

## **WILTSHIRE COUNCIL**

WILTSHIRE LOCAL PENSION BOARD  
5<sup>th</sup> May 2022

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### **KEY FINANCIAL CONTROLS REPORT & LPB BUDGET OUTTURN**

#### **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 Committee / Risk Assessment / Financial Implications**

##### *Accounts and Annual Report*

3. Final audit sign off of 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 of the Wiltshire Council Accounts through dialogue with the Council Finance team. It is currently understood that final sign off for the 2019/20 accounts is expected imminently. The Wiltshire Council Audit Committee of 1<sup>st</sup> March 2022 delegated authority to Officers and the Chair of the Audit Committee to sign off the accounts once final outstanding items have been completed. 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 23<sup>rd</sup> November 2022.
6. The first planning meeting for the 2021/22 accounts have been held with the Auditors (Deloitte). The scope and dates for interim work were agreed and timescales for the final audit set out. The Fund had been planning for the final accounts and annual report to be taken to the 28<sup>th</sup> July 2022 Committee meeting for sign off. To meet this publication date the auditors agreed to accelerate their work programme. Publication in July will ensure the accounts and annual report are relevant and up to date for all stakeholders. As with the 2021/22 report this would make Wiltshire one of the first funds in the UK to publish.
7. Following agreement of this audit timeline Deloitte have written to delay the audit work until September / October 2022, due to staffing shortages. This is very disappointing as it

will delay audit work and finalisation of the accounts. Officers plan to complete work on the accounts and all supporting papers in line with original timescales. This will allow publication of an unaudited set of accounts with a suitable note setting out this caveat, this will ensure relevant and timely information can be available to stakeholders.

8. To improve engagement with members Officers plan to produce another graphically designed one pager with relevant information engagingly presented to share with members, this was well received last year.

#### Payroll reconciliations

9. Work is still ongoing within the administration team to reconcile and correct discrepancies between the Altair pension admin system and SAP payroll records.
10. 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 represents a worst-case estimate, the final position is likely to be lower than this. Calculation of the final value requires completion of all steps by the admin team to review cases. A review is underway of this provision to provide a revised figure for the 2021/22 annual accounts. As part of this review, many unexpected differences have been identified. Additional work will need to be done to understand these differences and potentially to align the systems if needed.
11. New payroll elements and accounting system codes have been established to track reconciling payment values and amounts being reclaimed. The first payments were made in February 2022.

#### 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.
13. Officers are working with the payroll and Evolve implementation teams to transfer existing pensioners to the new payroll system. At the same time Officers will prepare plans to implement an integrated payroll and one-off payments system within Altair.
14. Following implementation of the systems a plan will be prepared to transfer pensioners from the evolve system 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 are included in the business plan and future papers.

#### Internal Audit and Specialist Reviews

15. SWAP have completed their internal audit, covered in Item 17 on this agenda.
16. Following the recent restructure of the management of the pension fund team, the Head of Wiltshire Pension Fund has commissioned an audit into the key issues and resourcing of the admin function, which has been carried out by Aon. This report helped to inform the business plan and budget for 2022/23.

## 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
	Mar-22			
<b>1. Employer Contributions</b>		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. One small employer with a recurring issue during the quarter, site visit from the employer relationship manager arranged to escalate and resolve the matter. Single large late payment in Jan 22 due to a larger employer having problems with payment following implementation of a new payroll system. This new system is still causing data issues but payments are now being received.	Work ongoing to tie together i-connect data submissions and contributions receipts to provide a single consistent record of employer information and payments.  Work ongoing to consolidate a single schedule of employers contribution rates and formalise the process for ensuring this remains up to date.
<b>2. Payroll</b>		Monthly payroll sign off process checking starters and leavers plus reconciliation of Altair to Payroll	Monthly sign off process for the payroll working as planned. Pension increase applied to April 2022 payment for the majority of pensioners.	Improvement required to the monthly Altair to SAP payroll reconciliation process to ensure ongoing accuracy of payroll payments.
<b>3. Cashflow, banking and capital calls</b>		Maximum and minimum cash balances, private markets capital calls and distributions and treasury performance.	See summary performance table for full details. Higher average cash balance in the quarter in anticipation of capital call notices.	New treasury management policy approved by committee, procurement process commenced to appoint an investment manager to provide an ETF liquidity sleeve.
<b>4. Balance Sheet Reconciliations</b>		All balance sheet control codes are reviewed for accuracy and outstanding issues.	All control codes have been reviewed and checked, no unexplained balances as at year end.	New process for VAT reconciliation implemented with the central council finance team.
<b>5. Altair Checks</b>		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.	New process to review each reconciliation discrepancy between the finance and admin teams is being established to clear historic items and stay on top of new issues. Implementation of a payments module in the admin system could eliminate the need for these time consuming reconciliations.
<b>6. Financial Budget Reporting</b>		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 year. Budget agreed by Committee for 2022/23 financial year.	None
<b>No material concerns</b>				
<b>Minor issues outstanding</b>				
<b>Major issues outstanding</b>				

