

WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD
18 August 2022

KEY FINANCIAL CONTROLS REPORT

Purpose of the Report

1. The purpose of this report is to highlight the significant issues in relation to the Fund's key financial controls.

Background

2. Officers in the investments and accounting team have been reporting on various key accounting measures for some time and have developed a program of planned improvements to various processes and controls. The purpose of this report is so that the Committee and Local Pension Board can easily review key areas and monitor progress against planned improvements. This report will be an evolving format, with the aim that it will develop into a dashboard over time.

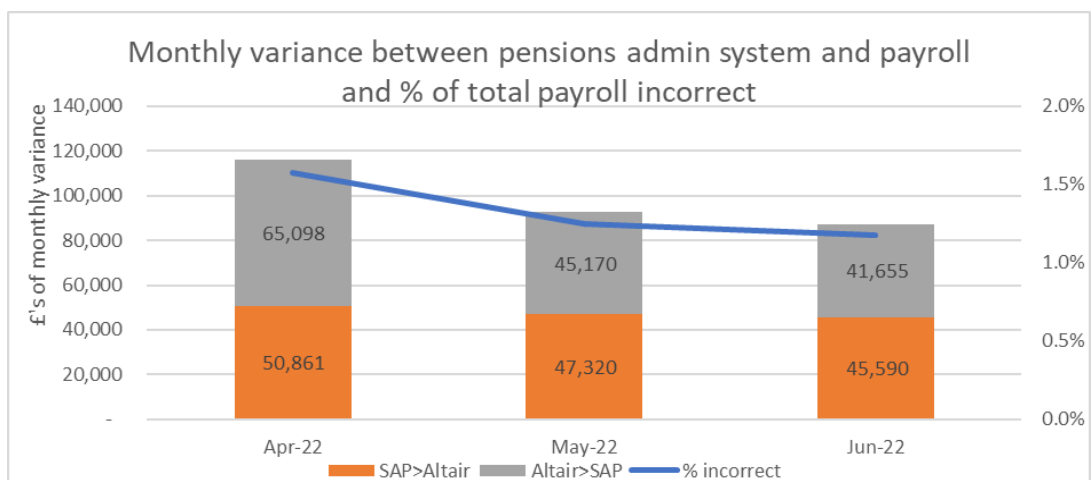
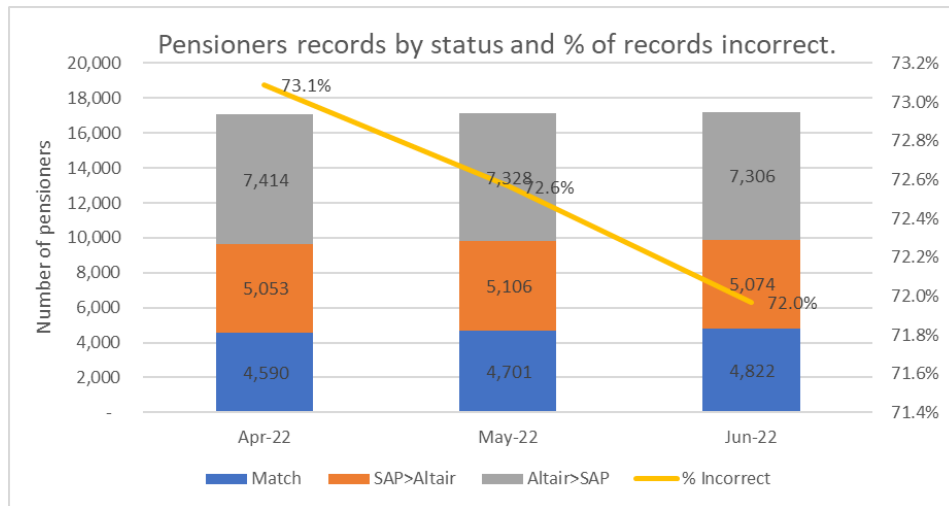
Key Considerations for the LPB / Risk Assessment / Financial Implications

