

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE

6 October 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.

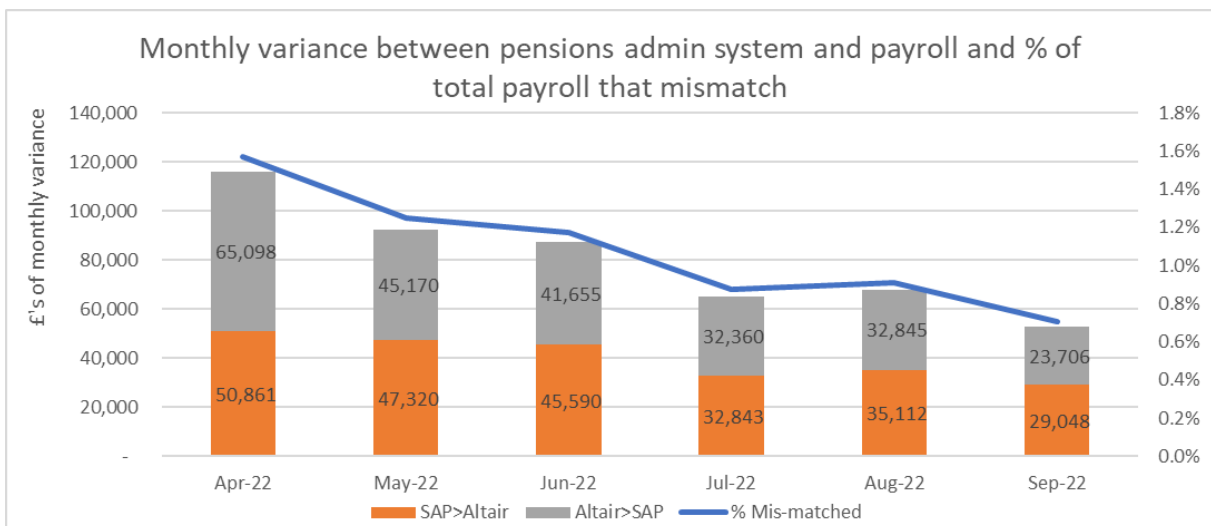
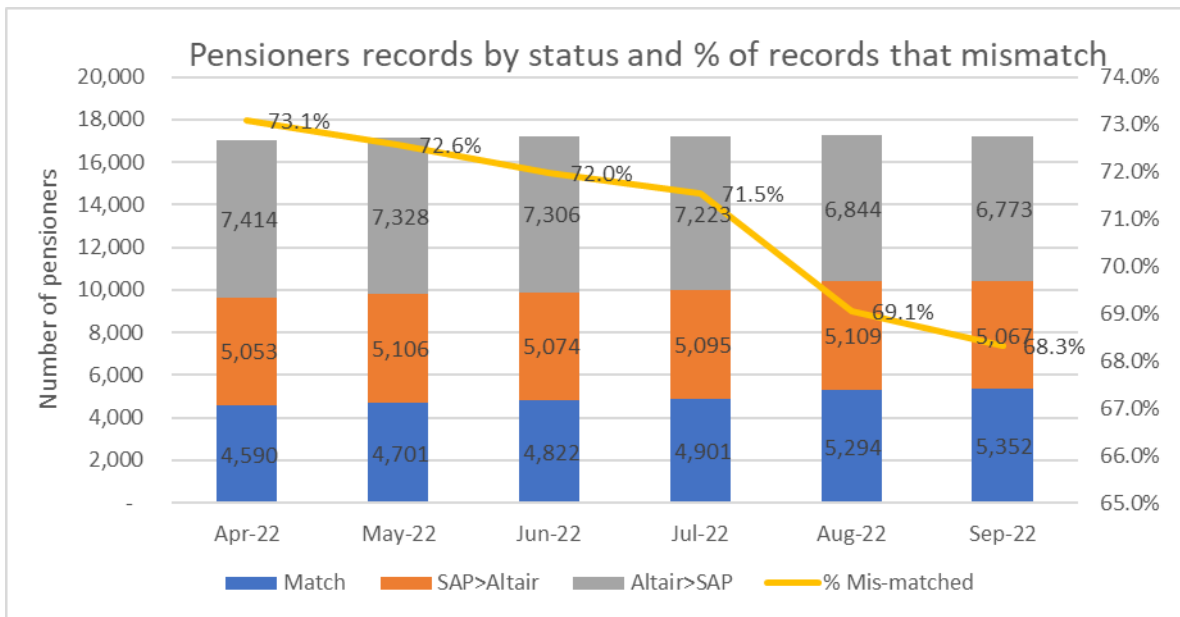
Key Considerations for the Committee / Risk Assessment / Financial Implications

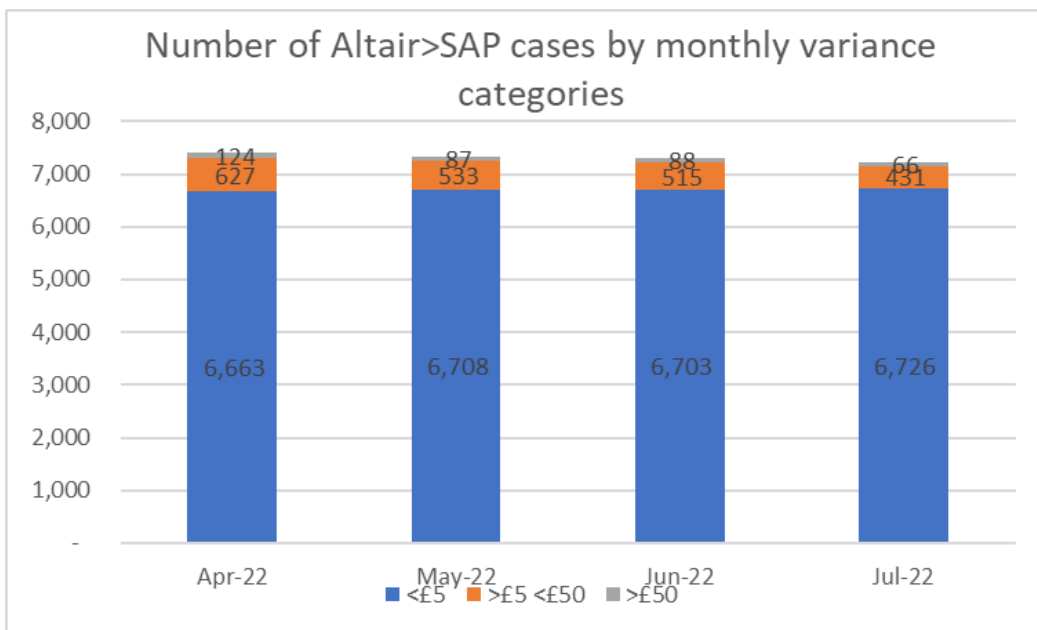
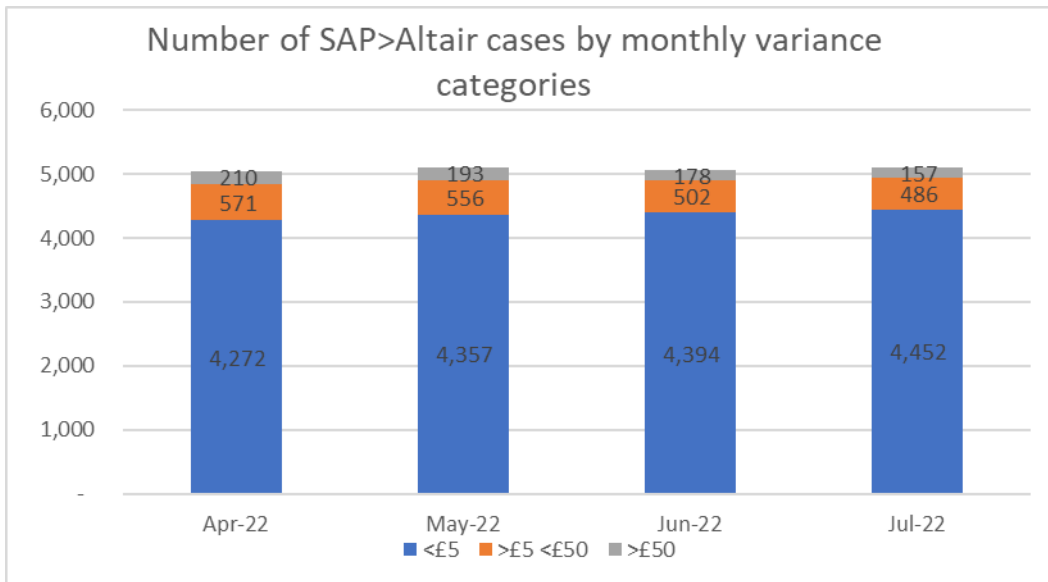
Accounts and Annual Report

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. 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. This was reported at the previous committee meeting and the national delay remains. Given the extended national delay this will have further delayed the audit of the councils 2020/21 and 2021/22 accounts.
5. The external auditors have commenced their audit of the pension fund accounts and annual report for 2021/22, this is planned to be completed by the end of November 2022 and be reported to the Committee in December 2022.

Payroll reconciliations

- 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.





8. This report categorises all cases <10p 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.
9. 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 on how to use the system will take place in October 2022 and following this a phased roll out plan will be developed 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 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
	Aug-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.	Work ongoing to consolidate a single schedule of employers contribution rates and formalise the process for ensuring this remains up to date.
2. Payroll	Yellow	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. 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.	Procurement for a manager to deliver the investment portfolio to allow implementation of the treasury management policy is almost complete, new provider expected in November 2022.
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 and discrepancies have been found across all items.	Administration team working with finance team to resolve discrepancies.
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.

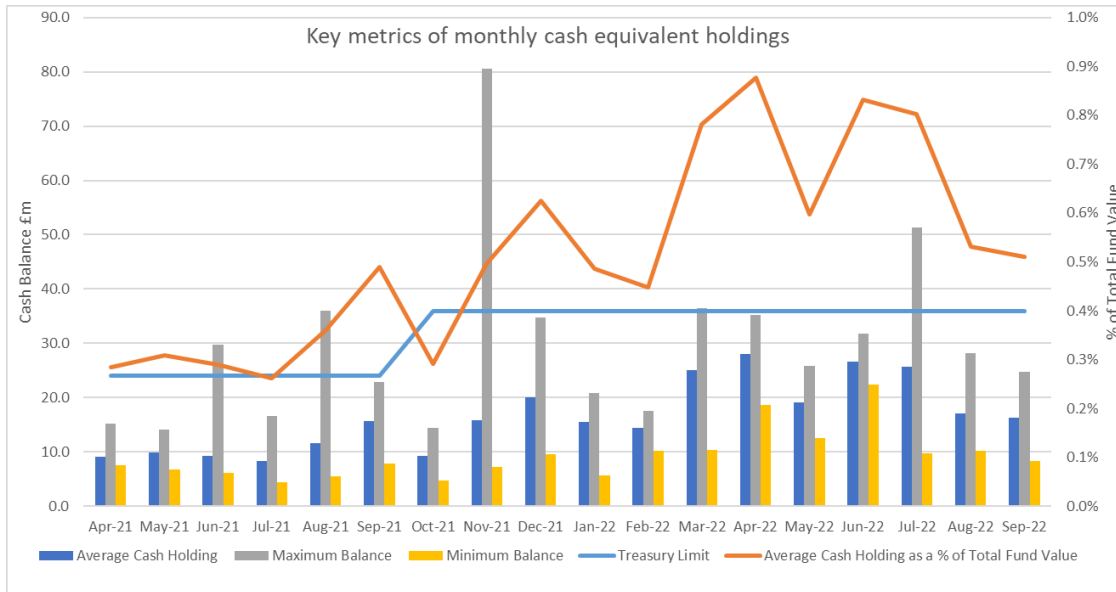
Quarter	Payroll Month	Paid contributions £000's				Average late and overdue contributions total days		Number of employers payments status		
		Total Payment	On Time Payment	Late Payment	Late Payment %	Days Late Recd	Days Overdue	On time	Late	Not Received
Q1	Apr-22	8,099	5,256	2,842	54.1%	19.4	-	156	18	-
Q1	May-22	7,732	4,723	3,003	63.6%	7.9	-	154	20	-
Q1	Jun-22	7,815	7,794	22	0.3%	18.9	-	164	10	-
Q2	Jul-22	7,836	6,993	66	0.9%	5.8	-	167	6	-
Q2	Aug-22	7,516	7,265	250	3.4%	1.0	8.8	162	2	8
Total	Q1	23,646	17,773	5,867	33.0%	15.4	-	474	48	-

14. Eight payments remain outstanding as at 26th September 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.

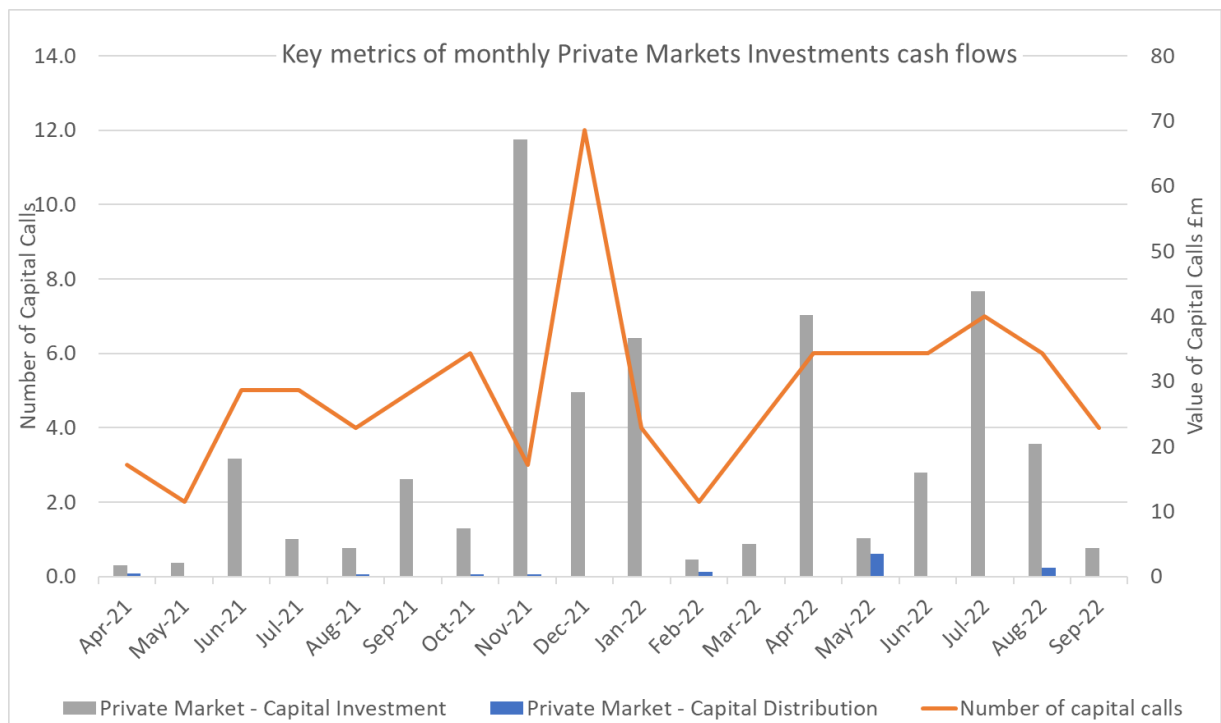
15. The following table provides further details for performance dashboard item 3. Cashflow, banking and capital calls. This table sets out the actual and forecast cashflow movements for 2022/23. The table separates the cashflow between operating cashflow, such as income from employers and payment of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

Summary Cashflow statement for Wiltshire Pension Fund													
£m equivalent	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	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	11.9	16.1	(4.3)	5.3	3.2	4.2	5.5	28.7
Operating Income	39.9	6.9	11.6	8.8	8.7	8.6	7.8	7.8	7.8	7.8	7.7	7.8	131.2
Operating Expenditure	(9.5)	(10.9)	(9.1)	(11.4)	(10.0)	(10.1)	(9.8)	(10.1)	(13.2)	(10.1)	(9.8)	(10.1)	(124.3)
Investing Private Market - Capital Investment	(40.1)	(5.9)	(15.9)	(43.8)	(20.4)	(4.3)	(20.0)	0.0	(10.9)	(10.9)	(10.9)	(10.9)	(193.9)
Investing Private Market - Capital Distribution	0.0	3.5	0.0	0.0	1.3	0.0	1.6	0.0	2.2	2.2	2.2	2.2	15.3
Investing Listed Market - Capital Withdrawal	0.0	13.3	10.0	34.0	23.0	10.0	0.0	12.0	12.0	12.0	12.0	12.0	150.3
Investing Listed Market - Capital Investment	0.0	0.0	0.0	0.0	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.8)
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	11.9	16.1	(4.3)	5.3	3.2	4.2	5.5	6.5	6.4
Maximum Balance	35.2	25.9	31.8	51.4	28.1	24.7	17.0	13.3	11.4	12.4	13.4	14.7	
Minimum Balance	18.6	12.6	22.4	9.7	10.2	8.3	(4.4)	5.3	3.2	4.2	5.5	6.5	
Average Cash Holding	28.0	19.1	26.6	25.7	17.0	16.4	6.9	8.2	5.9	7.1	8.3	9.3	
Average Cash Holding as a % of Total Fund Value	0.9%	0.6%	0.8%	0.8%	0.5%	0.5%	0.2%	0.3%	0.2%	0.2%	0.3%	0.3%	
Number of capital calls	6	6	6	7	6	4	1	0	0	0	0	0	36
Number of listed market withdrawals	0	1	1	1	2	1	0	0	0	0	0	0	6
Maximum Balance	35.2	25.9	31.8	51.4	28.1	24.7	17.0	13.3	11.4	12.4	13.4	14.7	
Minimum Balance	18.6	12.6	22.4	9.7	10.2	8.3	(4.4)	5.3	3.2	4.2	5.5	6.5	
Net Cashflow from Operating	30.4	(3.9)	2.4	(2.6)	(1.3)	(1.5)	(2.0)	(2.3)	(5.4)	(2.3)	(2.1)	(2.3)	7.0
Net Cashflow from Investing	(40.1)	10.9	(5.8)	(9.8)	3.2	5.7	(18.4)	12.0	3.3	3.3	3.3	3.3	(29.1)

