

Wiltshire Council

Wiltshire Pension Fund Committee

5 April 2022

Includes LPB Recommendation – Minute 90

Wiltshire Pension Fund Budget 2022/23

Purpose of the Report

1. This report seeks Members' approval for the 2022/23 Business Plan and Budget for the Wiltshire Pension Fund, as shown in the attached Appendices.

Background

2. In order to set the direction of travel for the Wiltshire Pension Fund over the next few years, various pieces of work have been carried out, to identify priority areas to focus on, and what resource might be required:
 - a) Aon (an independent actuarial firm) were commissioned to conduct a review of the administration function, looking at performance and resourcing. Representatives from Aon will attend the meeting to present their findings.
 - b) SWAP have now carried out their annual internal audit review into the Fund's key financial controls. Officers also highlighted to SWAP areas of concern which had not previously been looked at as part of the internal audit. This has led to an increased number of recommendations. In addition, the report contains two "priority 1" recommendations. One is around monitoring, and includes recommendations on improved performance reporting, and use of integrated payment systems. The other is around the ongoing situation with the backlogs of work. The additional recommendations, and the fact that there are two "priority 1" recommendations, has contributed to an overall assurance level of "No assurance". SWAP's full report is attached as Appendix 3. Representatives from SWAP will attend the meeting to present their findings.
 - c) As part of Aon's review, a staff engagement survey was carried out, which identified other recommendations.
 - d) Heywoods, the provider of Altair, the Fund's administration system, have also reviewed the Fund's use of the system, and made some recommendations around support which can be provided to help the Fund progress with implementing integrated payment systems etc.
3. At the current time, there are significant improvements needed, as identified by the Aon review and internal audit, and summarised below. A business plan for the coming year has been developed (Appendix 4), incorporating the recommendations from these recent reviews, as well as other known actions for the coming year. The business plan focusses on delivering the required improvements, and highlights the budgetary impact for each action. The business plan has been set for one year only,

in order to tackle immediate service priorities, but also contains information on the desired longer-term deliverables.

4. The budget for 2022/23 is based on the assumption that the Committee will want to deliver the recommended improvements, and approve the business plan as drafted. Detail explaining how the 21/22 budget has evolved to the 22/23 budget, including the improvements noted in the business plan, is shown below, as well as the effect of several of these one-off costs falling away in later years.

Setting a new vision for the Fund

5. In order to focus the team on delivering improvements and outcomes for the Fund's customers (i.e. the scheme employers and members) a new vision for the Fund has been included in the business plan: **"Our vision is to deliver an outstanding service to our scheme employers and members"**. The vision will be delivered by targeting 16 strategic vision goals, which are focussed on outcomes for the employers and members. The goals and the vision are supported by a set of seven values, which define how the team needs to work to deliver these outcomes. The business plan contains the vision, goals, and values in full.

Key findings and recommendations of the Aon review and SWAP report

6. As mentioned above, the Aon review looked at the priority areas for focus, and the resourcing of the team. In general, the review concluded that based on the ongoing work coming in, the Fund does appear to have an appropriate level of resource. However, Aon commented that this was an unexpected finding, given the level of backlogs and some of the KPI performance statistics. Investigation therefore needs to be done to determine why performance isn't better – part of the solution to this will be **action 7** in the Business Plan 22/23, launching weekly KPIs, and **action 3**, developing a plan to hit 100% of KPI targets. Overall team resource will be reviewed in **action 6**.
7. Both the Aon review and the SWAP report commented on the backlogs, with SWAP rating this as "priority 1". In order to clear the backlogs within a "reasonable" timeframe, defined by Aon as 2 years, the Fund would need an additional 2-6 FTEs. Continuing at the current rate, the backlogs will take around 6 years to clear, possibly longer, since some of this work is currently done on overtime, which is optional for staff, who may choose to stop doing this in light of proposed changes by Wiltshire Council to reduce overtime payments to be at time (not time and a half). Steps to tackle this area are included in the Business Plan 22/23 as **action 5**, with proposals to outsource this area of work.
8. It is critical that the backlogs are cleared. Backlogs of work create inefficiencies in the way that officers are able to run the Fund, but also impact on the members. Although the backlogs do not exist in high priority areas (such as retirements), falling behind on updating records with aggregations can impact on members. Records not being up to date mean that members may not have an accurate view of the value of their benefits, which could affect their ability to financially plan for their future.
9. The Aon review recommended that work should be done to progress and complete the ongoing pensioner payroll reconciliation project, which is not progressing as fast

as expected with the current level of resource. The best approach here is likely to be taking a simplified approach to cases with lower value (under £5 per month) differences, and obtaining additional support for the cases with higher value differences. **Action 4** in the Business Plan 2022/23 tackles this issue with a plan to outsource part of the work.