Accounts and Annual Report

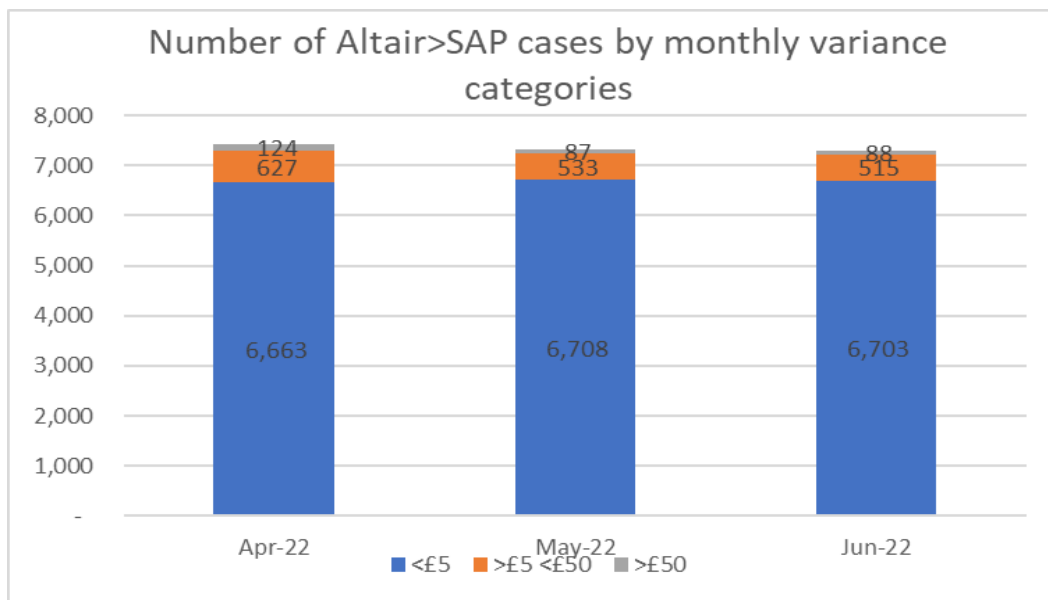
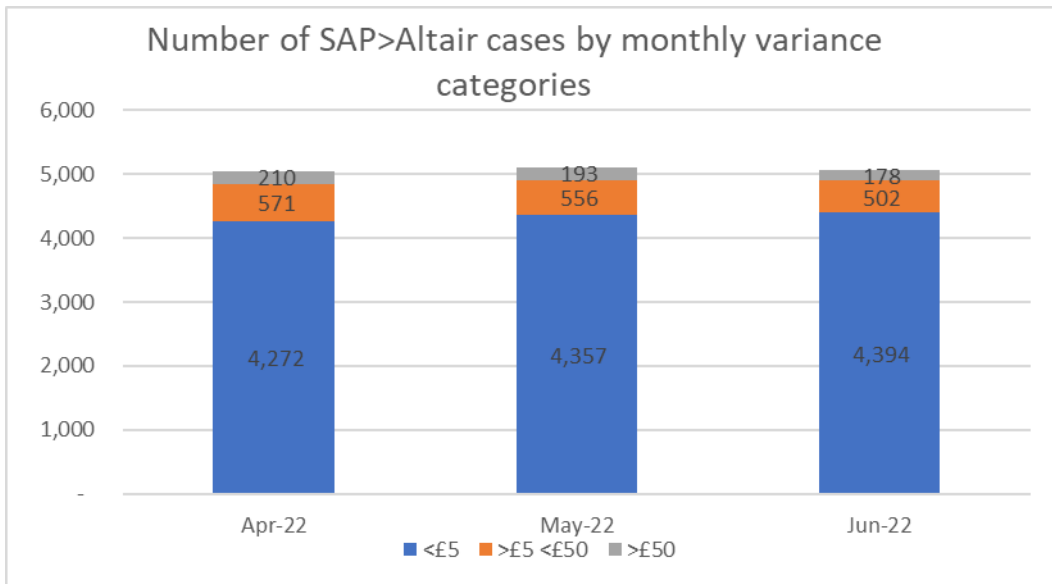
3. Final sign off for the full Wiltshire Council Accounts for 2019/20 and 2020/21 continues to be delayed, the Pension fund accounts form a part of the full Council accounts and the delay, which is due to an issue within the Wiltshire Council figures, has meant the pension fund accounts have not received their final audit opinion for inclusion in the annual report.
4. All work has been completed by the auditors on the Pension Fund accounts for 2019/20 and 2020/21. To ensure we comply with The Pensions Regulator (TPR) requirement to publish the report, it is available on the website with a note stating the audit opinion will be included when available.
5. Officers have continued to monitor progress towards final publication and sign off for the Wiltshire Council Accounts through dialogue with the Council Finance team and via the Audit Committee papers. Sign off for 2019/20 accounts was expected in April 2022 following delegation of authority by the Wiltshire Council Audit Committee on 1st March 2022 to Officers and the Chair of the Audit Committee. However, this has been further delayed due to a national issue regarding the values held against 'infrastructure assets'. The issue was of a technical accounting nature and was specifically in relation to the value held in local authority accounts for 'infrastructure assets' which, in the Councils accounts are mainly roads. This may mean there will be extra work for the Council finance team and auditors to address the problem. It is not known how long it would take to resolve the national issue. Once this has been completed audit work can be completed on the 2020/21 accounts which are planned to be signed off at the same time as the 2021/22 accounts, which is planned for 23rd November 2022.
6. The unaudited annual report and accounts for the pension fund 2021/22 are presented at this Committee under agenda item 11. Deloitte will conduct their audit work in September and October 2022. All working papers and document requests have been provided to them for their work.