17. 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-21	34,641	7,625	18	0.2%	20.0	-	162	14	-
Q1	May-21	7,707	6,912	794	11.5%	18.5	-	161	15	-
Q1	Jun-21	7,613	7,606	7	0.1%	28.0	-	170	6	-
Q2	Jul-21	7,700	6,880	820	11.9%	15.1	-	166	7	-
Q2	Aug-21	7,538	6,766	772	11.4%	8.1	-	166	8	-
Q2	Sep-21	7,513	7,138	72	1.0%	9.6	-	163	13	-
Q3	Oct-21	7,611	6,913	698	10.1%	6.4	-	168	7	-
Q3	Nov-21	7,644	6,856	788	11.5%	14.8	-	163	13	-
Q3	Dec-21	7,628	7,475	154	2.1%	6.8	-	167	9	-
Q4	Jan-22	7,620	4,617	3,004	65.1%	4.6	62.0	158	16	2
Q4	Feb-22	7,669	6,908	761	11.0%	2.0	34.0	166	8	3
Q4	Mar-22	9,209	8,366	842	10.1%	1.2	3.0	163	6	7
<b>Total</b>	<b>Q1</b>	<b>49,961</b>	<b>22,143</b>	<b>819</b>	<b>3.7%</b>	<b>22.2</b>	<b>-</b>	<b>493</b>	<b>35</b>	<b>-</b>
<b>Total</b>	<b>Q2</b>	<b>22,751</b>	<b>20,784</b>	<b>1,664</b>	<b>8.0%</b>	<b>11.0</b>	<b>-</b>	<b>495</b>	<b>28</b>	<b>-</b>
<b>Total</b>	<b>Q3</b>	<b>22,883</b>	<b>21,243</b>	<b>1,640</b>	<b>7.7%</b>	<b>9.4</b>	<b>-</b>	<b>498</b>	<b>29</b>	<b>-</b>
<b>Total</b>	<b>Q4</b>	<b>24,498</b>	<b>19,891</b>	<b>4,607</b>	<b>23.2%</b>	<b>2.6</b>	<b>33.0</b>	<b>487</b>	<b>30</b>	<b>12</b>

