

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
23rd March 2023

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.

Key Considerations for the Committee / Risk Assessment / Financial Implications

Accounts and Annual Report

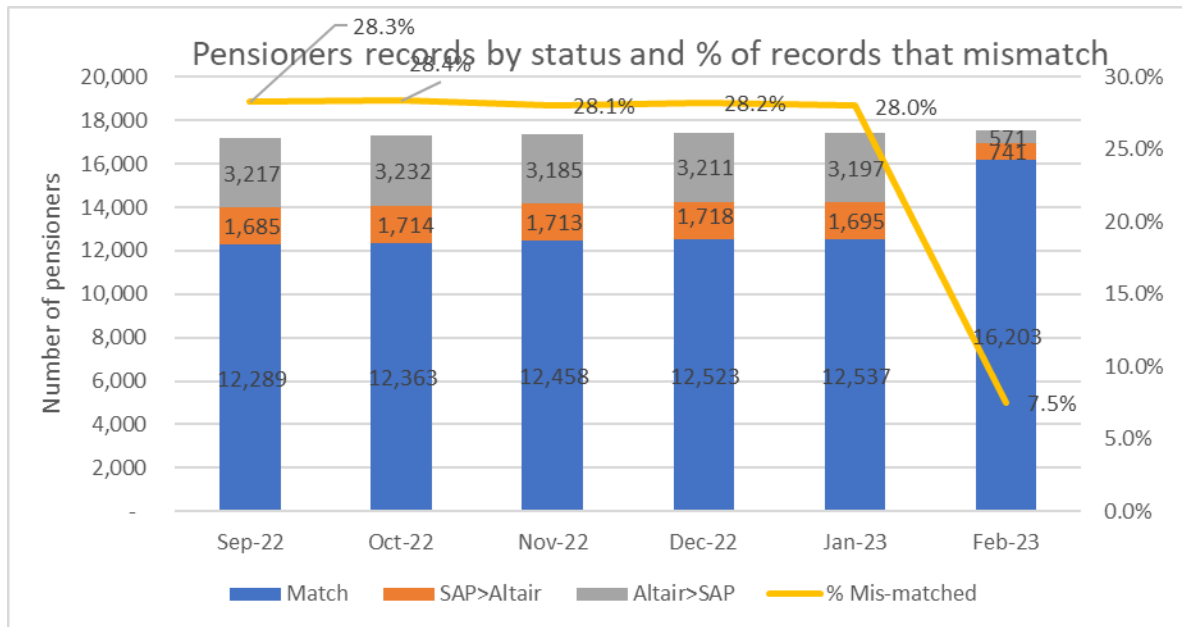
3. Final sign off for the full Wiltshire Council Accounts for 2019/20 and 2020/21 continues to be delayed, the Pension fund accounts form a part of the full Council accounts and the delay, which is due to an issue within the Wiltshire Council figures, has meant the pension fund accounts have not received their final audit opinion for inclusion in the annual report. We believed all work had been completed by the auditors on the Pension Fund accounts for 2019/20 and 2020/21, however Deloitte recently opened up further testing into the pension underpayment provision, Officers have been working with the auditors to ensure all items of testing are completed, all auditor requests have been responded to by the pension team. 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.
4. The pension fund accounts external audit report for 2019/20 was presented to the Council Audit Committee in February 2023. The latest update from the audit committee minutes is that the 2019/20 full Council accounts are now scheduled for sign off in at the next meeting of the Committee in April 2023.
5. The external auditors have completed all their audit testing of the pension fund accounts and annual report for 2021/22, no issues have been identified and no changes required for the annual report and accounts. The final work to be completed by the external auditors are final reviews and quality controls checks. The full process was planned to be completed by the end of November, however delays by the auditors, partly due to the pensions LDI issue has pushed completion back. Given the continued delay to the Council Accounts full sign off will not be possible until the Council accounts are up to date. An internal timeline for the 2022/23 accounts is up and running and work is progressing on tasks that can be completed prior to year end.

Payroll reconciliations

6. Work to reconcile and correct discrepancies between the Altair pension admin system and SAP payroll records continues. The reconciliation process to track the variance

between the Altair pension admin system and the payroll has been running since April 2022. The reconciliation compares the annual pension payable on each system and quantifies the number of cases and value of discrepancies.

