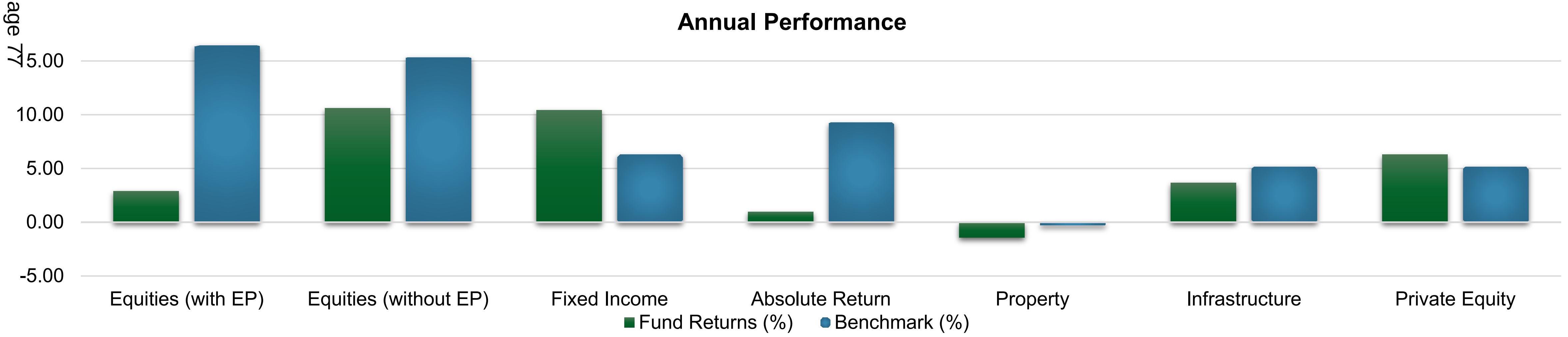
- The Fund has underperformed in three of the past five years. Performance in 2020 was affected by the volatility in the markets following Covid 19.
- The Fund's active equity and fixed income managers performed well against the benchmark following the post covid rebound in markets and the Fund has benefitted from the equity protection in falling equity markets in March 23.
- Underperformance in 2022 and 2024 can be attributed to underperformance by active managers as well as the impact of Equity Protection.