10. Resolving the pensioner payroll reconciliation project is another critical action. At the current time there is still not a conclusive assessment of the financial impact that this project has on the Fund. For every month that goes by where cases are still unresolved, overpayments may be made which it will not be possible to recover, and members may continue to receive underpayments. Correction of these cases is time-sensitive, particularly during the current squeeze in living standards, meaning that receiving a correction of a prior underpayment could have a significant impact on a member.
11. The SWAP report (section F) discusses ways to mitigate against this issue re-occurring, with “priority 1” actions around reconciling between systems going forward, and also implementing the integrated payment modules in Altair. This has already been pre-approved by Committee in June 2021, and the plan is that this should now go ahead as a phased approach. The integrated systems should be implemented shortly, and the payroll will go live for new pensioners only. This will help with the migration to Oracle, the Council’s new general ledger system, as the migrating payroll will be static. The Fund can then collaborate with the Council teams to migrate the rest of the payroll over to the integrated Altair payroll once the reconciliation work is complete, at a mutually convenient time. **Action 8** in the Business Plan 22/23 addresses this piece of work, with a recommendation for consultancy support to ensure the success of the project.
12. Successfully implementing the integrated payments systems (including payroll) is critical to strengthening controls, and minimising the risk that members are paid incorrect benefits going forwards.

Key improvement areas (i.e. Actions 4 & 5, to outsource certain pieces of work)

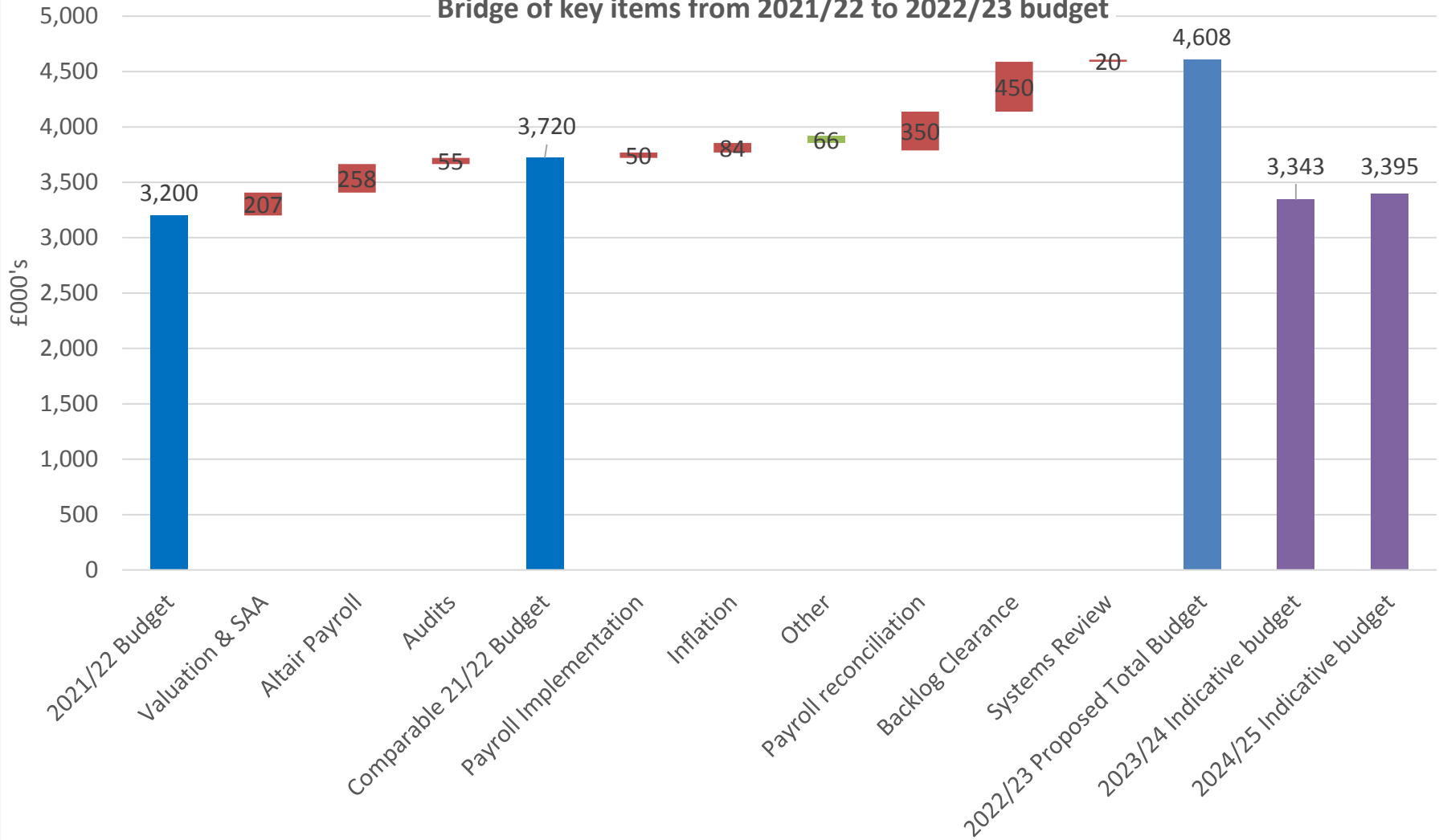
13. In general, it would be lower risk to outsource large problem areas rather than recruit new staff to the team. The outsourcing provider would retain the responsibility to resource the project and deliver against pre-agreed timescales and costs. However, this option can be more expensive. Comparisons of internal vs external cost are shown below:
14. Using the assumptions from the Aon review of how many staff would be required, the number of productive hours per year, and the time taken to complete cases, it would likely cost around £400k to set up an in-house team of staff on fixed-term contracts to clear the backlogs. Based on a previous quote obtained, the backlogs would cost around **£450k to outsource**. Therefore, this amount has been used in the budget, as although it is higher there would be more certainty over the cost and less risk of the project not being delivered successfully.
15. Using similar assumptions as above for the pensioner payroll reconciliation, additional staff to complete this project would cost around £300k. An estimate of the cost from an external provider was around £350k for the higher value cases, and