- The following graph shows 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.



- This report categorises all cases £1.00 p/a as matching. The 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.
- The reconciliation data shows a significant improvement in February, this is as a result of work to bulk correct cases >£5pcm different. The overall mismatch by cases has reduced to 7.5%. Further work to review cases and the reconciliation project will continue to reduce these discrepancies.

Integrated Systems

- Project Evolve is ongoing within Wiltshire Council, this will deliver a replacement to the existing SAP payroll and accounting software. 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.
- 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 training and testing of the system is underway. The testing period has been longer than expected due to issues

with the system. A phased roll out plan is in development to commence making one off payments via this new system.

12. 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 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
	Jan-23			
1. Employer Contributions	Green	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.	Final schedule of employer rates being shared so all employers pay the correct amount from April Payroll
2. Payroll	Yellow	Monthly payroll sign off process checking starters and leavers plus reconciliation of Altair to Payroll	New reconciliation process being used to monitor discrepancies between the pension admin system and payroll, reported on within this paper. Large number of discrepancies >£5pcm resolved in Jan 23.	Large amount of work required to be completed to resolve discrepancies between the two systems. Outsourced provider appointed to resolve discrepancies above £5p/m.
3. Cashflow, banking and capital calls	Green	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.	Final IMA agreed and in process of being signed for SALAMI provider
4. Balance Sheet Reconciliations	Green	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	Green	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 discrepancies have been significantly reduced following active engagement with the Admin team to review old cases.	Administration team working with finance team to resolve discrepancies and reduce final outstanding items
6. Financial Budget Reporting	Green	Review of year to date and forecast operating budget performance, or any unusual monthly movements on the overall fund account.	Budget forecast within plan, see detailed schedule later in this paper for information on assumptions. New Budget proposal included along with business plan.	None
No material concerns	Green			
Minor issues outstanding	Yellow			
Major issues outstanding	Red			

13. 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	On time	Late	Not Received
Q1	Apr-22	8,099	5,256	2,842	54.1%	19.4	-	160	18	-
Q1	May-22	7,732	4,723	3,003	63.6%	7.9	-	158	20	-
Q1	Jun-22	7,815	7,794	22	0.3%	18.9	-	168	10	-
Q2	Jul-22	7,835	6,993	66	0.9%	5.8	-	170	6	-
Q2	Aug-22	7,519	7,265	254	3.5%	16.1	-	165	10	-
Q2	Sep-22	7,536	7,522	14	0.2%	8.1	-	164	14	-
Q3	Oct-22	7,814	7,004	811	11.6%	8.8	-	169	8	-
Q3	Nov-22	9,207	9,182	25	0.3%	9.5	-	166	12	-
Q3	Dec-22	9,814	9,807	7	0.1%	1.0	-	175	3	-
Q4	Jan-23	7,988	7,273	715	9.8%	3.9	25.3	165	10	3
Total	Q1	23,646	17,773	5,867	33.0%	15.4	-	486	48	-
Total	Q2	22,891	21,780	334	1.5%	10.0	-	499	30	-
Total	Q3	26,834	25,992	842	3.2%	6.4	-	510	23	-