Source: Northern Trust, RADAR Reporting

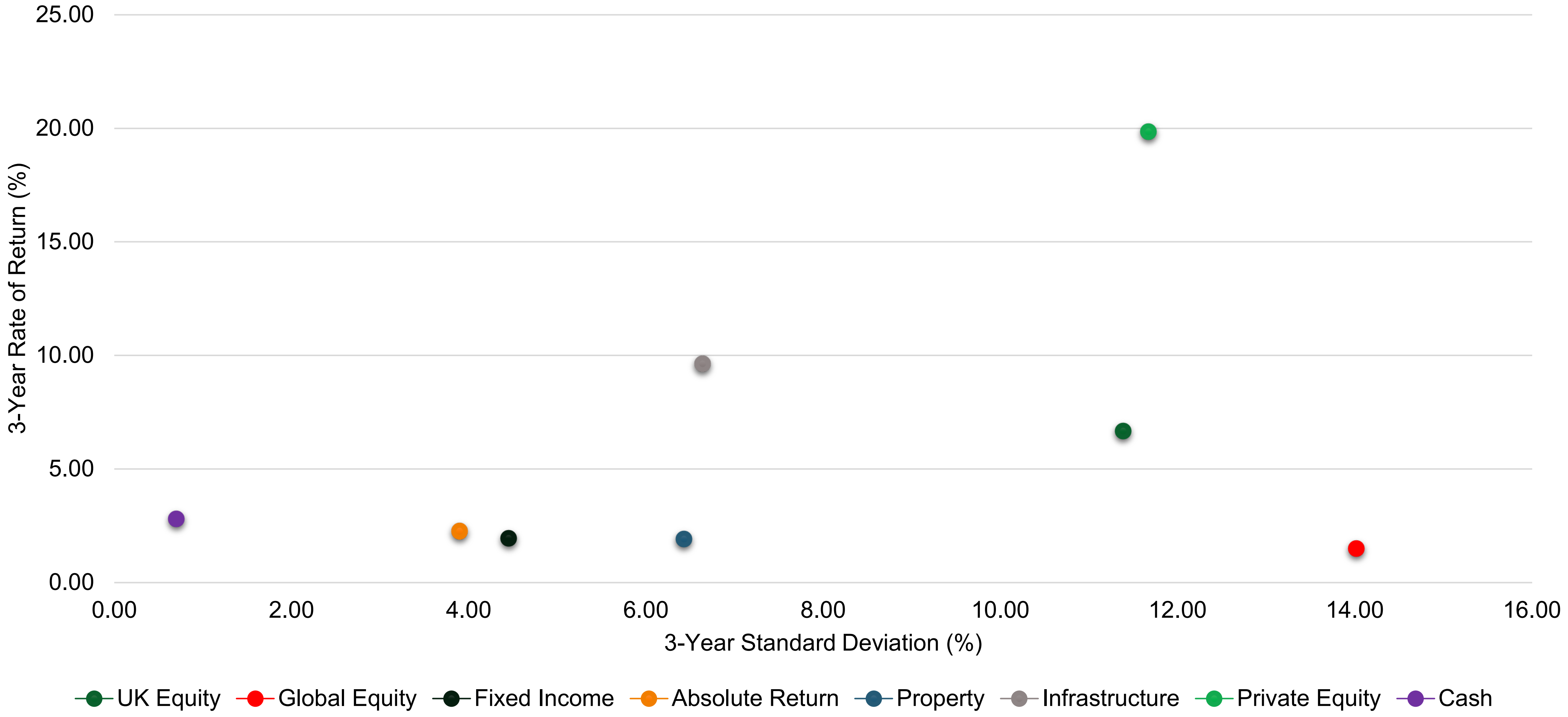
Asset Class Performance





Source: Northern Trust, RADAR Reporting

Risk vs Return – *Asset Class Level*



Page 78

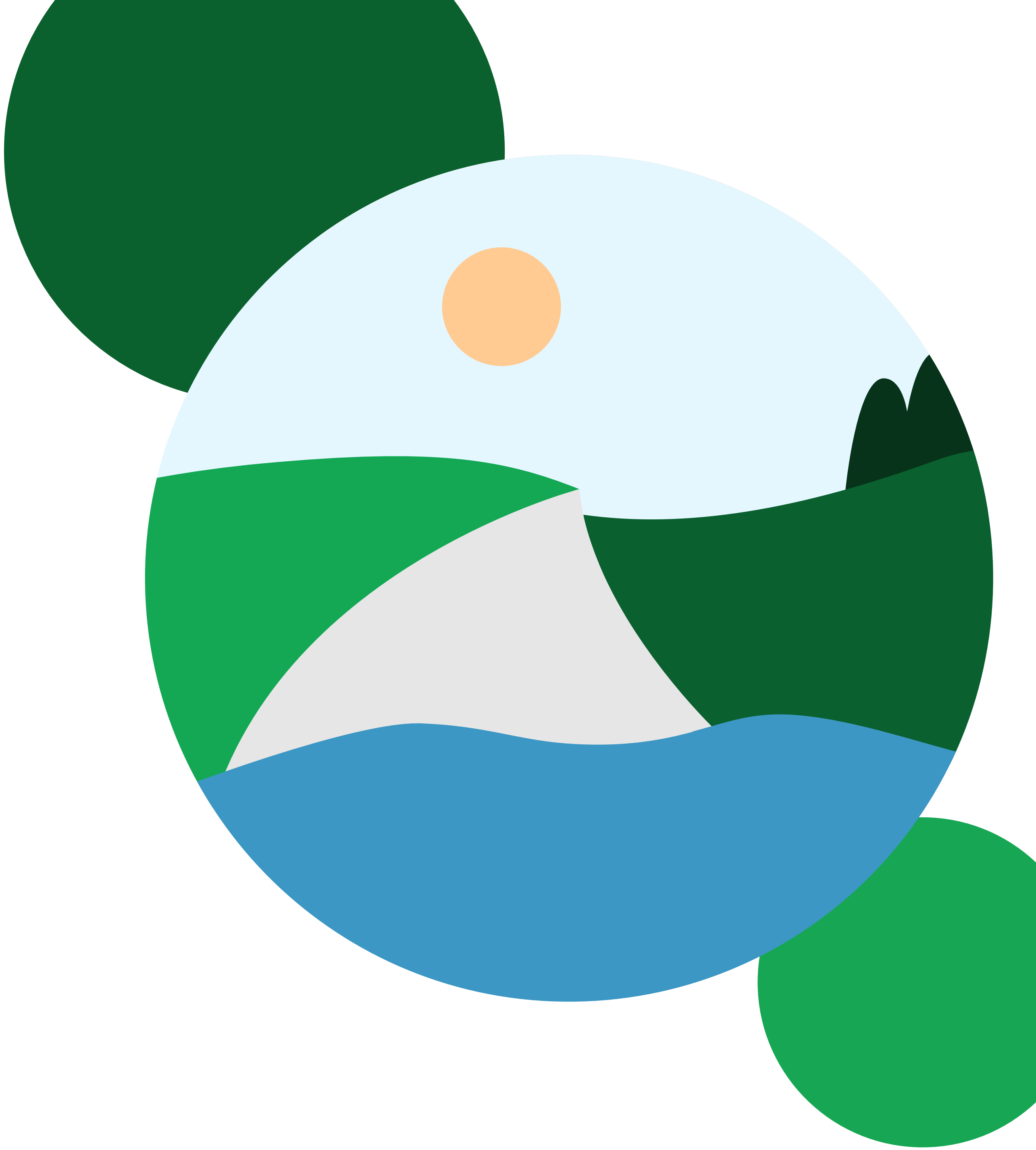
Source: Northern Trust, RADAR Reporting

Detailed Performance by Manager

	Quarter		1 Year		3 Year (p.a.)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Total Fund	2.03	4.31	3.67	10.42	2.64	6.65
UK Equity						
Schroders - WS ACCESS UK Equity Fund	2.65	3.79	5.22	8.77	6.50	8.64
Global Equity						
Baillie Gifford - WS ACCESS Global Equity Core Fund	6.47	7.53	12.38	16.29	-5.38	8.70
Sarasin	8.81	9.19	13.47	20.60	6.46	10.15
Schroders - WS ACCESS Global Active Value Fund	9.48	9.19	17.48	20.60	10.47	10.15
Impax	3.44	9.19	2.54	20.60	1.74	10.15
M&G - WS ACCESS Global Dividend Fund	5.77	9.19	10.80	20.60	10.22	10.15
Fixed Income						
Goldman Sachs	0.91	0.86	8.42	3.50	0.11	3.50
Schroders Fixed Income	1.57	1.29	8.61	5.14	0.57	2.44
CQS	3.29	2.28	13.69	9.15	3.37	6.46
M&G Alpha Opportunities	3.50	2.28	12.35	9.15	5.08	6.46
Property						
DTZ	0.51	0.43	-0.86	-0.27	2.38	1.65
Fidelity	0.26	0.51	-4.05	-0.70	0.44	1.50
DTZ (Kames)	0.50	0.51	0.70	-0.70	2.65	1.50
M&G Property	-0.61	0.51	-1.89	-0.70	1.02	1.50
Private Equity						
HarbourVest	3.47	1.32	3.48	5.17	17.47	2.47
YFM	2.36	1.32	15.86	5.17	28.84	2.47
Infrastructure						
Partners Group	-0.08	1.32	3.68	5.17	9.64	2.47
Absolute Return						
Pyrford	0.64	2.28	4.93	9.27	3.61	13.87
Ruffer - WS ACCESS Absolute Return Fund	-0.68	2.28	-5.94	9.27	-0.19	13.87