Payroll reconciliations

7. Work to reconcile and correct discrepancies between the Altair pension admin system and SAP payroll records continues. A separate update is provided on this project elsewhere on this agenda.
8. The £8.25m provision made for this discrepancy was disclosed in the accounts for 2020/21 and accounted for as an extra cost in year. This same provision remains on the balance sheet of the 2021/22 accounts, this reflects the slow progress made in reconciling discrepancies and resolving payments. Data was extracted on all differences and re-run to calculate a new provision which was similar to the existing provision so it was not felt material enough to revise the value in the accounts.
9. A new reconciliation process has been designed and implemented to track the variance between the Altair pension admin system and the payroll. It is completed as part of the payroll sign off process prior to the payment of pensions each month. The reconciliation compares the annual pension payable on each system and quantifies the number of cases and value of discrepancies. This new reconciliation will allow the fund to track the reduction in variances over time as discrepancies are resolved.
10. The following graphs show the extent of the variances between the two systems. There can be multiple reasons for the discrepancies which can range from a fundamental incorrect payment to data mismatch problems. Therefore the gross value of SAP>Altair or SAP<Altair figure represents the extent of the mismatch. Because all of these issues require resolution for the fund to move to a single integrated payroll it is relevant to report all such discrepancies.



11. This report categorises all cases <10p p/a as matching. The following graphs show the number of cases at variance within three categories of monthly variance total. The majority of cases are below £5p/m however there are still a significant number of cases >£5p/m different. These cases will be resolved through the outsourcing project.



Integrated Systems

12. Project Evolve is ongoing within Wiltshire Council, this will deliver a replacement to the existing SAP payroll and accounting software by December 2022. The pension team are members of implementation working groups. Officers are working with the payroll and Evolve implementation teams to transfer existing pensioners to the new payroll system.

13. Officers have commenced work with Heywoods, who provide the Altair system, to implement integrated payments. This will provide a new process for making all one-off payments to pensioners, e.g. lump sums, without the need to run reports and send separate information to the council accounts payable team. Initial implementation is expected in Q3.

14. Following implementation of the new Evolve payroll a plan will be prepared to transfer pensioners onto the new integrated payroll within Altair. This would take place once the reconciliation process between Altair and payroll is completed and post implementation of Evolve when the Council payroll team would have available resources. More detail on these plans will be included in the business plan and future papers.