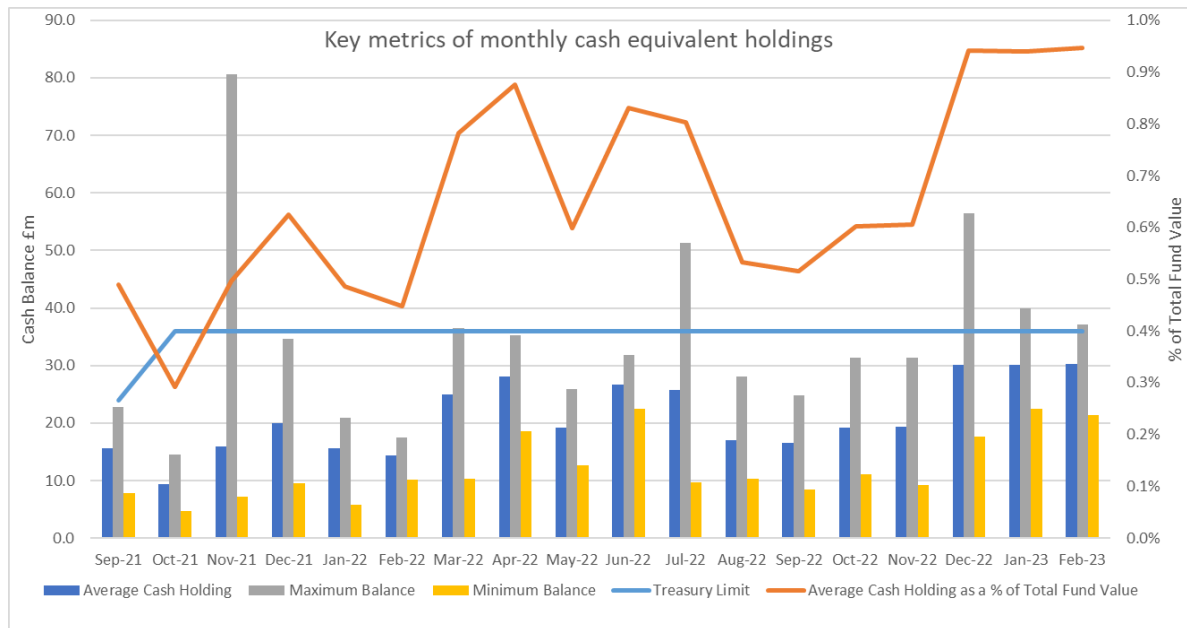
14. Three small payments remain outstanding as at 10th March 2023, these are being actively chased by the fund. The majority of the late payments are received within a day or two of the deadline and all employers who have not paid are contacted immediately after the deadline day to remind them to pay. Persistently late payments or employers where we have problems are escalated to the employer relationship manager for resolution.

15. 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 for 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.

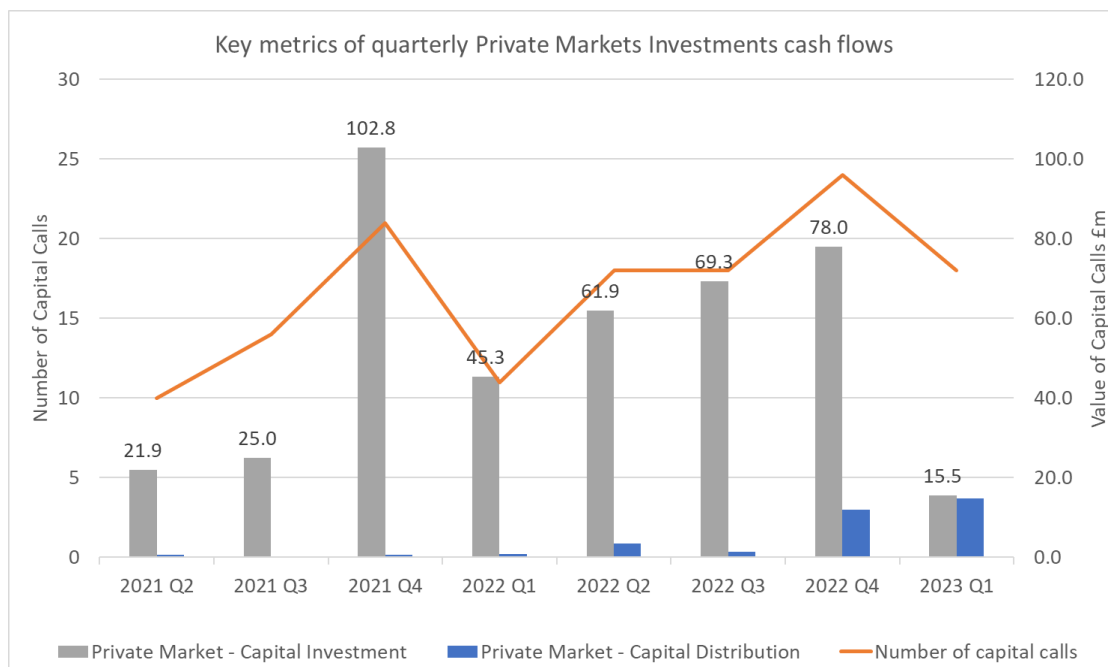
16. The average cash equivalent holding as a % of total fund assets remains small at around 0.9% - 0.5% to minimise the detrimental effect of cash drag on overall performance.

