

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND LOCAL PENSION BOARD
01 February 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

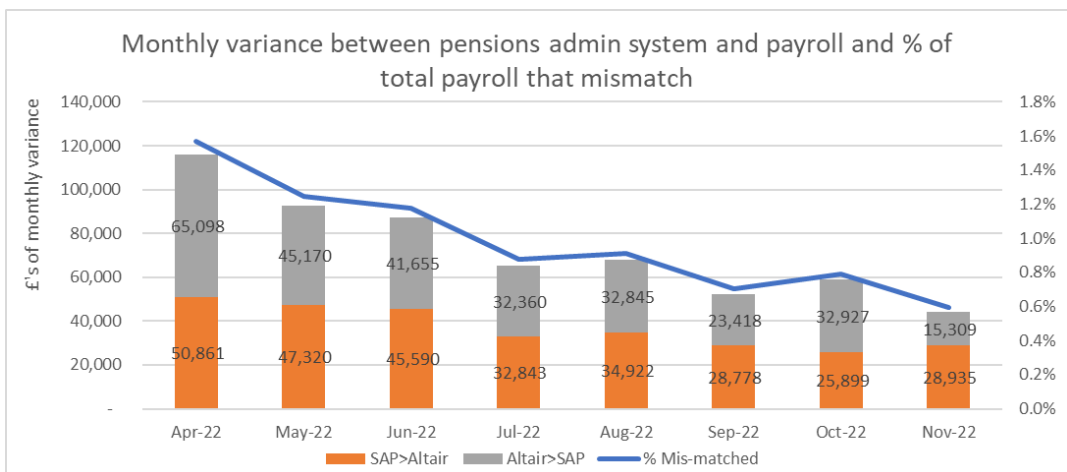
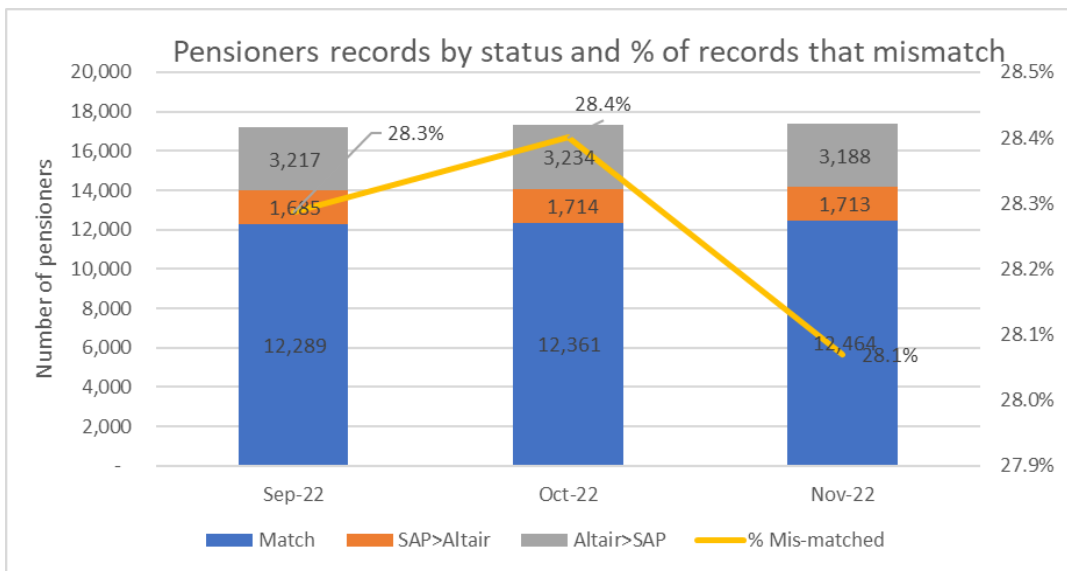
3. Final sign off for the full Wiltshire Council Accounts for 2019/20 and 2020/21 continues to be delayed, the Pension fund accounts form a part of the full Council accounts and the delay, which is due to an issue within the Wiltshire Council figures, has meant the pension fund accounts have not received their final audit opinion for inclusion in the annual report. 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.
4. The latest update from the Auditors and the Council Finance team is that the 2019/20 accounts are scheduled for sign off in February 2023. To prepare for this, Pension Fund officers have prepared a subsequent events note to be included in the 2019/20 accounts. This is required as part of accounting regulations to note significant events between the balance sheet date and the date of signing. Given the length of time much has happened, however to help keep this note brief we have agreement from the auditors to direct readers to the later accounts already published for much of the details.
5. The external auditors have completed all their audit testing of the pension fund accounts and annual report for 2021/22, so far 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 which are expected to be completed by the end of December 2022. 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.