Quarterly Financial Performance Dashboard

Wiltshire Pension Fund - Key Financial Controls Dashboard				
Control Area	RAG	Items reviewed under this control area	Comments on Performance	Ongoing Actions
	May-22			
1. Employer Contributions		Timely and accurate payment of employer contributions each month.	See summary performance table for full details. Almost all employers paying on time and with the correct rate. Issue with a single large employer has been partially resolved with payments being received.	Work ongoing to consolidate a single schedule of employers contribution rates and formalise the process for ensuring this remains up to date. Process being established to ensure all payments received in year reconcile to annual data submissions from employers. This will be carried out once all employer returns have been received and finalised in August 2022
2. Payroll		Monthly payroll sign off process checking starters and leavers plus reconciliation of Altair to Payroll	New reconciliation process designed and implemented to monitor discrepancies between the pension admin system and payroll, reported on within this paper.	Large amount of work required to be completed to resolve discrepancies between the two systems. Work on procuring an outsourcing provider for cases over £5p/m has begun.
3. Cashflow, banking and capital calls		Maximum and minimum cash balances, private markets capital calls and distributions and treasury performance.	See summary performance table for full details. All capital calls met on time.	Procurement for a manager to deliver the investment portfolio to allow implementation of the treasury management policy has commenced.
4. Balance Sheet Reconciliations		All balance sheet control codes are reviewed for accuracy and outstanding issues.	All control codes have been reviewed and checked, no unexplained balances.	None
5. Altair Checks		Check between the ledger and pension admin system (altair) that any transactions, such as payments or receipts match the admin system.	All reconciliations have been undertaken and discrepancies have been found across all items. Most notably deterioration in transfers in and pension strains. Unallocated transfers in have reached £4.9m, this will have a material impact on many individual members records.	Escalation required with Administration team to ensure discrepancies identified are resolved.
6. Financial Budget Reporting		Review of year to date and forecast operating budget performance, or any unusual monthly movements on the overall fund account.	Annual expenditure under budget for operational items for the 2021/22 year. Budget set for 2022/23.	Review of forecast following closure of Q1 accounts.
No material concerns				
Minor issues outstanding				
Major issues outstanding				

15. The following table provides further details for performance dashboard item 1. Employer contributions.

Quarter	Payroll Month	Paid contributions £000's				Average late and overdue contributions total days			Number of employers payments status		
		Total Payment	On Time Payment	Late Payment	Late Payment %	Days Late Recd	Days Overdue	Not On time	Late	Not Received	
Q1	Apr-22	38,492	35,650	2,842	8.0%	13.6	54.0	159	15	1	
Q1	May-22	7,722	4,731	2,985	63.1%	3.7	30.7	157	15	3	