Source: Northern Trust, RADAR Reporting

Appendix



Kent Pension Fund

Benchmarks and Targets

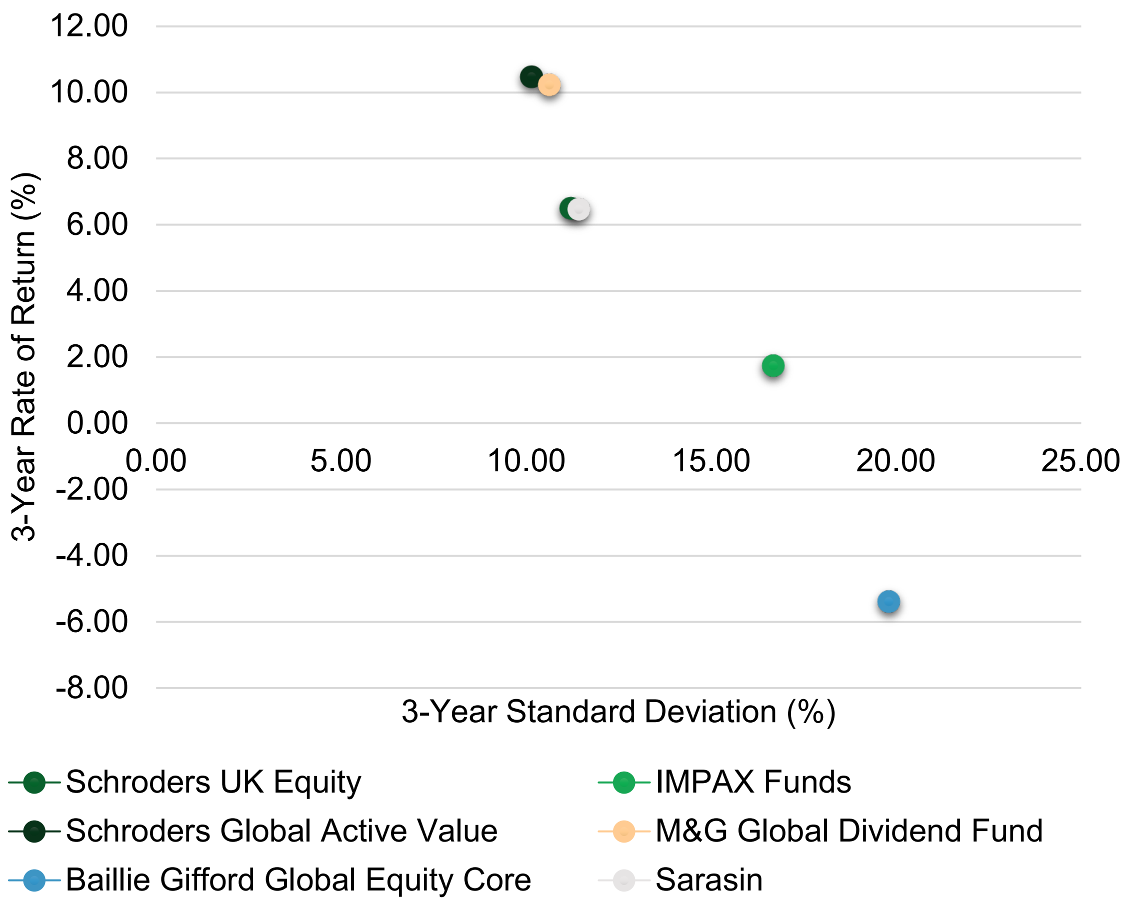
Appendix A

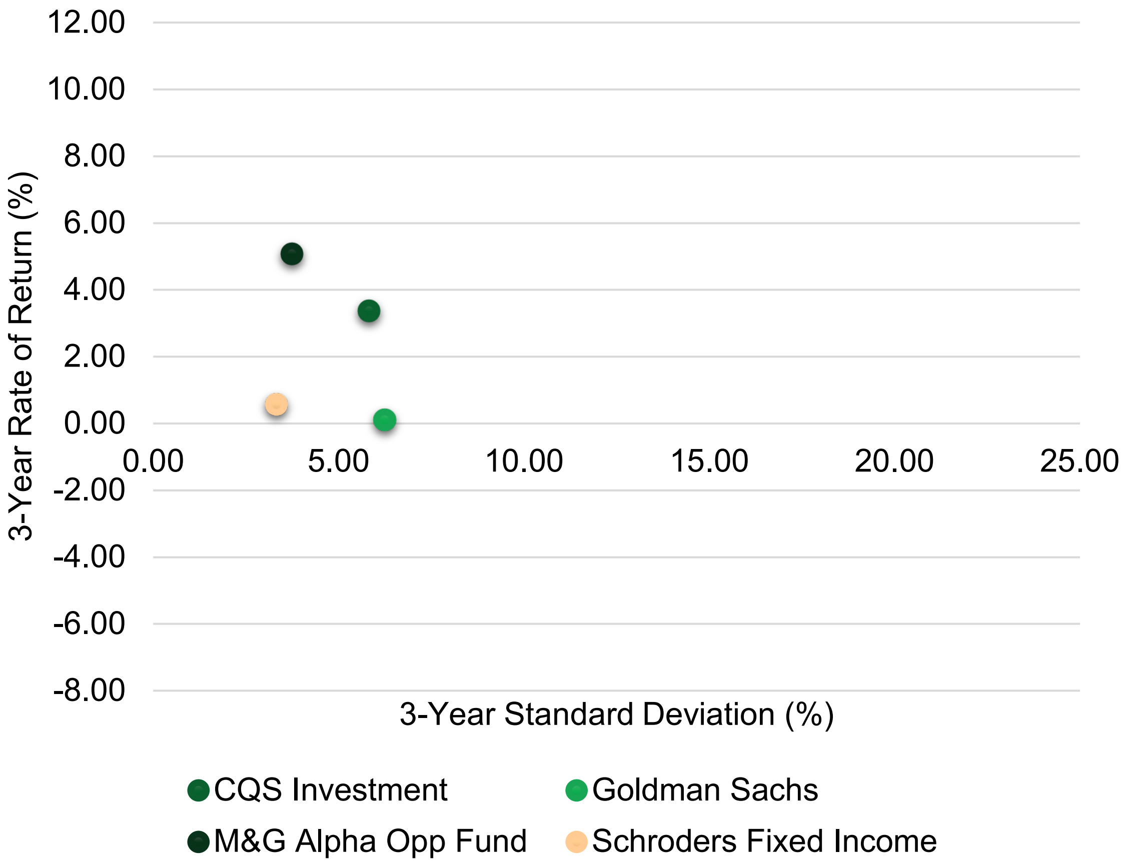
Asset Class / Manager	Performance Benchmark	Performance Target
UK Equities:		
Schroders - WS ACCESS UK Equity Fund	Customised	+1.5% pa over rolling 3 years
Woodford	FTSE All Share	Unconstrained
Global Equities:		
Baillie Gifford - WS ACCESS Global Equity Core Fund	Customised	+1.5% pa over rolling 3 years
Sarasin	MSCI AC World Index NDR	+2.5% over rolling 3 - 5 years
M&G - WS ACCESS Global Dividend Fund	MSCI AC World Index GDR	+3% pa
Schroders - WS ACCESS Global Active Value Fund	MSCI AC World Index NDR	+3% - 4% pa over rolling 3 years
Impax	MSCI AC World Index NDR	+2% pa over rolling 3 years
Fixed Income:		
Schroders Fixed Income	ICE BofA Sterling 3-month Gov Bill Index	+4% pa over a full market cycle
Goldman Sachs	+3.5% Absolute	+6% Absolute
CQS	ICE BofA Sterling 3-month Gov Bill Index	ICE BofA Sterling 3-month Gov Bill Index + 4%
M&G Alpha Opprtunities	ICE BofA Sterling 3-month Gov Bill Index	ICE BofA Sterling 3-month Gov Bill Index + 4%
Property:		
DTZ	IPD Pension Fund Index	≥ 3 year rolling average of benchmark returns
Fidelity	IPD UK PF Property Fund Index	
DTZ (Kames)	IPD UK PF Property Fund Index	
M&G Property	IPD UK PF Property Fund Index	
Alternatives: (Cash / Other Assets)		
Private Equity – YFM	SONIA	
Private Equity – HarbourVest	SONIA	
Infrastructure – Partners Group	SONIA	
Absolute Return – Pyrford	Retail Price Index (RPI)	RPI + 5%
Ruffer - WS ACCESS Absolute Return Fund	Retail Price Index (RPI)	
Internally managed cash – KCC Treasury and Investments team	SONIA	