£550k-£700k for all cases including the lower value ones. As mentioned above the best value option would be to outsource the higher value cases, and develop a vastly simplified methodology for the lower value cases, which could be completed internally. Therefore, an amount of **£350k for outsourcing higher value cases** has been included in the budget.

Key features of the proposed 2022/23 budget

16. The chart on the following page shows a summary of the 2021/22 budget, and how this has been developed to arrive at the 2022/23 budget. The full budget is shown in Appendix 1.
17. The first blue bar, £3,200k, shows the budget from 2021/22, plus additions which were approved during the year by Committee. The main changes from last year's budget are as follows:
 - a) The addition of £207k to deliver the triennial actuarial valuation and the review of the strategic asset allocation – both mandatory exercises.
 - b) £208k to purchase the integrated Altair payroll and one-off payment systems, which was already approved by Committee in June 2021.
 - c) £55k to cover the cost of the specialist audits, including the cyber security audit, which have been commissioned by the Committee.
18. The second blue bar incorporates these 3 items, and shows a comparable figure based on last year's budget plus necessary and/or preapproved additions, of £3,720k. This then bridges to the proposed budget for 22/23 as follows:
 - a) £50k addition for consultancy support to implement the integrated payment systems, and ensure this is successfully completed.
 - b) £84k addition for inflation (including cost of living pay increases).
 - c) Less other net savings of £66k.
 - d) £350k addition for outsourcing part of the payroll reconciliation.
 - e) £450k addition for outsourcing the backlogs.
 - f) £20k addition for a review to help identify key areas of focus and resourcing for the Fund's systems team.
19. This arrives at the final blue bar, the proposed budget of £4,608k. Although this budget is significant, it incorporates several pieces of one-off expenditure. The purple bars show indicative budgets for 23/24 and 24/25 to illustrate this non-recurrent expenditure.
20. It is likely to be the case that the costs of the large, outsourced projects (i.e. the payroll reconciliation and the backlogs) may partially end up falling into the following year depending on the exact timings of the work, but this will not affect the total spend being proposed.