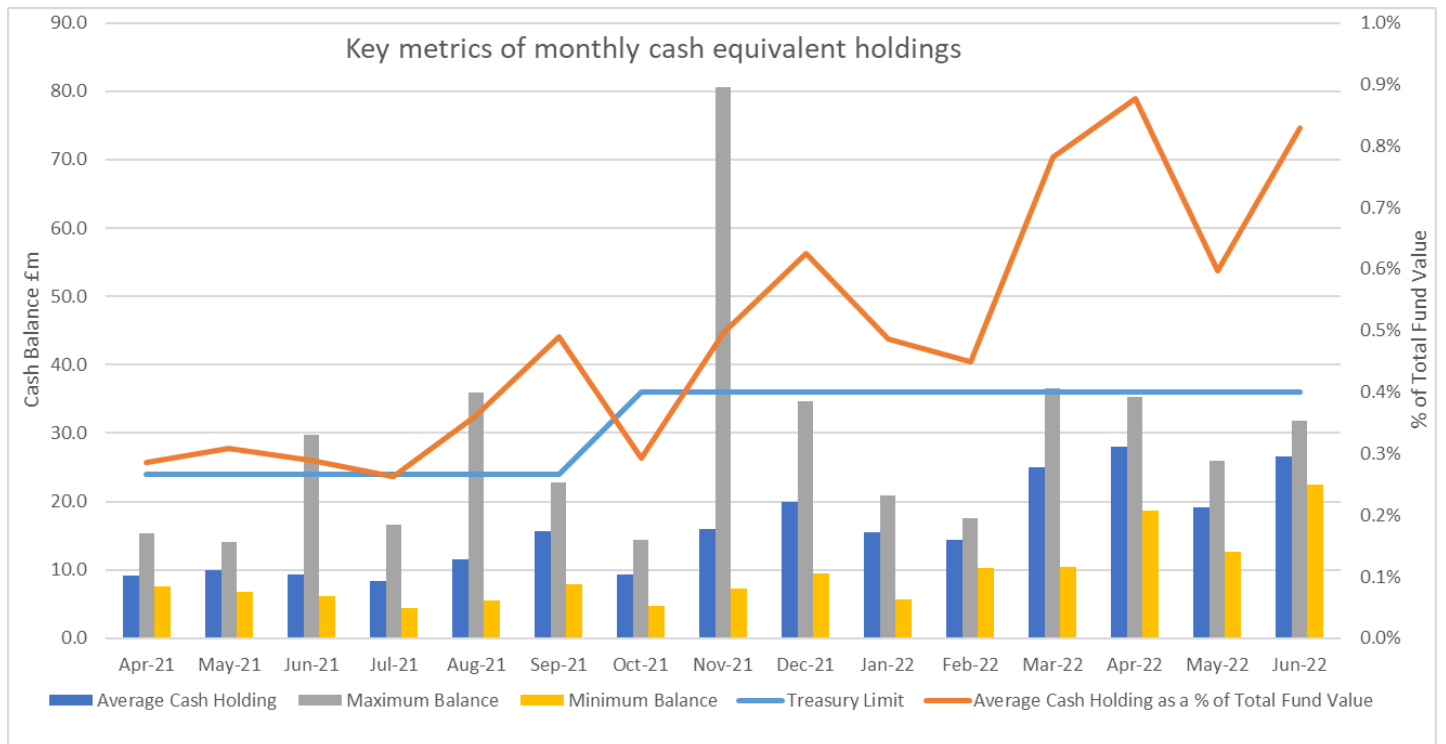
16. Four payments remain outstanding as at 12th June 2022, these are being actively chased by the fund. The majority of the late payments are received within a day or two of the deadline and all employers who have not paid are contacted immediately after the deadline day to remind them to pay. Persistently late payments or employers where we have problems are escalated to the employer relationship manager for resolution or further training.

17. The following table provides further details for performance dashboard item 3. Cashflow, banking and capital calls. This table sets out the actual and forecast cashflow movements each month for 2021/22 and 2022/23. The table separates the cashflow between operating cashflow, such as income from employers and payment of pensions and investing which includes rebalancing strategies or meeting private markets capital calls.