Source: Northern Trust, RADAR Reporting; Manager reports

Risk vs Return – *Equities and Fixed Income*

Appendix B

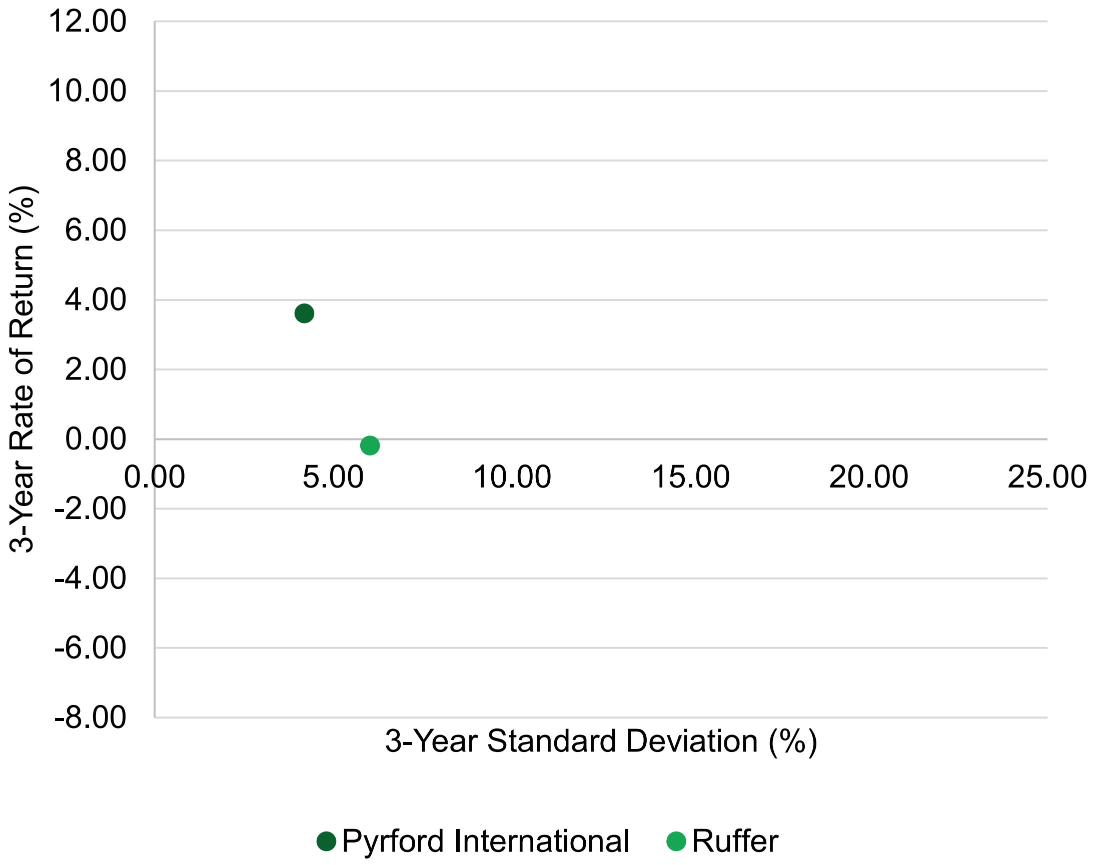


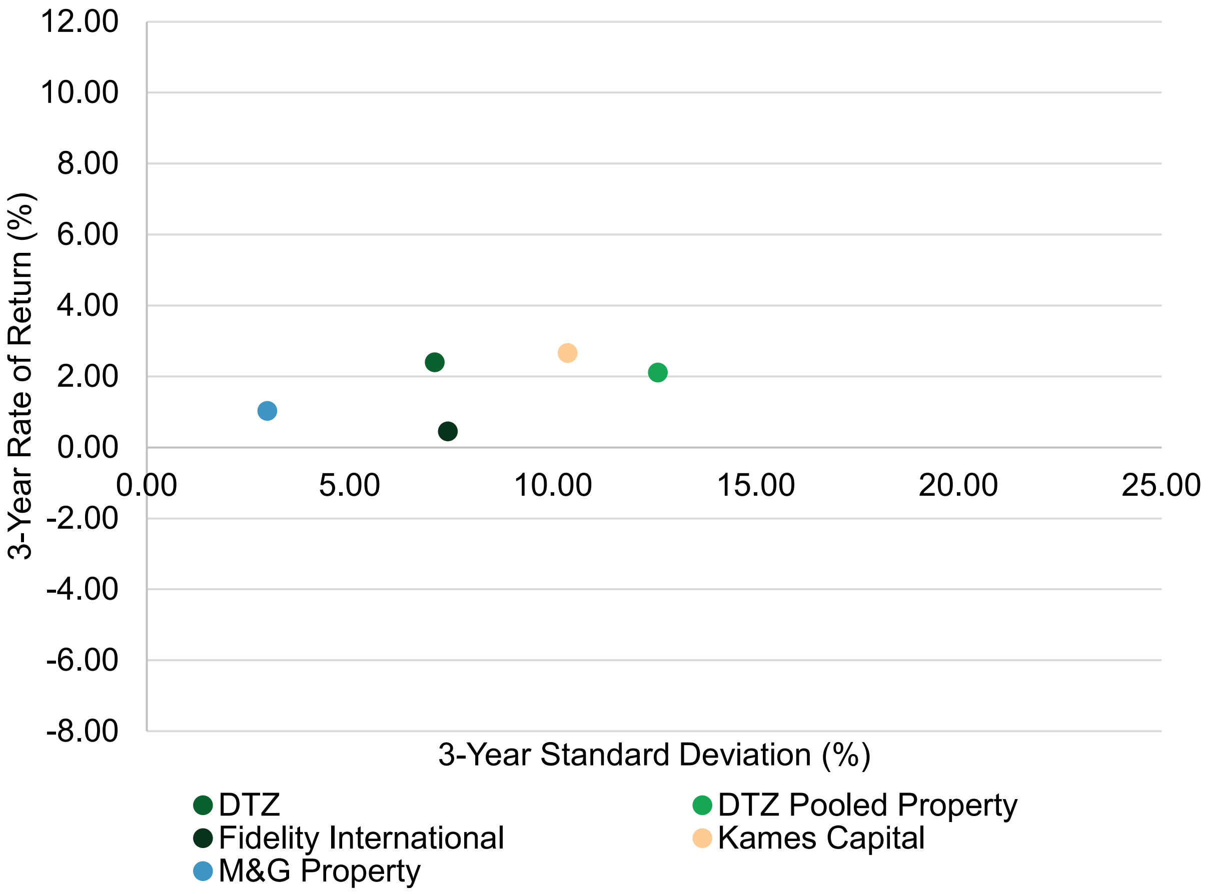


Source: Northern Trust, RADAR Reporting

Risk vs Return – *Absolute Return and Property*

Appendix C

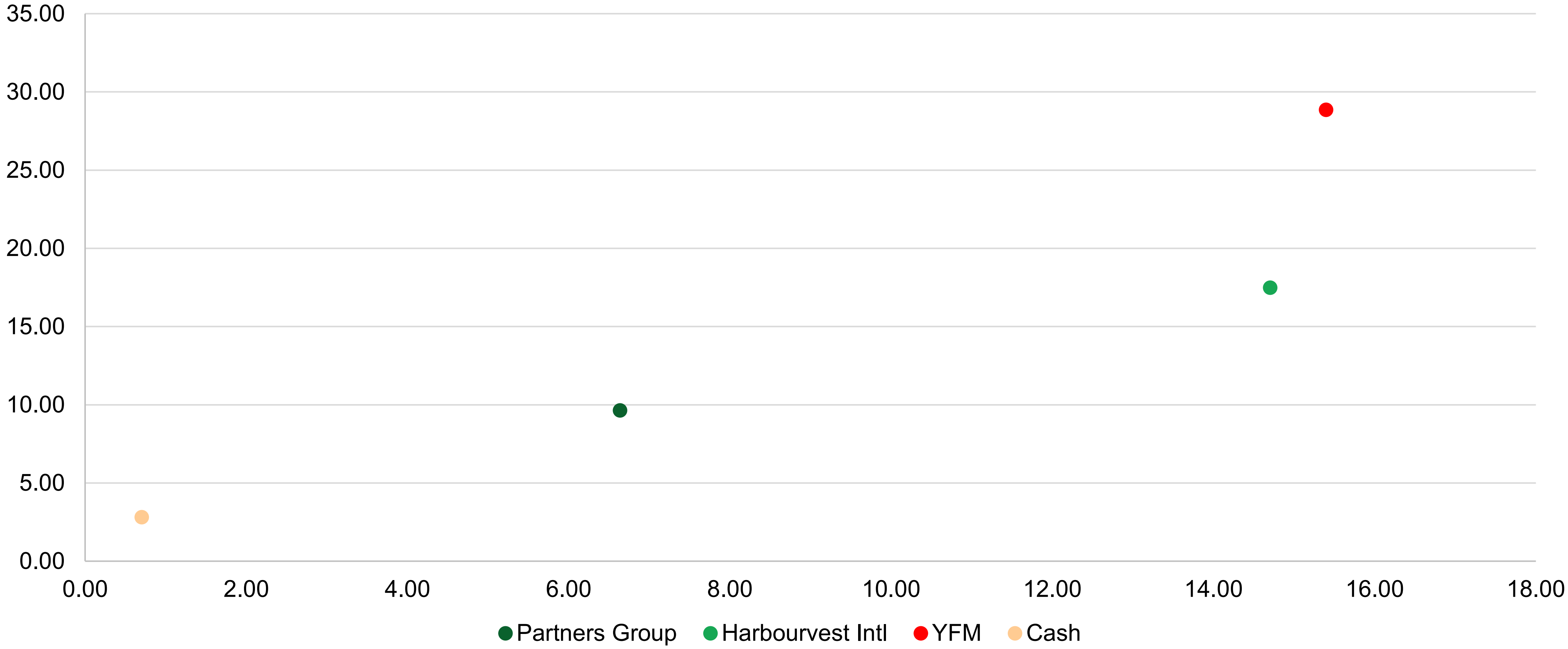




Source: Northern Trust, RADAR Reporting

Risk vs Return - *Alternatives*

Appendix D



Page 84

Source: Northern Trust, RADAR Reporting

Kent Pension Fund

For more information, please visit

www.kentpensionfund.co.uk

This page is intentionally left blank

Kent Pension Fund
Delivering an outstanding service

KENT COUNTY COUNCIL

ADMINISTERING AUTHORITY FOR KENT PENSION FUND

RESPONSIBLE INVESTMENT POLICY

JUNE 2024

TABLE OF CONTENTS

INTRODUCTION

The Kent Pension Fund (the Fund) is committed to being a responsible investor and a good long-term steward of the assets in which it invests. The Pension Fund Committee (the Committee) has a fiduciary responsibility to act in the best interests of its members. The Fund expects the approach outlined in this policy will enhance and protect the value of its assets over the long term and is therefore consistent with its fiduciary duty.

This policy sets out the Fund's approach to responsible investment including where responsibility lies; how environmental, social and governance (ESG) considerations are embedded in the Fund's investment processes; and how the Fund stewards its investment assets in the interests of its beneficiaries.

The Responsible Investment Policy forms part of the Fund's overall investment strategy, which is articulated in the Investment Strategy Statement. The Responsible Investment Policy applies to all the investment assets held within the Kent Pension Fund.

GOVERNANCE

The Committee is responsible for approving the Responsible Investment Policy and for overseeing its execution and implementation via the investments team, external asset managers and service providers (including the ACCESS asset pool).

