

From: Chairman Pension Fund Committee  
Corporate Director of Finance

To: Pension Fund Committee – 26 September 2023

Subject: Governance and Policies

Classification: Unrestricted

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**Summary:**

To report to Pension Fund Committee the progress made with the implementation of the recommendations arising from the Barnett Waddingham review.

This report also advises the Committee on the current position of the Fund policies, and updates on the Business Plan, Budget and Risk Register.

**Recommendation:**

The Committee is asked to note, and comment on the updates contained within, the report.

**FOR INFORMATION**

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**1. Introduction**

- 1.1 As previously agreed, Pension Fund Committee will be updated at each meeting on the progress made on the implementation of the Barnett Waddingham recommendations.
- 1.2 Members are reminded that Barnett Waddingham made 139 Recommendations, and a detailed assessment of the latest position is shown below:

Assessed position	Number
Action Complete	109
Partial – Work in Progress	12
Not complete	18

- 1.3 The 18 items categorised as Not complete are summarised below:

- 7 of the items relate to assessment or compliance reviews against regulations, guidance or consultations that have yet to be published and are therefore out of the Fund’s control.

- 8 relate to improvements/refinements to the Fund's Risk Register. These items are being considered by Officers and an update will be brought to the Board and Committee meetings in November and December, after discussion with KCC's Corporate Risk Manager. The majority of these items are presentational, and it is intended to review against KCC's approach to ensure consistency of approach.
- There are two items that relate to Committee structure. Officers will be considering this with Democratic Services colleagues as part of the broader review of governance.
- The remaining item involves synchronising the work programmes of the Committee and Board, and officers will develop this in the coming months and present a forward plan as part of the full review of the Fund's Business Plan in March 2024.

1.4 There are 12 items marked as partially complete, and these are all areas where the Fund has plans in place that will address them. They include the communications plans, which include a thorough review of the website. The majority of these items will be concluded or be well underway by the end of 2023/24. Members will be updated on the position at future meetings.

1.5 It is very pleasing to report that 109 actions are considered full complete, however in a number of areas the Fund needs to ensure that it remains compliant, and these actions need regular review.

1.6 As can be seen plans are in place to ensure that all areas, within the Fund's control are addressed/completed by the end of the 2023/24 financial year. Whilst some of these areas have, perhaps taken a little longer to address than originally imagined, it is a credit to the Officers, Committee and Board members that recognised the need for the review in the first place, and those that led the adoption of all the recommendations.

1.7 The Kent Fund now has in place a number of governance processes that not only meet regulatory requirements but also would be considered good practice. As previously mentioned, once the work considered above are complete, it would be appropriate to commission an external review of the current position. Officers will consider the best approach to procure the advice and revert to the Board and Committee with a proposal, with a view to the work commencing in the first quarter of 2023/24.

## **2. Business Plan**

2.1 The Business Plan was considered in detail by the Kent Pension Board at their recent meeting and has a number of Key tasks for the period and a number have been considered at previous meetings as complete. Since the Board and

Committee last considered the Plan, an additional item has been completed. This is considered below:

- **Administration – Manage the expiration of the administration system contract.**

Board members will recall that the Pensions Administration system is essential to the work of the Administration team, and therefore having an effective contract in place is imperative. After significant work with procurement colleagues the Pension Fund Committee agreed in March to a new contract with Heywoods. This item is now marked complete.

2.2 All other items with target completion dates in 2023/24 are well underway and are on target to be completed in the year. There are two exceptions to this, shown below:

- **Governance – Implement recommendations of Barnett Waddingham governance review.**

An update showing progress against these is contained elsewhere on today's agenda, and key issues affecting further progress are regulatory and national guidance delays. As these matters are out of the Fund's control it may be necessary to extend these pieces of work.

- **Governance – Implement recommendations of the SAB Good Governance Review.**

The Fund has broadly completed most of the recommendations of eth project, however the Government is yet to issue definitive guidance/regulation and so it is difficult to mark as complete until such date as this is issued.

2.3 Later in the year work will begin on the longer-term Business plan and respective budgets and this will be brought to the Board and Committee for review and approval in March 2024, ahead of the new financial year.