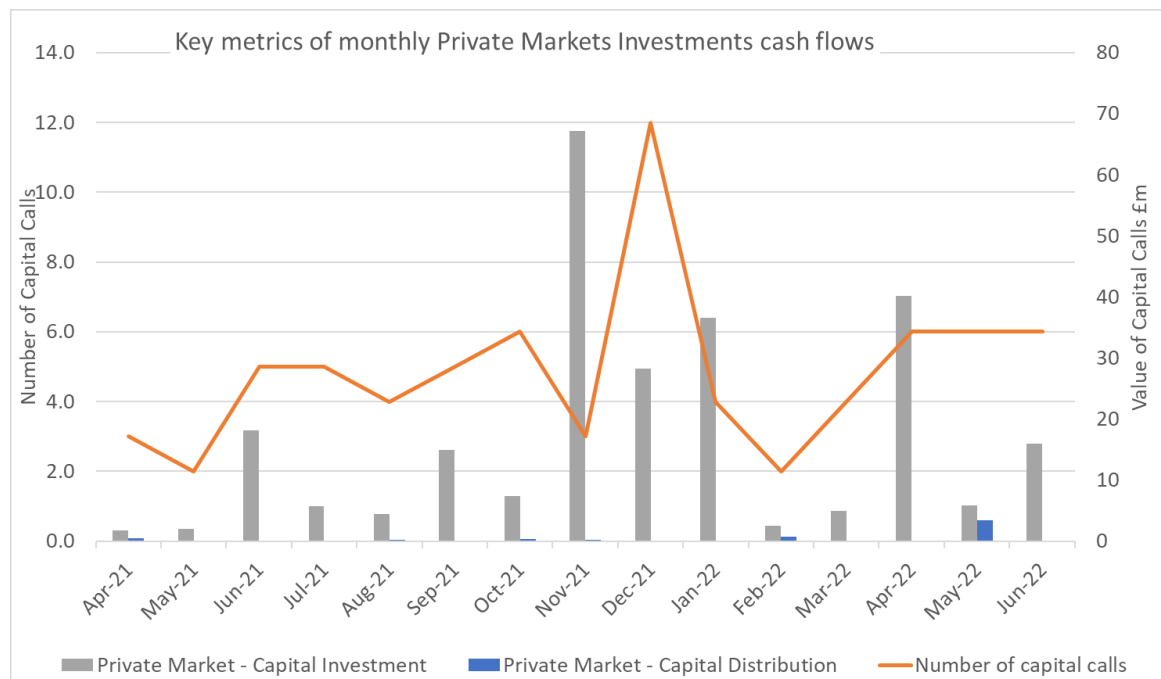
Summary Cashflow statement for Wiltshire Pension Fund															
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	2021/22
£m equivalent	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	2021/22	2021/22	
Opening Cash Balance	6.8	9.9	7.1	7.6	8.4	20.0	8.0	7.8	11.7	20.4	15.5	10.5	10.5	6.8	
Operating Income	37.1	8.9	8.5	8.5	8.5	8.3	8.3	9.1	9.3	8.7	7.2	14.0	14.0	136.5	
Operating Expenditure	(9.5)	(11.7)	(9.8)	(10.1)	(9.8)	(11.0)	(11.0)	(9.3)	(12.6)	(9.0)	(10.3)	(10.0)	(10.0)	(124.1)	
Investing Private Market - Capital Investment	(1.7)	(2.1)	(18.2)	(5.7)	(4.4)	(14.9)	(7.4)	(67.2)	(28.3)	(36.6)	(2.6)	(5.0)	(5.0)	(193.9)	
Investing Private Market - Capital Distribution	0.5	0.0	0.1	0.0	0.3	0.0	0.4	0.3	0.0	0.0	0.7	0.0	0.0	2.3	
Investing Listed Market - Capital Withdrawal	0.0	2.0	20.0	8.0	63.0	5.6	9.3	71.1	40.0	32.0	0.0	119.0	119.0	370.0	
Investing Listed Market - Capital Investment	(25.0)	0.0	0.0	0.0	(46.0)	0.0	0.0	0.0	0.0	0.0	0.0	(100.0)	(100.0)	(171.0)	
Investing Other	1.7	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	2.0	
Closing Cash Balance	9.9	7.1	7.6	8.4	20.0	8.0	7.8	11.7	20.4	15.5	10.5	28.6	28.6	28.6	