Bridge of key items from 2021/22 to 2022/23 budget



Investment management fees and related costs

- 21. The fees and costs for managing the investment portfolios are reported separately, following the year end (i.e. in the next cycle of Committee meetings). These costs are dependent on asset values and so are difficult to predict and budget. The costs and savings of pooling are monitored regularly and reporting to the Committee on a quarterly basis.
- 22. The costs of implementing investment pooling are set out in the Brunel Pension Partnership budget. This budget developed in consultation with clients, reviewed by the Brunel Oversight Board, and then formally approved by a Special Reserve Matter (requiring signature by all 10 shareholder funds). The Brunel budget was discussed and supported by Committee at the meeting on 16 December 2021.

Summary

- 23. The proposed business plan for 22/23 aims to deliver some significant improvements to service delivery. The budget has been set to support this. The budget for 22/23 therefore contains several large, one-off pieces of expenditure, and represents a large increase compared to recent years. The internal audit report and the Aon review contain several recommendations for improvements, ranging from top priority to less significant. Completing the large improvement projects, specifically outsourcing the backlogs and part of the pensioner payroll reconciliation, will enable staff to focus on delivering the other recommendations.
- 24. A comparison of the 2022/23 and 2021/22 budgets on a cost per member basis is shown below:

| | 2022/23 | 2021/22 |
|---------------------------|----------------|----------------|
| Administration | £38.80 | £24.11 |
| Oversight and Governance | £14.59 | £10.85 |
| Investment administration | £2.50 | £2.63 |

Budget Monitoring 2021/22

- 25. The forecast outturn for 2021/22 is for an underspend against the budget of £130k (4%). The key items of underspend versus plan have been within admin staffing, legal fees and administration costs. The underspends have offset the additional cost for the Aon review of fund performance which was not included in the original budget (but which was instructed under authorisation from the Committee chair and Treasurer of the Fund). The fund budget report incorporates additional costs approved by Committee in the year, including costs for affordable housing and renewable infrastructure portfolio construction. Appendix 2 contains a detailed schedule of costs versus budget.

Environmental Impact of the Proposal

- 26. There are no direct, known environmental impacts from these proposals, although the effect of climate risk on the Fund’s investments, and steps to mitigate this risk for the financial benefit of the Fund, is dealt with as part of the business plan.

Safeguarding Considerations/Public Health Implications/Equalities Impact

27. There are no known implications at this time.

Risk Assessment

28. The approval of this budget is essential to continue the good governance of the Fund, and to deliver improvements which have been identified as high priority by independent assessments. When viewed in relation to the overall value of assets, these controllable costs represent 0.15% of the total Fund value.

29. If the proposed budget is not approved, then there will be significant delays in working through the Fund's backlogs and in completing the pensioner payroll reconciliation project. This could result in reputational damage and/or an increased number of complaints.

30. In line with good governance practice, officers will bring budget monitoring reports back to Committee quarterly.

Proposals

31. The Committee is asked to:

- a) Approve the Business Plan 2022/23, including the vision, strategic vision goals, values, and actions for the year.
- b) Approve the Pension Fund budget for 2022/23 shown in Appendix 1 totalling £4.608m (0.15% of total fund value).

ANDY BROWN

Treasurer to the Pension Fund

Report Author: Jennifer Devine, Head of Wiltshire Pension Fund

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

Appendices

Appendix 1 – Pension Fund Budget 2022/23

Appendix 2 – Budget monitoring for 2021/22

Appendix 3 – SWAP internal audit recommendations

Appendix 4 – Pension Fund Business Plan 2022/23

Appendix 1 - Pension Fund Budget 2022/23

Wiltshire Pension Fund Budget

| | 2019/20 | 2020/21 | 2021/22 | | 2022/23 | 2023/24 | 2024/25 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| £000's | Actual | Actual | Forecast | Budget | Budget | Budget | Budget |
| Investment administration staffing costs | 119 | 114 | 205 | 210 | 198 | 202 | 206 |
| Investment administration travel/conferences/training costs | 0 | 2 | 5 | 8 | 8 | 8 | 8 |
| Total investment administration costs | 120 | 116 | 210 | 217 | 206 | 210 | 214 |
| Pension scheme administration staffing costs | 996 | 1,036 | 1,150 | 1,208 | 1,267 | 1,293 | 1,319 |
| Staff training | 19 | 22 | 23 | 23 | 28 | 29 | 30 |
| Corporate charges | 311 | 311 | 311 | 311 | 311 | 317 | 311 |
| Pension administration systems and data cleansing | 310 | 354 | 350 | 357 | 622 | 415 | 427 |
| Other administration costs | 107 | 51 | 54 | 89 | 970 | 91 | 94 |
| Total scheme administration costs | 1,743 | 1,775 | 1,888 | 1,988 | 3,199 | 2,144 | 2,181 |
| Oversight & governance staffing costs | 246 | 180 | 221 | 221 | 238 | 243 | 248 |
| Training and conferences | 8 | 0 | 24 | 27 | 28 | 24 | 25 |
| Subscriptions, memberships and levies | 34 | 32 | 46 | 48 | 36 | 37 | 38 |
| Actuarial services | 214 | 154 | 129 | 153 | 319 | 146 | 151 |
| Audit | 10 | 37 | 27 | 27 | 83 | 29 | 29 |
| Legal fees | 13 | 11 | 30 | 48 | 49 | 51 | 52 |
| Advisory fees | 142 | 196 | 323 | 298 | 279 | 287 | 287 |
| Corporate charges & other costs | 149 | 165 | 146 | 146 | 146 | 147 | 146 |
| Total oversight & governance costs | 815 | 775 | 947 | 969 | 1,178 | 964 | 976 |
| Local Pension Board costs | 14 | 14 | 25 | 25 | 25 | 26 | 24 |
| Total operational running costs | 2,692 | 2,679 | 3,070 | 3,200 | 4,608 | 3,343 | 3,395 |
| Number of Members | 80,824 | 82,454 | 82,454 | 82,454 | 82,454 | 82,454 | 82,454 |
| Total Running Cost per member (Admin & Governance) | £ 31.83 | £ 31.09 | £ 34.69 | £ 36.17 | £ 53.39 | £ 38.00 | £ 38.57 |

Appendix 2 – Budget Monitoring 2021/22

Wiltshire Pension Fund Budget 2021/22

| £000's | Prior Year | | 2021/22 | | | |
|---|----------------|----------------|----------------|----------------|---------------|------------|
| | 2019/20 | 2020/21 | Forecast | Budget | Variance | % Variance |
| Investment administration staffing costs | 119 | 114 | 205 | 210 | 5 | 2% |
| Investment administration travel/conferences/training costs | 0 | 2 | 5 | 8 | 3 | 34% |
| Total investment administration costs | 120 | 116 | 210 | 217 | 8 | 3% |
| Pension scheme administration staffing costs | 996 | 1,036 | 1,150 | 1,208 | 58 | 5% |
| Staff training | 19 | 22 | 23 | 23 | 0 | 0% |
| Corporate charges | 311 | 311 | 311 | 311 | 0 | 0% |
| Pension administration systems and data cleansing | 310 | 354 | 350 | 357 | 8 | 2% |
| Other administration costs | 107 | 51 | 54 | 89 | 34 | 39% |
| Total scheme administration costs | 1,743 | 1,775 | 1,888 | 1,988 | 100 | 5% |
| Oversight & governance staffing costs | 246 | 180 | 221 | 221 | 0 | 0% |
| Training and conferences | 8 | 0 | 24 | 27 | 3 | 12% |
| Subscriptions, memberships and levies | 34 | 32 | 46 | 48 | 1 | 3% |
| Actuarial services | 214 | 154 | 129 | 153 | 24 | 16% |
| Audit | 10 | 37 | 27 | 27 | 0 | 0% |
| Legal fees | 13 | 11 | 30 | 48 | 18 | 38% |
| Advisory fees | 142 | 196 | 323 | 298 | (24) | -8% |
| Corporate charges & other costs | 149 | 165 | 146 | 146 | 0 | 0% |
| Total oversight & governance costs | 815 | 775 | 947 | 969 | 23 | 2% |
| Local Pension Board costs | 14 | 14 | 25 | 25 | 0 | 0% |
| Total operational running costs | 2,692 | 2,679 | 3,070 | 3,200 | 130 | 4% |
| Number of Members | 80,824 | 82,454 | 82,454 | 82,454 | | |
| Total Running Cost per member (Admin & Governance) | £ 31.83 | £ 31.09 | £ 34.69 | £ 36.17 | £ 1.48 | 4% |