### **3. Budget**

3.1 The Fund budget for 2023/24 is shown in the Appendix and is an extract from the Full Business Plan. Overall, the total for 2022/23 shows an underspend against budget of £3.042M and is mainly due to lower than anticipated Investment Managed Costs. A number of other key points are highlighted below:

- The cost of Pensions Administration (mainly staff costs) was £179,000 lower than budget by virtue of the number of vacancies needing to be filled. Good progress has been made on this front in 2023/24.
- There was an increase in the level of Actuarial Fees charged to the Fund, however there was also an increase in those fees being recovered from the Fund's Employers, so these two budget lines need to be viewed in total.

- ACCESS pooling costs were £44,655 lower than budgeted due to factors affecting the speed of delivery within ACCESS. These factors are considered elsewhere on the agenda.
- Transaction costs were estimated based on previous years, and the level of movement between investments in the year was significantly lower, hence an underspend of around £509,284.
- Fund Manager Fees are highly variable and are based on the market value of investments. Fixed Income assets, in particular have suffered during the year, and fallen in value, hence lower than estimated fees.

3.2 The budget for 2023/24 remains appropriate and an update for the six months to the end of September will be given to the Board and Committee in November and December.

#### 4. Risk Register

4.1 The Fund's Risk Register was considered by the Kent Pension Board and the latest summary is considered below. The current risk profile is shown below in comparison to the previous quarter.

	June - 2023	Sept - 2023
<b>Red</b>	1	1
<b>Amber</b>	15	13
<b>Green</b>	25	27
<b>TOTAL</b>	<b>41</b>	<b>41</b>

4.2 The risk position of the Fund risks has moved down in a couple of areas since last reported but broadly remains the same. The changes in risk scores are explained in the following paragraphs.

##### Governance risks

- 4.3 One of the risks in the Governance section have changed current score:
- **G9 relating to Cyber Security** has moved from a score of 6 to 9, due to recent issues elsewhere in the pensions industry, and recent near misses. The Fund has a plan to address this, and a report on this will be considered on today's agenda. This score of 9 sees the risk score remain as Amber.

##### Investment and Funding risks

4.4 One of the Investment and Funding risks has a changed score:

- **IF4 relating to appropriate knowledge to maintain the investment strategy** has moved from a 6 to a 3 to reflect the development and agreement of a training plan by the Committee in June 2023. This risk is now considered in line with target level.

#### Administration risks

4.5 One Administration risk has a changed score:

- **A12 relating to administration system contract** has moved from an 8 to a 4, which is in line with the target. This change reflects the new contract that was agreed by the Committee and implemented earlier in the year.

4.6 As noted above officers have been reviewing the format and appropriateness of the current risk register and will be revising and updating after discussions with KCC's Risk Officers to ensure consistency of approach. The revised register will be presented to the Committee and Board at their meetings in November and December.

### **5. Governance Policy and Compliance Statement**

5.1 The Fund's Governance Policy and Compliance Statement was scheduled to be reviewed at this meeting, as it had previously been considered annually, however after the comprehensive refresh of the document in 2022, Officers do not consider that any update is necessary at this stage. Given the Fund's ongoing review of governance, the document will remain on the forward plan for annual review. The latest version can be found on the Fund's website - [Governance Policy and Compliance Statement \(kentpensionfund.co.uk\)](https://kentpensionfund.co.uk).

### **6. ISS and RI Policy**

6.1 The schedule previously had the Investment Strategy Statement (ISS) and Responsible Investment Policy (RI Policy) to be reviewed in September 2023 after the conclusion of the review of the Fund's Investment Strategy. However, given the complexity of the strategy, and to allow for proper consideration, the final Strategy proposals were not taken at the June Committee meeting and will now be concluded at the meeting on 26 September. The refresh/update of the ISS and RI Policy are dependent on the conclusion of these strategy decisions, and therefore the documents will be presented to the Committee for decision in December having first been considered by the Board.

### **7. Personal Data Retention Policy**

7.1 The Personal Data Retention Policy was due for review at this meeting; however, given the work that is being undertaken around Cyber Security, it is

intended that this policy will be reviewed as part of that. It has therefore now been scheduled to be reviewed in December 2023.

## 8. Policy Summary

8.1 The table below summarises the Fund's Policies and Strategies and highlights the two noted above. It also shows that in September the Board and Committee will be due to review updated ISS, Governance policy and compliance statement, Responsible Investment policy and Personal Data Retention policy.