Payroll reconciliations

6. 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. 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. In the last quarter improvements have been made to this process to exclude known or allowable variances to enable focus on real issues.

- 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.



- 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 positive trend with the number and value of differences between the two systems reducing over time. The improvement has mainly come from work to develop and correct data issues between the two systems and how the reconciliation is built. Work to finalise cases being resolved by the administration team

has also reduced the variance. Once the outsourced payroll reconciliation project commences these graphs will track the progress being made.

Integrated Systems

10. 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. Following a recent evaluation of the timeline by the project team implementation has been delayed beyond the planned commencement date of April 2023. A revised start date is being worked on by the project team.
11. 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 will be developed to commence making one off payments via this new system in the new year.
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 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 |
| | Dec-22 | | | |
| 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. | |
| 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 amount of work required to be completed to resolve discrepancies between the two systems. Outsourced provider appointed to resolve discrepancies above £5p/m. Process being developed to resolve issues below £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. | Investment manager selected to provide the SALAMI portfolio, undergoing legal due diligence. |
| 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 | Yellow | 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. | Continued review of forecast . |
| 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.

| Summary of Contributions Payment Performance | | | | | | | | | | |
|--|---------------|---------------------------|-----------------|--------------|----------------|---|--------------|-------------------------------------|-----------|--------------|
| 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 | - | 158 | 18 | - |
| Q1 | May-22 | 7,732 | 4,723 | 3,003 | 63.6% | 7.9 | - | 156 | 20 | - |
| Q1 | Jun-22 | 7,815 | 7,794 | 22 | 0.3% | 18.9 | - | 166 | 10 | - |
| Q2 | Jul-22 | 7,835 | 6,993 | 66 | 0.9% | 5.8 | - | 168 | 6 | - |
| Q2 | Aug-22 | 7,520 | 7,265 | 255 | 3.5% | 16.1 | - | 163 | 10 | - |
| Q2 | Sep-22 | 7,536 | 7,522 | 14 | 0.2% | 8.1 | - | 162 | 14 | - |
| Q3 | Oct-22 | 7,814 | 7,004 | 811 | 11.6% | 8.8 | - | 167 | 8 | - |
| Q3 | Nov-22 | 9,207 | 9,182 | 25 | 0.3% | 9.5 | - | 164 | 12 | - |
| Q3 | Dec-22 | 9,818 | 9,812 | 6 | 0.1% | 1.0 | 2.0 | 173 | 2 | 1 |
| Total | Q1 | 23,646 | 17,773 | 5,867 | 33.0% | 15.4 | - | 480 | 48 | - |
| Total | Q2 | 22,891 | 21,780 | 335 | 1.5% | 10.0 | - | 493 | 30 | - |

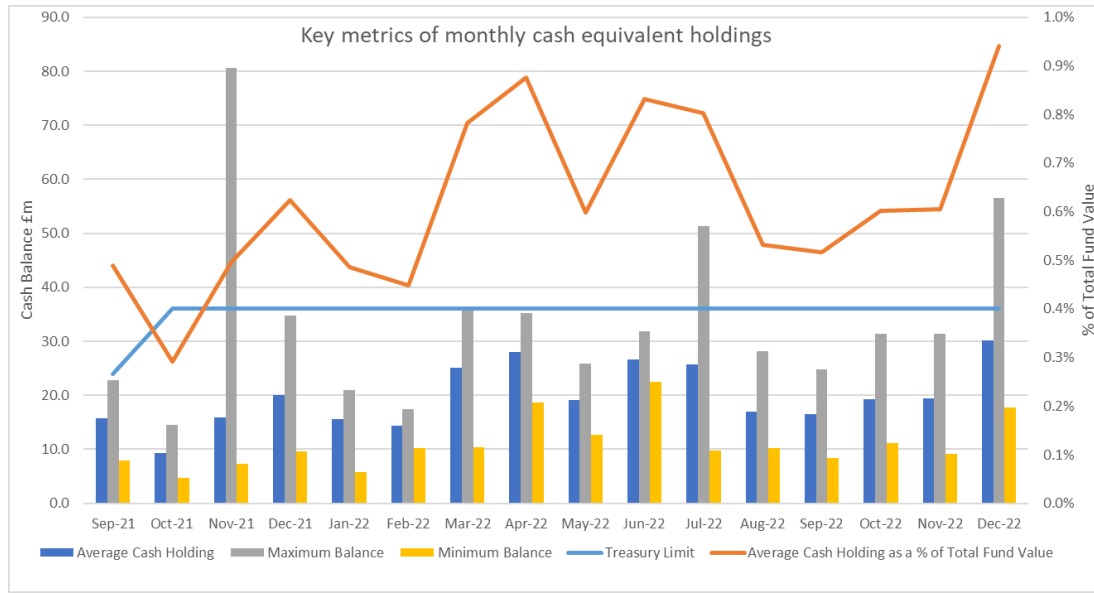
14. One payment remains outstanding as at 20th January 2023, this is only 1 day overdue and is being actively chased by the fund. The majority of the late payments are received within a day or two of the deadline and all employers who have not paid are contacted immediately after the deadline day to 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.