Summary Cashflow statement for Wiltshire Pension Fund														
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast		
£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
Opening Cash Balance		28.7	18.9	25.9	22.5	10.1	12.0	16.8	31.4	17.9	22.7	28.0	29.2	28.7
Operating	Income	39.9	6.9	11.6	8.8	8.7	9.2	8.9	9.3	10.4	11.1	9.6	8.4	142.8
Operating	Expenditure	(9.5)	(10.9)	(9.1)	(11.4)	(10.0)	(10.1)	(9.7)	(10.3)	(13.5)	(9.6)	(10.6)	(10.4)	(125.2)
Investing	Private Market - Capital Investment	(40.1)	(5.8)	(15.9)	(43.8)	(21.2)	(4.3)	(6.3)	(22.5)	(49.2)	(9.1)	(5.4)	(1.1)	(224.7)
Investing	Private Market - Capital Distribution	0.0	3.5	0.0	0.0	1.3	0.0	1.6	0.0	10.3	0.0	0.7	14.1	31.6
Investing	Listed Market - Capital Withdrawal	0.0	13.3	10.0	34.0	23.0	10.0	20.0	10.0	47.0	10.0	10.0	0.0	187.2
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
Investing	Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	2.9	(3.1)	(0.9)	(1.0)
Closing Cash Balance		18.9	25.9	22.5	10.1	12.0	16.8	31.4	17.9	22.7	28.0	29.2	39.3	40.4
Maximum Balance		35.2	25.9	31.8	51.4	28.1	24.7	31.4	31.3	56.5	39.9	37.1	47.9	
Minimum Balance		18.6	12.7	22.4	9.7	10.3	8.4	11.1	9.2	17.7	22.5	21.4	39.3	
Average Cash Holding		28.0	19.2	26.6	25.7	17.0	16.5	19.2	19.4	30.1	30.1	30.3	42.8	
Average Cash Holding as a % of Total Fund Value		0.9%	0.6%	0.8%	0.8%	0.5%	0.5%	0.6%	0.6%	0.9%	0.9%	0.9%	1.3%	
Number of capital calls		6	6	6	7	8	3	5	8	11	9	6	3	78
Number of listed market withdrawals		0	1	1	1	2	1	1	1	2	1	1	0	12
Maximum Balance		35.2	25.9	31.8	51.4	28.1	24.7	31.4	31.3	56.5	39.9	37.1	47.9	
Minimum Balance		18.6	12.7	22.4	9.7	10.3	8.4	11.1	9.2	17.7	22.5	21.4	39.3	
Net Cashflow from Operating		30.4	(3.9)	2.4	(2.6)	(1.3)	(0.9)	(0.8)	(1.0)	(3.1)	1.4	(1.0)	(2.0)	17.6
Net Cashflow from Investing		(40.1)	10.9	(5.9)	(9.8)	3.2	5.7	15.4	(12.5)	8.0	3.8	2.3	12.1	(6.9)

17. An investment manager has been selected to run the SALAMI (Strategic allocation to Liquid asset matching investments) portfolio, a final investment manager agreement (IMA) has undergone legal due diligence and is in the process of being signed. This portfolio will allow the fund to maintain a smaller cash balance.



18. Cashflow activity for private markets capital calls have continued to be met as commitments made to Brunel Cycle 2 portfolios (Private Debt, Private Equity, Infrastructure & Secured Income) are called and the fund commitments to affordable housing. The figures below for Q1 are for part of the quarter.



Planned improvements and key items to monitor

19. 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			Reconciliation process is implemented and recording a gradual reduction in variances. This is reported on within this report.
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 is in the process of being implemented.
Evolve			Implementation of the SAP financial system will now be later than April 2023. The fund will continue to have access to a functional finance system and payroll until the new system is established. The pension is represented on key implementation working groups. 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. The finance team meet monthly with the admin team to review all reconciliation issues. The number of discrepancies have reached a much lower level.
Wiltshire Council – Wiltshire Pension Fund SLA charge			LPB Action Point – SLA Recharge Pension Fund Officers have received a draft SLA charge from the Council. Advice has been received from Legal on the format of any agreement between the fund and the council. This will include details of the charge calculation (completed) and high level details of the services being provided under each item (being drafted).