Summary Cashflow statement for Wiltshire Pension Fund															
	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	2022/23
£m equivalent	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	2022/23	2022/23	
Opening Cash Balance	28.6	18.9	25.9	22.4	13.4	14.5	15.5	16.8	17.8	15.7	16.7	17.9	17.9	28.6	
Operating Income	39.9	6.9	11.6	8.2	7.8	7.8	7.8	7.8	7.8	7.8	7.7	7.8	7.8	129.0	
Operating Expenditure	(9.5)	(10.9)	(9.1)	(10.9)	(10.1)	(10.1)	(9.8)	(10.1)	(13.2)	(10.1)	(9.8)	(10.1)	(10.1)	(123.8)	
Investing Private Market - Capital Investment	(40.1)	(5.9)	(15.9)	(20.6)	(10.9)	(10.9)	(10.9)	(10.9)	(10.9)	(10.9)	(10.9)	(10.9)	(10.9)	(169.5)	
Investing Private Market - Capital Distribution	0.0	3.5	0.0	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	23.3	
Investing Listed Market - Capital Withdrawal	0.0	13.3	10.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	131.3	
Investing Listed Market - Capital Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Investing Other	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Closing Cash Balance	18.9	25.9	22.4	13.4	14.5	15.5	16.8	17.8	15.7	16.7	17.9	18.9	18.9	18.9	

18. The fund has been holding a higher level of cash equivalent assets since the treasury limit was raised in October 2021 to ensure capital calls can be met in a timely manner. The average cash equivalent holding as a % of total fund assets remains small at around 0.8% to minimise the detrimental effect of cash drag on overall performance. The new investment portfolio of strategic allocation to liquid asset matching investments, once procured will further reduce cash drag and lower the cash balance required. No treasury breach has occurred in the previous quarter.



19. Cashflow activity for private markets capital calls have steadily increased over the year as commitments made to Brunel Cycle 2 portfolios (Private Debt, Private Equity, Infrastructure & Secured Income) begin to be called. Activity increased in April 2022 following a lull over February and March. The following capital call values have been paid since the start of April 2022, Private Equity £7.4m, Private Debt £11.9m, Affordable Housing £20m, Secured Income £18.3m and Infrastructure £13.8m.



Planned improvements and key items to monitor

20. The team has been making improvements to accounting processes in several areas. A summary of planned improvements, current issues and progress to date, is shown below:

Improvement / Issue	Last RAYG* rating	Current RAYG* rating	Comments
Payroll reconciliation			New reconciliation process has been designed and implemented, this is reported on within this report. It shows the large number of discrepancies between the two systems. Work on procuring an outsource provider to address cases over £5p/m has begun. A process to resolve cases under this value needs to be designed and implemented.
Integrated systems			New plans are now being worked on to implement an integrated payroll and a one-off payments system within Altair. The payroll will be set-up, tested etc. and then pensioners would transfer to the new Evolve system and be moved to the Altair payroll in batches when the reconciliation work is complete and the payroll team have capacity. One-off payments will be implemented this year, in order to quickly realise control and efficiency benefits.
Evolve			SAP financial system will be replaced by Q1 2023. The pension fund is now a member of the finance implementation working group. The new system is in development to meet the Council and pension fund needs.
An overall review of reconciliations, and improved management information			Reconciliations are being reviewed monthly within the finance team and reported on. Cases causing discrepancies are being passed to the administration team for investigation. However these have not been resolved and notably some reconciliation items, such as transfers in have deteriorated. The value of unallocated transfers in has reached £4.9m which will have a material financial impact to many members. A meeting will be held with the administration team to understand why cases are not being resolved.
Treasury management			New Treasury Management Policy has been agreed. A draft tender document has been produced and is being reviewed prior to publication in July / August 2022.
Wiltshire Council – Wiltshire Pension Fund SLA charge			LPB Action Point – SLA Recharge Pension Fund Officers have received and reviewed a freshly calculated SLA charge from the Council finance team. Further work is required to revise some of these calculations and then produce a full SLA document.

*RAYG = Red/Amber/Yellow/Green

	Significant concern
	Not started
	Work has commenced
	Significant progress made
	Completed/situation under control

Environmental Impacts of the Proposals

21. There is no known environmental impact of this report.

Safeguarding Considerations/Public Health Implications/Equalities Impact

22. There are no known implications at this time.

Proposals

23. The LPB is asked to use this report to monitor progress against resolving the issues which have been identified, and the progress made to develop accounting and control improvements.

Report Author: Chris Moore, Pension Fund Accounting and Investments Officer

Unpublished documents relied upon in the production of this report: NONE