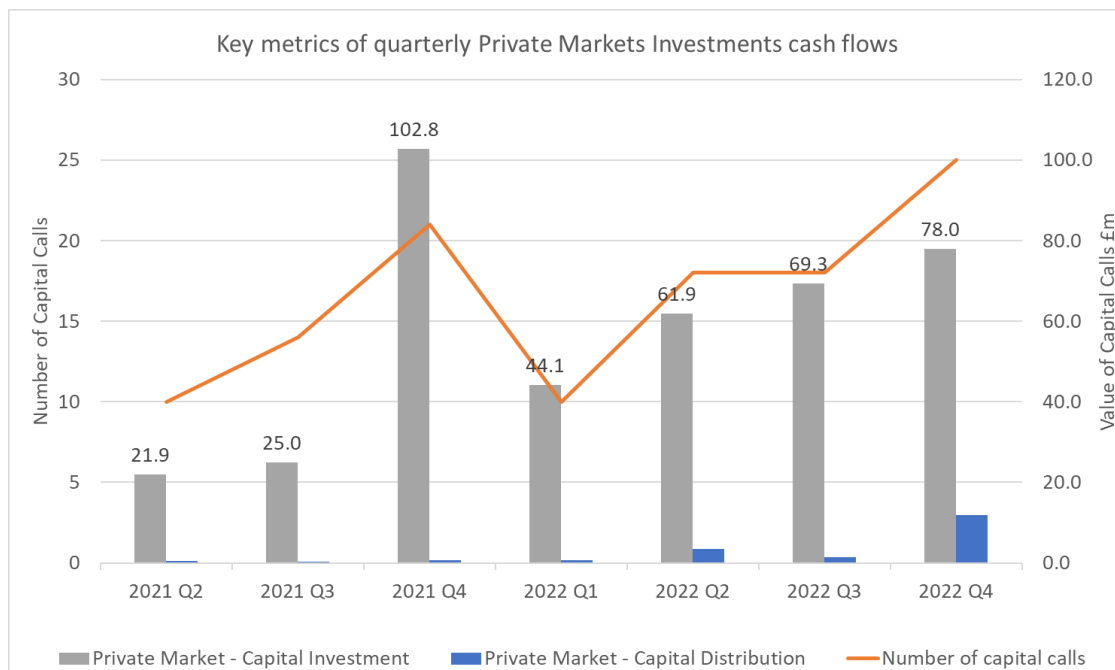
16. The average cash equivalent holding as a % of total fund assets remains small at around 0.8% - 0.5% to minimise the detrimental effect of cash drag on overall performance.