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

Wiltshire Pension Fund Running Costs 2022-23

20. The operating budget includes core running costs of the fund; administration, governance and investment officers. The operating budget excludes fees for investment managers, these are reported annually and considered alongside investment returns.
21. To improve information available to Committee on the costs of Brunel a reference line has been included to show these costs at the bottom of the budget report. The annual cost includes Wiltshire's share of the running costs and in the last two years a cost of a provision made to cover the guarantee provided by the fund to Brunel to for pension liabilities. In year ending March 2021 this was £666k, and in year ending March 2022 an additional £111k was charged to increase the provision. The forecast for March 2023 includes no adjustment for this and only includes the underlying running costs of just over £1m.
22. The pension fund is forecasting an underspend of £764k versus the operating budget for 2022/23, based on known expenditure to the end of February 2023. The main item of underspend relates to £761k of timing difference on the implementation of two key projects, the payroll reconciliation and backlog clearance. The table at the bottom of the budget summary shows the value of costs forecast for each project. The outstanding budget costs not spent in 2022/23 will be rolled forward into the budget proposal for 2023/24.
23. Excluding this underspend the fund is forecasting being in line with budget for the year. Underlying this has been an overspend on staffing costs due to a higher than budgeted pay award to all council staff. The budget included a pay award of 2%, the actual award was an increase for all staff of £1,925, this increased total staffing costs by £64k c4% for the year. This overspend has been offset by underspends on other items such as advisory costs.

Wiltshire Pension Fund Budget 2022/23

	Prior Year			2022/23			
	2019/20	2020/21	2021/22	Forecast	Budget	Variance	% Variance
£000's							
Investment administration staffing costs	119	114	206	197	198	1	0%
Investment administration travel/conferences/training costs	0	2	4	1	8	7	85%
Total investment administration costs	120	116	210	198	206	7	4%
Pension scheme administration staffing costs	996	1,036	1,152	1,354	1,267	(87)	-7%
Staff training	19	22	18	20	28	8	30%
Corporate charges	311	311	311	311	311	0	0%
Pension administration systems and data cleansing	310	354	328	449	622	173	28%
Other administration costs	107	51	28	380	970	591	61%
Total scheme administration costs	1,743	1,775	1,838	2,514	3,199	685	21%
Oversight & governance staffing costs	246	180	225	243	238	(5)	-2%
Training and conferences	8	0	24	20	28	8	28%
Subscriptions, memberships and levies	34	32	44	33	36	3	7%
Actuarial services	214	154	147	310	319	9	3%
Audit	10	37	27	83	83	0	0%
Legal fees	13	11	48	49	49	0	0%
Advisory fees	142	196	276	222	279	57	20%
Corporate charges & other costs	149	165	144	146	146	0	0%
Total oversight & governance costs	815	775	936	1,107	1,178	71	6%
Local Pension Board costs	14	14	15	25	25	0	0%
Total operational running costs	2,692	2,679	2,998	3,844	4,608	764	17%
Number of Members	80,824	82,454	82,454	82,454	82,454		
Total Running Cost per member (Admin & Governance)	£ 31.83	£ 31.09	£ 33.82	£ 44.22	£ 53.39	£ 9.17	17%
Underlying Running Costs Per member 22/23							
Valuation & SAA				207	207	0	
Altair Payroll & Implementation				83	276	193	
Payroll Reconciliation				140	350	210	
Backlog Clearance				78	450	373	
Fee's review				15	0	(15)	
Systems Review				20	20	0	
Exclude One off Costs				542	1,303	761	
Underlying Running Costs				3,302	3,305	3	
Revised Running costs per member				£ 40.05	£ 40.08	£ 0.04	
Reference item - Managed as part of investment manager fees							
Brunel Running Costs	1078	1,575	1,206	1,191	1,192	1	0

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

25. There are no known implications at this time.

Proposals

26. The Committee 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.

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