In recognition of the potential materiality of ESG factors to the Fund's investment strategy, the Pension Fund Committee established the Responsible Investment Working Group in 2020 to develop the Fund's responsible investment approach and policy. The Group is comprised of members of the Committee. The Group has an established annual workplan (approved by the Committee) to direct its activities and to advance the Fund's approach in this area.

The Local Pension Board (the Board) is comprised of scheme member and employer representatives, and as such it undertakes a crucial consultative role in ensuring the Responsible Investment Policy is consistent with beneficiaries' interests, as well as applicable laws and regulations.

Example stakeholder interests:

- ***Employers:*** under defined benefit pension schemes (such as the LGPS) sponsoring employers maintain investment risks, and employer contribution levels may be adversely impacted by the inadequate management of ESG risks.
- ***Members:*** scheme members may wish to know how their pension contributions are invested, and therefore the Fund recognises that it should provide transparent information around its responsible investment activity. Members are also likely to have interest in enjoying their retirement in a sustainable and healthy economy, now and in the future.

As an asset owner, the Fund implements its investment strategy via external asset managers and service providers, who play a critical role in delivering and discharging the Fund's Responsible Investment Policy. As such this policy sets out the key requirements and expectations that the Fund places upon its appointed asset managers and service providers. A copy of the Responsible Investment Policy will be shared with all of the Fund's external asset managers.

Increasingly the Fund's investment assets are pooled via the ACCESS pool, one of the LGPS collective investment pools in England and Wales that have been established to drive scale, develop expertise and enhance returns. The Fund pursues its responsible investment objectives via the pool and, alongside other ACCESS members authorities, actively contributes to the development and evolution of the pool's responsible investment approach. ACCESS has developed Responsible Investment Guidelines and Voting Guidelines which apply to all pooled assets. The Fund inputs into the development of these Responsible Investment Guidelines and Voting Guidelines.

REGULATORY BACKGROUND

The Local Government Pension Scheme (LGPS) Investment Regulations (2016) require the Fund to set out its policy on how ESG considerations are taken into account in the investment approach, and to explain how it exercises the rights (including voting rights) attaching to investments.

OBJECTIVES AND BELIEFS

The Fund's investment strategy aims to ensure that over the long term the Fund has sufficient assets to meet pension liabilities as they fall due. The Committee believes Environmental, Social and Governance ("ESG") factors can have a financially material impact on the delivery of the investment objective, and therefore the Fund recognises that it is consistent with its fiduciary duty to identify and manage ESG risks (and opportunities) appropriately. The Fund has identified several responsible investments beliefs as integral to its approach:

- As a long-term investor, seeking to deliver long-term sustainable returns, taking a sustainable investment view is more likely to create and preserve long-term investment capital.
- The identification and management of ESG risks that are financially material is consistent with our fiduciary duty.
- The Fund seeks to integrate ESG issues at all stages of its investment decision making process, from setting the investment strategy to monitoring its investment managers.
- Active ownership helps the realisation of long-term shareholder value. The Fund has a duty to exercise its stewardship and active ownership responsibilities (voting and engagement) effectively by using its influence as a long-term investor to encourage responsible investment behaviour.
- The Fund recognises that taking a collaborative approach with other investors can help to achieve wider and more effective outcomes. This is evidenced by participation in the various initiatives outlined in this document.
- The Fund seeks to identify sustainable investment opportunities where aligned with its broader investment objectives.
- It is important that the Fund be transparent and accountable to members and stakeholders with respect to its RI activities.

DEFINITIONS

The Fund recognises that the language and terminology surrounding responsible investment can be complicated, creating a potential barrier to transparency. To assist stakeholders, this section sets out the definitions of key terms used throughout the Policy. These definitions are drawn from relevant practitioner resources and are (in the Fund's view) consistent with generally accepted best practice in this field.[1]

- ***Responsible Investment***: Responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship). It complements traditional financial analysis and portfolio construction techniques.
- ***Sustainable Investments and Sustainability:*** Sustainable investments are investments that positively contribute to environment objectives or social objectives and do not harm those objectives. The Fund uses the UN Sustainable Development Goals (SDGs) as a general framework for identifying and prioritising sustainable investment opportunities and stewardship activities. The Fund also recognises that some assets are on a journey to becoming sustainable and that investors have a role to play in making assets sustainable.
- ***ESG Factors (PRI):*** Environmental, social and governance issues that are identified or assessed in responsible investment processes.
  - Environmental factors are issues relating to the quality and functioning of the natural environment and natural systems.
  - Social factors are issues relating to the rights, well-being, and interests of people and communities.
  - Governance factors are issues relating to the governance of companies and other investee entities.

[1] The definitions set out in section 2 are sourced from and/or informed by resources published by the Principles for Responsible Investment, the UK Stewardship Code, the EU Sustainable Finance Disclosure Regulation and the LGPS Scheme Advisory Board.

- ***ESG Integration:*** Ongoing consideration of material environmental, social and governance (ESG) factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.
- ***Stewardship / Active Ownership (UKSC, SAB)*:** Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. Stewardship is often used interchangeably with active ownership, which is the use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities.

There are many other terms relating to responsible investment which are used by practitioners. The LGPS Scheme Advisory Board has published an A-Z guide of responsible investment concepts online which readers may wish to consult here: https://ri.lgpsboard.org/items.

INCORPORATING ESG CONSIDERATIONS INTO THE INVESTMENT PROCESS

This section of the Responsible Investment Policy outlines how the Fund incorporates ESG considerations into its investment process.

ESG INTEGRATION

The Fund predominantly incorporates ESG factors into its investment process through *ESG integration*, which in essence means that ESG issues are systematically and explicitly included in investment analysis and investment decisions. This does not mean that every investment decision is affected by ESG issues, and neither does it mean that portfolio returns are sacrificed. On the contrary, the Fund considers ESG issues as part of its investment process to *better* manage (i.e. lower) risk and improve returns. ESG integration is carried out in the following ways:

- ***Responsible investment is embedded in investment strategy:*** the Fund has developed this policy, as part of its investment strategy to ensure that ESG considerations are factored into strategic level decision making.
- ***ESG considerations are factored into asset allocation***: as part of its investment strategy the Fund has set a target to allocate 15% of the portfolio to sustainable assets by 2030.
- ***ESG criteria embedded into the process for selecting asset managers and pooled sub-funds**:* The Fund seeks to ensure that current and prospective asset managers and pooled sub-funds have appropriate ESG capabilities and expertise and that there is a sufficient alignment of interest with the Fund's responsible investment beliefs. Asset managers and sub-funds are required to have a documented responsible investment policy and to demonstrate their competency in ESG incorporation. The Fund assesses this as part of the selection process and through ongoing due diligence and monitoring, as set out below.
- ***Monitoring asset managers and the ACCESS pool:*** the Fund monitors its appointed and prospective asset managers and other relevant service providers to ensure that the Fund's expectations in respect of the Responsible Investment Policy are met. The Fund does this by reviewing external managers' policies, exposures and responsible investment activities to ensure an alignment of interests and that the Fund's policy objectives are being met. ESG risks and developments are a standard feature of ongoing due diligence of appointed asset managers. The Fund utilises asset manager ESG ratings provided by the appointed Investment Consultant as part of this activity.