<b>Policy</b>	<b>Last reviewed by the Committee</b>	<b>Next update and review due</b>	<b>Responsibility</b>
Funding Strategy Statement (FSS)	March 2023	March 2025	Nick Buckland
Investment Strategy Statement (ISS)	September 2022	December 2023 after review of Investment Strategy	James Graham
Governance policy and compliance statement	September 2022	September 2024	Nick Buckland
Responsible Investment policy (RI Policy)	September 2022	December 2023 – linked to Investment Strategy review	James Graham
Communications policy	June 2023	June 2025	Clare Chambers
Administration Strategy	March 2023	March 2025	Clare Chambers
Conflicts of Interests Policy	December 2022	December 2024	Nick Buckland
Breaches of the Law policy	December 2022	December 2024	Nick Buckland
Discretions policy	December 2022	December 2024	Clare Chambers
Abatements policy	December 2022	December 2024	Clare Chambers
Training Strategy	March 2022	March 2024	Emma Green
Personal Data Retention policy	December 2019	December 2023	Clare Chambers
Data Quality policy	June 2023	June 2025	Clare Chambers
Escalations policy	n/a	New policy, tbc	Clare Chambers
Privacy Notice	n/a	New policy, tbc	Clare Chambers

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Nick Buckland, Head of Pensions and Treasury

**T: 03000 413984**

**E: [nick.buckland@kent.gov.uk](mailto:nick.buckland@kent.gov.uk)**

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## Appendix 1 - Pension Fund Budget

	2022-23 Budget	2022-23 Actuals	Variance	2023-24 Budget
Pensions Administration	2,537,405	2,358,472	-178,933	2,970,000
IT Expenses	902,595	680,638	-221,957	1,200,000
Pension Payroll Services & Payments	244,588	245,455	867	252,000
Financial Systems and Services	64,700	64,700	0	65,000
Legal Fees	84,243	134,899	50,656	80,000
<b>Administration</b>	<b>3,833,531</b>	<b>3,484,164</b>	<b>-349,367</b>	<b>4,567,000</b>
Actuarial Fees	370,000	420,169	50,169	280,000
Direct Recovery of Actuary, Legal Fees and Admin Costs	-235,000	-295,179	-60,179	-240,000
Subscriptions	64,355	62,438	-1,917	70,000
ACCESS Pooling Costs	160,000	115,345	-44,655	180,000
Investment Accounting and Oversight Costs	640,000	684,522	44,522	773,000
Training	3,000	1,200	-1,800	15,000
Performance Measurement Fees	30,000	26,684	-3,316	35,000
Governance Consultancy	0	0	0	15,000
Investment Consultancy	270,000	304,353	34,353	353,000
<b>Governance and Oversight</b>	<b>1,302,355</b>	<b>1,319,532</b>	<b>17,177</b>	<b>1,481,000</b>
Custody	45,000	38,028	-6,972	45,000
Transaction Costs	675,000	165,716	-509,284	675,000
Fund Manager Fees – Fixed Income	5,529,000	3,801,624	-1,727,376	5,640,000
Fund Manager Fees – Equities	13,016,000	13,343,379	327,379	13,667,000
Fund Manager Fees – Private Equity/Infrastructure	7,500,000	6,907,234	-592,766	7,875,000
Fund Manager Fees – Property	3,600,000	3,395,638	-204,362	3,744,000
<b>Investment Management Costs</b>	<b>30,365,000</b>	<b>27,651,619</b>	<b>-2,713,381</b>	<b>31,646,000</b>

Audit Fee	42,000	45,511	3,511	43,000
<b>Total</b>	<b>35,542,886</b>	<b>32,500,826</b>	<b>-3,042,060</b>	<b>37,737,000</b>

**Notes:**

- Transaction costs were estimated for the budget based on historical data. Actual transition costs came in lower than expected as there were fewer movements between funds this year than in the past.
- Pooling costs came in under budget as some planned projects have progressed slower than expected.
- Legal fees came in over budget due to advice taken on the reclaim of manufactured overseas dividends.
- Fund Manager fees are highly variable and are based on the market value of investments under management. Our fixed income investments saw negative performance over the year resulting in lower fees for that asset class.