| Summary Cashflow statement for Wiltshire Pension Fund | | | | | | | | | | | | | | |
|--|---------------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|--------------|-------------|---------------|--------------|---------------|
| | | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Actual | Forecast | Forecast | 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 | 27.2 | 9.0 | 28.7 |
| Operating | Income | 39.9 | 6.9 | 11.6 | 8.8 | 8.7 | 9.2 | 8.9 | 9.3 | 10.4 | 10.1 | 7.7 | 7.8 | 139.4 |
| Operating | Expenditure | (9.5) | (10.9) | (9.1) | (11.4) | (10.0) | (10.1) | (9.7) | (10.3) | (13.5) | (9.5) | (10.2) | (10.5) | (124.7) |
| Investing | Private Market - Capital Investment | (40.1) | (5.8) | (15.9) | (43.8) | (21.2) | (4.3) | (6.3) | (22.5) | (49.2) | (6.2) | (15.7) | 0.0 | (231.1) |
| 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 | 0.0 | 0.0 | 16.8 |
| 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 | 0.0 | 0.0 | 177.2 |
| 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) | (0.0) | 0.0 | 0.0 | 0.1 |
| Closing Cash Balance | | 18.9 | 25.9 | 22.5 | 10.1 | 12.0 | 16.8 | 31.4 | 17.9 | 22.7 | 27.2 | 9.0 | 6.3 | 6.2 |
| Maximum Balance | | 35.2 | 25.9 | 31.8 | 51.4 | 28.1 | 24.7 | 31.4 | 31.3 | 56.5 | 39.9 | 27.2 | 14.9 | |
| Minimum Balance | | 18.6 | 12.7 | 22.4 | 9.7 | 10.3 | 8.4 | 11.1 | 9.2 | 17.7 | 22.5 | 9.0 | 6.2 | |
| Average Cash Holding | | 28.0 | 19.2 | 26.6 | 25.7 | 17.0 | 16.5 | 19.2 | 19.4 | 30.1 | 30.0 | 20.0 | 9.3 | |
| 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% | 0.6% | 0.3% | |
| Number of capital calls | | 6 | 6 | 6 | 7 | 8 | 3 | 5 | 9 | 11 | 6 | 1 | 0 | 68 |
| Number of listed market withdrawals | | 0 | 1 | 1 | 1 | 2 | 1 | 1 | 1 | 2 | 1 | 0 | 0 | 11 |
| Maximum Balance | | 35.2 | 25.9 | 31.8 | 51.4 | 28.1 | 24.7 | 31.4 | 31.3 | 56.5 | 39.9 | 27.2 | 14.9 | |
| Minimum Balance | | 18.6 | 12.7 | 22.4 | 9.7 | 10.3 | 8.4 | 11.1 | 9.2 | 17.7 | 22.5 | 9.0 | 6.2 | |
| Net Cashflow from Operating | | 30.4 | (3.9) | 2.4 | (2.6) | (1.3) | (0.9) | (0.8) | (1.0) | (3.1) | 0.6 | (2.5) | (2.7) | 14.6 |
| Net Cashflow from Investing | | (40.1) | 10.9 | (5.9) | (9.8) | 3.2 | 5.7 | 15.4 | (12.5) | 8.0 | 3.8 | (15.7) | 0.0 | (37.0) |

17. An investment manager has been selected to run the SALAMI (Strategic allocation to Liquid asset matching investments) portfolio, legal due diligence is being undertaken prior to formal appointment and portfolio establishment, this will be up and running by the end of Q4 2022/23. This portfolio will allow the fund to maintain a smaller cash balance. The fund briefly exceeded the treasury limit ahead of a large capital call payment.



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.



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 | Amber | Green | Reconciliation process is implemented and recording a gradual reduction in variances. This is reported on within this report. It shows the large number of discrepancies between the two systems. Aon will be commencing their work to resolve cases with differences over £5p/m. A process to resolve cases under this value is being designed. |
| Integrated systems | Amber | Amber | 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 | Green | Green | 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 | Amber | Yellow | Reconciliations are being reviewed monthly within the finance team and reported on. Cases causing discrepancies are being passed to the administration team for investigation. The finance team are working with the administration team to resolve issues, improvement have been seen in transfer in cases outstanding over the last quarter. |
| Wiltshire Council – Wiltshire Pension Fund SLA charge | Yellow | Amber | LPB Action Point – SLA Recharge Pension Fund Officers have received a an updated SLA charge from the Council finance team. Work is being progressed to produce a full SLA document. |
| *RAYG = Red/Amber/Yellow/Green | | | |
| | Red | Significant concern | |
| | Red/Pink | Not started | |
| | Amber | Work has commenced | |
| | Yellow | Significant progress made | |
| | Green | Completed/situation under control | |

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

21. There are no known implications at this time.

Proposals

22. The Board 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