  As a member of the ACCESS asset pool, the Fund contributes to and influences the pool's responsible investment activities and ensures the Fund's responsible investment objectives are delivered effectively by the pool. The Fund is an active contributor at the various levels of the pool's governance structure that develop and oversee the continuing effectiveness of the Pool's responsible investment approach including the RI/ESG Working Group, the Officer Working Group, S151 Officer Working Group and the Joint Committee. The Fund also participates in Investor User Group meetings, which are the pool's main engagement forum with appointed sub-fund managers. Through the IUG, the Fund seeks to proactively ensure sub-fund managers are managing ESG issues effectively.
- ***Reporting and transparency:*** responsible investment activity, including stewardship outcomes, are reported to, and discussed by, the Pension Fund Committee at every formal meeting. The Fund also publishes voting activity on its website, and discloses its responsible investment activity on an annual basis via the PRI reporting framework. The Fund is committed to providing TCFD-standard reporting with respect to its climate risk strategy and will explore the viability of reporting stewardship activities in line with the UK Stewardship Code 2020.

- ***Specific strategies developed for systematic sustainability issues:*** the Fund has developed a specific strategy for managing climate risk (discussed below). The Fund uses the UN Sustainable Development Goals (SDGs) to identify ESG priorities (including sustainable investment opportunities and stewardship priorities) at a strategic level.

CLIMATE RISK

As a sophisticated institutional investor, the Fund holds a highly diversified, long term investment portfolio that is effectively representative of global capital markets. As such, the long term value of the Fund is contingent upon the continued good health of the global economy and the Fund recognises that it has a vital interest in contributing to the maintenance of a sustainable financial system. There are some systematic sustainable risks that cannot be diversified, and which pose a threat to long term global economic performance. The Fund has identified climate change as pre-eminent amongst these risks and has developed a specific strategy for managing this risk.

The Fund has undertaken climate scenario analysis to estimate the potential impact on the long term value of the Fund's assets under various climate transition scenarios and has found the impact of a failed transition to a low carbon global economy would be financially material. This analysis supports the view that it is consistent with the Fund's fiduciary duty, as a long term investor, to undertake actions (including in concert with others) to seek to bring about an orderly transition away from fossil fuels towards a low carbon economy, and the uncertainties embedded in the transition. The analysis also identified that under a rapid transition scenario, greater sustainable allocations were expected to reduce the risk of capital losses related to the transition to a low carbon economy.

The Fund's climate risk strategy rests on three pillars:

1. ***Decarbonisation:*** the Fund has set a clear ambition to reach net zero portfolio emissions by 2050 and to reduce emissions emanating from its equity allocation by 43% by 2030 and 69% by 2040, which is consistent with the latest (2022) decarbonisation curves available from the International Panel on Climate Change (representing the global decarbonisation required by the latest science to limit warming to 1.5 degrees Celsius by 2100). As the global economy moves away from fossil fuels over the coming decades, these interim milestones will be critical in helping the Fund to navigate transition risk.
2. ***Transition alignment:*** The Fund's approach is grounded in the recognition that a reduction in the Fund's portfolio emissions must result from real-world decarbonisation. Investors have an important role to play in driving the transition to a low carbon economy and the Fund will identify opportunities to invest in companies and industries that are aligned with the transition.
3. ***Climate solutions:*** the transition to a low carbon economy also presents opportunities for investors, and the Fund seeks to explore the potential to enhance portfolio level risk-adjusted returns through climate solutions. The Fund has set an ambition to invest 15% of portfolio in sustainable assets by 2030, including climate solutions.

SUSTAINABILITY INVESTMENT OPPORTUNITIES

The Fund will look for opportunities to create value through long-term ESG trends consistent with its investment objectives, including the transition away from a fossil fuel-based global economy to renewable energy.

The Committee has used the UN Sustainable Development Goals (SDGs) as a framework for identifying responsible investment priorities. The Fund recognises that some of the SDGs are more suitable as sustainable investment opportunities, whereas others have a clearer role as stewardship priorities (discussed in section 4). The Committee has identified the following sustainability outcomes as current priority area:

- Climate and nature (SDGs 13, 14 and 15),
- Quality education (SDG 4)
- Clean energy (SDG 7)
- Sustainable cities and communities (SDG 11)

SCREENING / EXCLUSIONS POLICY

The Fund is committed to active ownership as a means to preserve and enhance value in the interest of beneficiaries. The Fund believes that, for the vast majority of assets that it owns, there is limited opportunity to bring about positive real-world outcomes by divesting from specific economic sectors, industries or companies/assets, given that such assets are acquired and disposed of via secondary markets.

CONFLICTS OF INTEREST

Decision makers inside the Fund and external service providers must act in the interests of the Fund's ultimate beneficiaries when carrying out responsible investment activities.

The Fund has a formal Conflict of Interest Policy which applies to all members of the Committee, the senior management team, and external service providers (including asset managers and investment advisors). The Fund also has a specific conflict of interest policy for the Local Pension Board, having regard for the Public Service Pensions Act 2013.

STOCK LENDING

The ACCESS pool has established a stock lending programme, which covers the Fund's pooled equities. The programme includes the provision for investment managers to recall lent stocks in order to discharge voting rights. For equities currently held outside the pool, the Fund does not engage in stock lending.

STEWARDSHIP (VOTING AND ENGAGEMENT)

This section of the policy sets out the Fund's approach to active ownership, principally its voting and engagement approach.

HOW THE FUND APPROACHES STEWARDSHIP

The Fund regards the exercise of ownership rights, including voting rights, as a critically important activity that enhances value and supports the maintenance of a sustainable financial system in which the interests of the Fund's beneficiaries are effectively accounted for when companies make important strategic decisions.