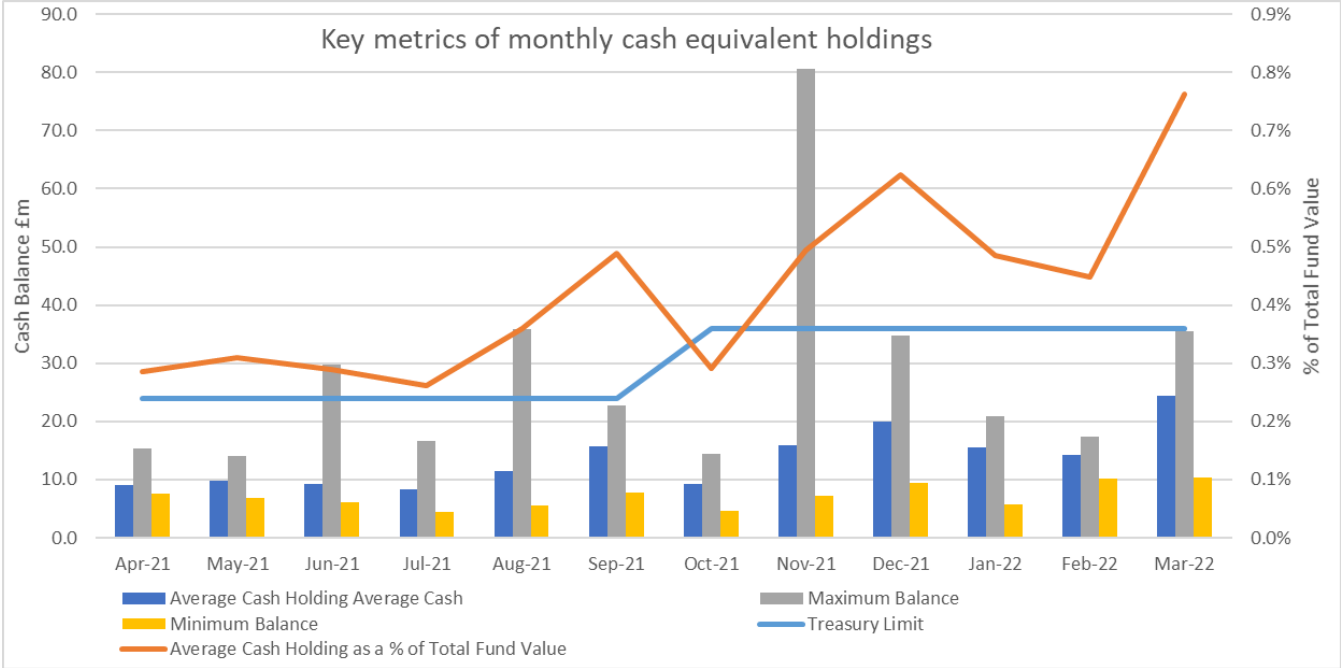
18. Twelve payments remain outstanding as at 21<sup>st</sup> April 2022, 8 of the payments relate to one employer with multiple admission agreements. The outstanding payment are being chased and the employer relationship manager will be making a site visit to resolve the matter with the employer with multiple late payments.

19. The majority of 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.

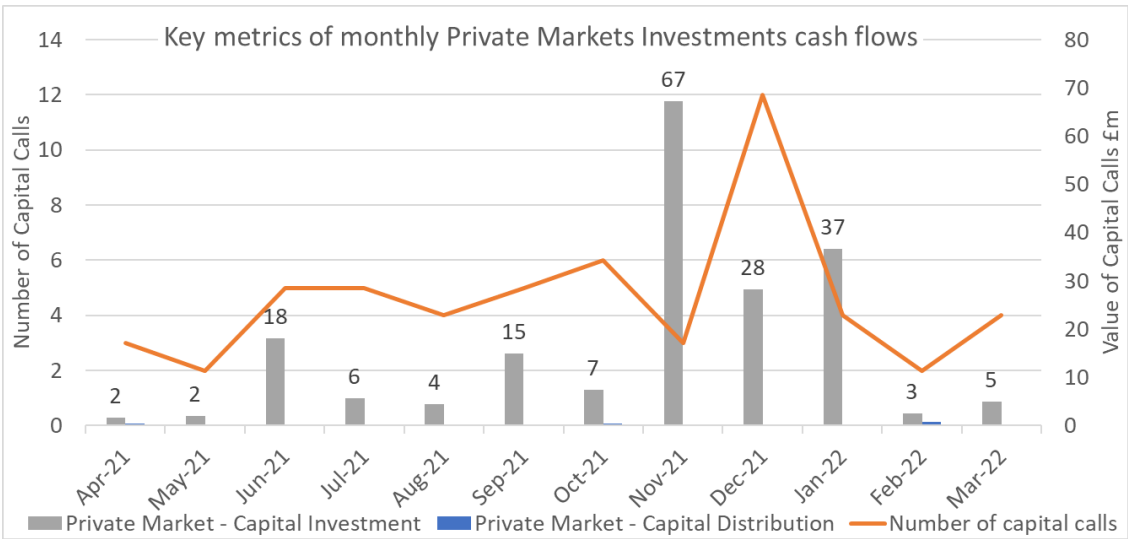
20. The following table provides further details for performance dashboard item 3. Cashflow, banking and capital calls. This table sets out the actual and forecast cashflow movements each month for 2021/22. The table separates the cashflow between operating cashflow, such as income from employers and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

Summary Cashflow statement for Wiltshire Pension Fund														
£m equivalent	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	2021/22
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22		
Opening Cash Balance	6.8	9.9	7.1	7.6	8.4	20.0	8.0	7.7	11.7	20.3	15.5	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		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)		(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)		(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		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		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)		(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)	(1.0)		1.0
Closing Cash Balance	9.9	7.1	7.6	8.4	20.0	8.0	7.7	11.7	20.3	15.5	10.5	27.6		27.6
Maximum Balance	15.3	14.1	29.7	16.6	35.9	22.8	14.4	80.5	34.7	20.9	17.4	35.5		
Minimum Balance	7.5	6.8	6.2	4.4	5.5	7.9	4.7	7.2	9.5	5.7	10.2	10.3		
Average Cash Holding	9.1	9.9	9.3	8.4	11.5	15.7	9.3	15.8	20.0	15.5	14.3	24.4		
Average Cash Holding as a % of Total Fund Value	0.3%	0.3%	0.3%	0.3%	0.4%	0.5%	0.3%	0.5%	0.6%	0.5%	0.4%	0.8%		
Number of capital calls	3	2	5	5	4	5	6	3	12	4	2	4		
Number of listed market withdrawals	0	1	1	2	3	2	3	2	5	2	0	3		
Net Cashflow from Operating	27.6	(2.8)	(1.3)	(1.6)	(1.3)	(2.7)	(2.7)	(0.3)	(3.3)	(0.2)	(3.1)	4.0		12.4
Net Cashflow from Investing	(24.5)	(0.1)	1.9	2.4	12.9	(9.3)	2.4	4.2	11.9	(4.6)	(1.8)	13.1		8.4

- 21. 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 0.5% to minimise the detrimental effect of cash drag on overall performance.
- 22. In March 2022 the average cash holding as a % of the fund reached a higher value following information received from Brunel of large forecast private market capital calls which were subsequently delayed.



23. 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. December saw a record number of capital calls (12) prior to the Christmas break, with a smaller number of higher value capital calls in January, maintaining the pace of capital being deployed into the private markets portfolios. February and March have seen a reduction in volume and value of capital calls, but more are anticipated for April and May 2022.



24. Officers have drafted a new Treasury policy which was approved at the last Committee meeting. To implement the new policy officers are undertaking a procurement exercise to appoint an investment manager to provide the ETF liquidity sleeve. Updates on the progress of this exercise will be provided via this report.

Planned improvements and key items to monitor

25. 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			<p>Work is still ongoing to complete payroll reconciliation process by the admin team. New system codes have been established to track historic under payments being made and over payments being recovered.</p> <p>The first payments for historic underpayment have been made and no requests for repayment of overpayments have been made yet.</p>
Integrated systems			<p>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.</p>
Evolve			<p>SAP financial system will be replaced by Q1 2023.</p> <p>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.</p>
An overall review of reconciliations, and improved management information			<p>Reconciliations are being reviewed and where required redesigned.</p> <p>Summary performance measures for each reconciliation are reviewed monthly and a new feedback process to address discrepancies will be established with the administration team.</p>
Treasury management			<p>New Treasury Management Policy has been agreed. Procurement underway to appoint an investment manager to provide the Liquidity Sleeve ETF product.</p>
Wiltshire Council – Wiltshire Pension Fund SLA charge			<p>Pension Fund officers have provided details of services received to Wiltshire Council Officers who are undertaking an exercise to provide accurate and up to date costs for services</p>

Improvement / Issue	Last RAYG* rating	Current RAYG* rating	Comments
			provided to be included in an SLA charge.
*RAYG = Red/Amber/Yellow/Green			
			Significant concern
			Not started
			Work has commenced
			Significant progress made
			Completed/situation under control

### LPB Budget Outturn for 2021/22

26. The year end financial position was an underspend of £10k due to unspent budget for consultancy and training. The following table provides a breakdown of the budget and costs and the agreed budget for 2022/23.

Local Pension Board Budget (£'s)	2021/22			2022/23 Budget
	Actual	Budget	Variance	
Independent Chair Remuneration	10,339	10,609	270	10,672
Consultancy Services	-	4,000	4,000	2,000
Training	-	3,400	3,400	2,000
Committee Services	3,000	3,000	-	3,000
Travel & Subsistence Costs	106	1,000	894	1,000
Catering	-	400	400	400
Insurance	1,522	2,800	1,278	5,760
<b>Total</b>	<b>14,966</b>	<b>25,209</b>	<b>10,243</b>	<b>24,832</b>

### Environmental Impacts of the Proposals

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

### Safeguarding Considerations/Public Health Implications/Equalities Impact

28. There are no known implications at this time.

### Proposals

29. 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.

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

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