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. Procurement of an investment manager to run the SALAMI (Strategic allocation to Liquid asset matching investments) portfolio is underway, appointment is expected by the end of Q4 2022/23. 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.



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. It shows the large number of discrepancies between the two systems. Work on procuring an outsource provider to address cases over £5p/m is complete and they will commence work soon. 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. 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			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, officers are awaiting a response from the council team.
*RAYG = Red/Amber/Yellow/Green			
			Significant concern
			Not started
			Work has commenced
			Significant progress made
			Completed/situation under control

Wiltshire Pension Fund Running Costs 2022-23

20. The pension fund is forecasting an underspend of £43k versus the operating budget for 2022/23, based on known expenditure to the end of August 2022.
21. 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.
22. The main item of overspend relates to a small number of high value systems contracts incurring inflationary increases greater than included in the plan. This overspend is offset by lower than expected advisory fees, notably a saving on reporting previously provided by Mercer now provided by officers. Also no expenditure forecast for a selection process for a new renewable infrastructure manager.
23. The current forecast shows pay costs in line with plan, there is a risk of additional unbudgeted costs pending the outcome of national pay award negotiations. The staffing budget included a pay award of 2%, the current proposal; an increase for all staff of £1,925, would increase staffing costs by £64k for the year. Officers will continue to monitor the outcomes of this negotiation.
24. The fund is also commencing work to trial overtime to tackle operational backlogs not covered by the backlog clearance project. This will incur additional costs depending on uptake.
25. The budget for 2022/23 included large one off costs for the following projects, payroll reconciliation £350k, backlog clearance £450k, payroll implementation £308k. The forecast included expenditure matching the budget for these projects in 2022/23. Separate updates on the projects are included elsewhere on this agenda. Due to timing of the project start not all costs are expected to be incurred in 2022/23, therefore it is inevitable some costs will run into the 2023/24 budget.

Wiltshire Pension Fund Budget 2022/23							
£000's	Prior Year			2022/23			
	2019/20	2020/21	2021/22	Forecast	Budget	Variance	% Variance
Investment administration staffing costs	119	114	206	198	198	0	0%
Investment administration travel/conferences/training costs	0	2	24	8	8	(0)	-6%
Total investment administration costs	120	116	230	206	206	(0)	0%
Pension scheme administration staffing costs	996	1,036	1,152	1,267	1,267	0	0%
Staff training	19	22	18	28	28	0	0%
Corporate charges	311	311	311	311	311	0	0%
Pension administration systems and data cleansing	310	354	328	635	622	(13)	-2%
Other administration costs	107	51	28	971	970	(1)	0%
Total scheme administration costs	1,743	1,775	1,838	3,213	3,199	(14)	0%
Oversight & governance staffing costs	246	180	225	238	238	0	0%
Training and conferences	8	0	24	28	28	0	0%
Subscriptions, memberships and levies	34	32	44	36	36	0	0%
Actuarial services	214	154	147	319	319	(0)	0%
Audit	10	37	27	83	83	0	0%
Legal fees	13	11	28	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	916	1,121	1,178	57	5%
Local Pension Board costs	14	14	15	25	25	0	0%
Total operational running costs	2,692	2,679	2,998	4,565	4,608	43	1%
Number of Members	80,824	82,454	82,454	82,454	82,454		
Total Running Cost per member (Admin & Governance)	£ 31.83	£ 31.09	£ 33.58	£ 52.87	£ 53.39	£ 0.52	1%
SF3 Average Cost Per member			£ 48.47				
Underlying Running Costs Per member 22/23							
Valuation & SAA				207	207	0	
Altair Payroll & Implementation				308	308	0	
Payroll Reconciliation				350	350	0	
Backlog Clearance				450	450	0	
Systems Review				20	20	0	
Exclude One off Costs				1,335	1,335	0	
Underlying Running Costs				3,230	3,273	43	
Revised Running costs per member				£ 39.18	£ 39.69	£ 0.52	

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

27. There are no known implications at this time.

Proposals

28. 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