As an asset owner that implements its investment strategy via appointed external asset managers and the ACCESS asset pool, voting rights are exercised by asset managers in line with their own respective voting policies. Appointed asset managers also carry out direct engagement activities with companies in which the Fund invests, on the Fund's behalf. Additionally, the ACCESS pool has established voting guidelines, which it expects asset managers appointed the pool to adhere to on a comply or explain basis.

In practice, this means that the Fund is unlikely to engage directly with underlying companies in normal circumstances. Instead, the Fund's role is to ensure that as an asset owner, both the Fund and the ACCESS pool have adequate arrangements in place for selecting, appointing and monitoring external asset managers and service providers to ensure that voting and engagement activities are carried out in accordance with the highest corporate governance standards and in alignment with the Interests of the Fund's beneficiaries.

For the investment chain described above to work in the interests of the Fund's ultimate beneficiaries, it is incumbent upon the Fund to set clear expectations for asset managers.

STEWARDSHIP EXPECTATIONS FOR ASSET MANAGERS

- Asset managers are required to establish and operate robust stewardship policies to ensure engagement and voting activity is carried out on a systematic and effective basis.
- Asset managers are expected to actively engage with companies to monitor and develop their management of material ESG issues to protect and enhance the value of the Fund's investments.

- The Fund expects the investment managers who hold shares on its behalf to fully comply with the UK Stewardship Code 2020 (the Code) and to be a signatory to the UN supported Principles for Responsible Investment.
- Asset managers are required to carry out all voting decisions at company meetings on behalf of the Fund. For pooled assets, voting should be carried out in accordance with the ACCESS voting guidelines on a comply or explain basis. For non-pooled assets with voting rights, asset managers should adhere to their own voting policies. However, the Fund will seek to ensure consistency across its voting activity and it will work with its appointed asset managers to increase and maintain alignment.
- Asset managers are required to provide feedback information on voting decisions on a quarterly basis.
- Asset managers are expected to have regard for the Fund's stewardship priorities (listed below) and to disclose to the Fund, all engagement and voting activity relating to these topics on a timely basis.

The Fund will monitor asset managers' stewardship activities by reviewing voting and engagement activity disclosures and in routine meetings with asset managers. The Fund will provide feedback to asset managers and challenge practices where necessary. In doing so it seeks to ensure voting and engagement activities are carried out in accordance with the highest corporate governance standards and in alignment with the interests of the Fund's beneficiaries.

ASSET STEWARDSHIP VIA THE ACCESS POOL

As one of eleven member authorities that comprise the ACCESS asset pool, the Fund actively contributes to the development and implementation of the pool's stewardship approach. By working collaboratively with ten other like-minded LGPS funds through the pool, the Fund recognises that it has an opportunity to leverage collective influence and resources, and to develop best practice stewardship.

The ACCESS pool's stewardship policy is embodied within the pool's *Voting Guidelines* which sets out the stewardship expectations for listed companies in relation to reports, accounts and audit, directors and renumeration, shareholder rights and environmental issues. The latest version of the Voting Guidelines can be found on the ACCESS website.

PRIORITISATION

In a process supported by *Pensions for Purpose* the Committee has identified **climate and nature** (SDGs 13, 14 and 15), **clean water and sanitation** (SDG 6) and **responsible consumption and production** (SDG 12) as current stewardship priorities for the Fund. The Fund will engage proactively with its appointed asset managers on these topics to seek to ensure that the relevant material risks and opportunities arising from these themes are being managed effectively.

As part of its climate risk strategy, the Fund has identified the most strategically important emitting assets within its portfolio and it engages with its appointed asset managers to understand how these assets are being managed in accordance with the long-term interests of the Fund's beneficiaries. The Fund will incorporate the findings of this exercise into its overall investment decision-making process.

COLLABORATIVE ENGAGEMENT

The Fund recognises that as a single asset owner, the efficacy of its individual stewardship actions should not be overstated. The Fund seeks to amplify its influence by acting in concert with other institutional investors where this is consistent with the Fund's fiduciary duties. The Fund is an active member of various collaborative initiatives, as set out below.

- Under the ACCESS pool, the Fund works with ten other LGPS funds to implement a common responsible investment approach for pooled assets.
- As a member of the Local Authorities Pension Fund Forum (LAPFF), the Fund acts with other LGPS funds on corporate governance issues. The LAPFF aims to promote the highest standards of corporate governance to protect the long-term value of local authority pension funds.
- The Fund is a signatory to the UN-supported Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment, through which it has committed to the PRI's six principles for responsible investment.

- The Fund is a member of the Institutional Investors Group on Climate Change (IIGCC), a network of institutional investors which provides resources and tools to enable investors to collectively work towards a net zero and climate resilient future.
- The Fund has also joined Pensions for Purpose, an initiative that provides resources and comprehensive information to empower institutional investors in their decision-making and understanding of impact investment.
- The Fund is committed to exploring signatory status to the UK Stewardship Code 2020.

Although an individual asset owner's power should not be underestimated, the Fund recognises that effective change is often contingent on a consistent and supportive public policy environment. The Fund will engage public policy makers on systemic ESG issues where it is consistent with the Fund's fiduciary duties.

REPORTING

The Fund is committed to transparency around its responsible investment activities and it expects high levels of transparency from its appointed asset managers and service providers.

Responsible investment is discussed at every meeting of the Pension Fund Committee and the Local Pensions Board is routinely consulted on the Committee's activity in this area.

The Fund publishes voting information on a quarterly basis on its website alongside news about its responsible investment activities. The Fund participates in the PRI's annual reporting exercise which serves both to aid transparency and to facilitate internal learning and development by providing an assessment of responsible investment practice.

The Fund is committed to implementing TCFD-standard reporting on its climate risk strategy in order to demonstrate its approach to stakeholders and to be accountable.

The Fund provides further reporting on its responsible investment activities within its Annual Report is also committed to exploring the feasibility of implementing annual stewardship reporting in line with the requirements of asset owners per the UK Stewardship Code 2020.

MONITORING AND REVIEW

The Committee will review this Responsible Investment Policy on an annual basis. The Committee will consider how well the policy is being implemented (including by appointed asset managers) and whether its goals and targets are being achieved. The Fund expects best practice in this area to evolve and it is committed to working with stakeholders (including asset managers and other service providers) to ensure the Fund's approach to responsible investment remains appropriate in the context of the Fund's investment objectives and consistent with regulatory and legal requirements.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank