

Wiltshire Council

Wiltshire Pension Fund Committee

5 April 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. 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 in March 2022. The Wiltshire Council Audit Committee of 1 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 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 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. A full update on work undertaken on this important project is available in a separate update.
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.
11. A review is underway of this provision to provide a revised figure for the 2021/22 annual accounts expected to be much lower, due to many corrections to future payments now having been made.
12. 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

13. 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.
14. 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, to initially be utilised for new pensioners.

15. 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. Pensioners would be transferred in batches to the new system. More detail on these plans are included in the business plan and future papers.

Internal Audit and Specialist Reviews

16. SWAP have completed their internal audit, covered in Item 10 on this agenda.

17. 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 will help to inform the business plan and budget for 2022/23. Aon will attend this meeting to present their report alongside the Business Plan presented at this Committee.

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-21			
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. One small employer with an outstanding payment who has been contacted.	Work ongoing to tie together i-connect data submissions and contributions receipts to provide a single consistent record of employer information and payments.
2. Payroll	Yellow	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, number of pensioners on payroll in December 21 - 16,797. Improved monthly reconciliation of new starters and leavers each month implemented	Improvement required to the monthly Altair to SAP payroll reconciliation process to ensure ongoing accuracy of payroll payments.
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. One instance of treasury limit being exceeded to facilitate a large capital call. Low cash balance maintained to minimise cash drag on fund performance.	New treasury management policy in development for review and approval at March 22 Committee.
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, minor items being resolved prior to year end accounts process.	New process for VAT reconciliation is being implemented with the central council finance team following reconciliation which identified £300k owed to the pension fund.
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. The largest area of variance is within transfers in where £2.2m of payments received have not been recorded in the admin system.	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.
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.	Forecast expenditure for the fund remains on track with the operating budget, next detailed report expected at Committee in March 2022.	None
No material concerns	Green			
Minor issues outstanding	Yellow			
Major issues outstanding	Red			

18. 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	-	161	14	-
Q1	May-21	7,707	6,912	794	11.5%	18.5	-	160	15	-
Q1	Jun-21	7,613	7,606	7	0.1%	28.0	-	169	6	-
Q2	Jul-21	7,700	6,880	820	11.9%	15.1	-	165	7	-
Q2	Aug-21	7,538	6,766	772	11.4%	8.1	-	165	8	-
Q2	Sep-21	7,513	7,137	72	1.0%	9.6	-	162	13	-
Q3	Oct-21	7,634	6,936	698	10.1%	6.4	-	167	7	-
Q3	Nov-21	7,644	6,856	788	11.5%	14.8	-	162	13	-
Q3	Dec-21	7,628	7,474	154	2.1%	6.8	-	166	9	-
Q4	Jan-22	7,620	4,616	3,004	65.1%	4.6	30.0	157	16	2
Total	Q1	49,961	22,143	819	3.7%	22.2	-	490	35	-
Total	Q2	22,750	20,783	1,664	8.0%	11.0	-	492	28	-
Total	Q3	22,907	21,266	1,640	7.7%	9.4	-	495	29	-

19. Two payments remain outstanding as at 21st March 2022, both payments relate to one employer with the outstanding payment being chased and expected soon. The large late payment for January 2022 related to an employer who experienced difficulties with their payroll following a new system implementation which affected payment and data submission to the fund.

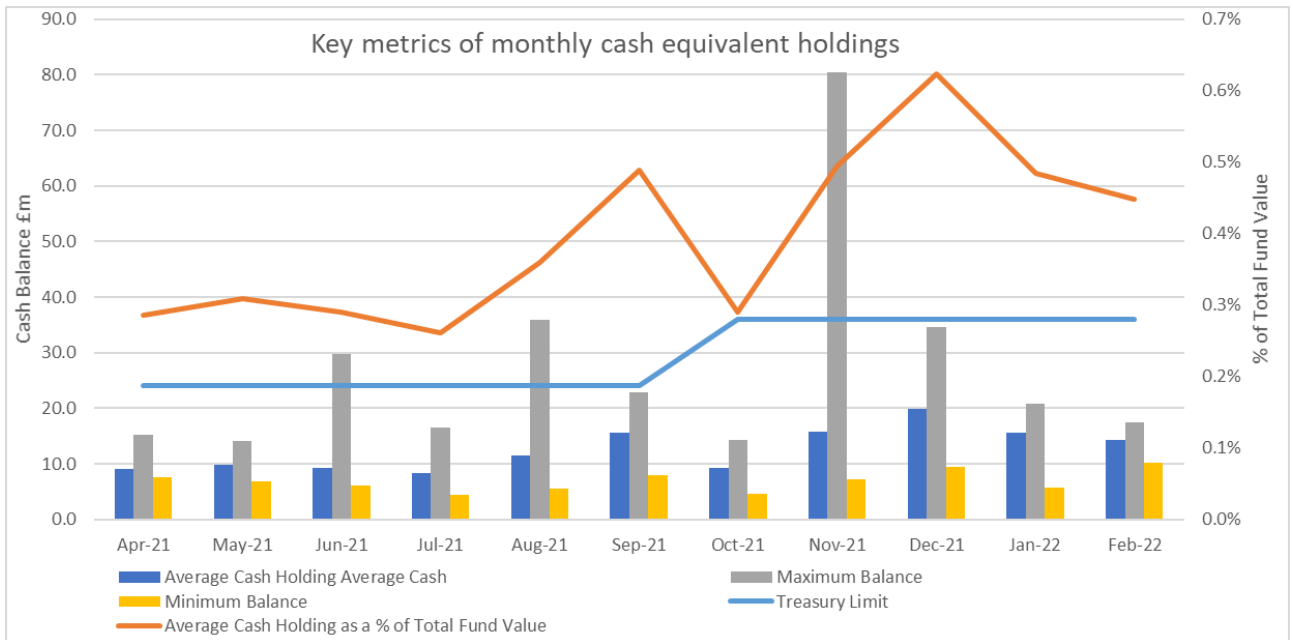
20. The majority of late payments are received within a day or two of the deadline and all employers who have not paid are contacted immediately after the deadline day to remind them to pay. Persistently late payments or employers where we have problems are escalated to the employer relationship manager for resolution or further training.

21. 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.

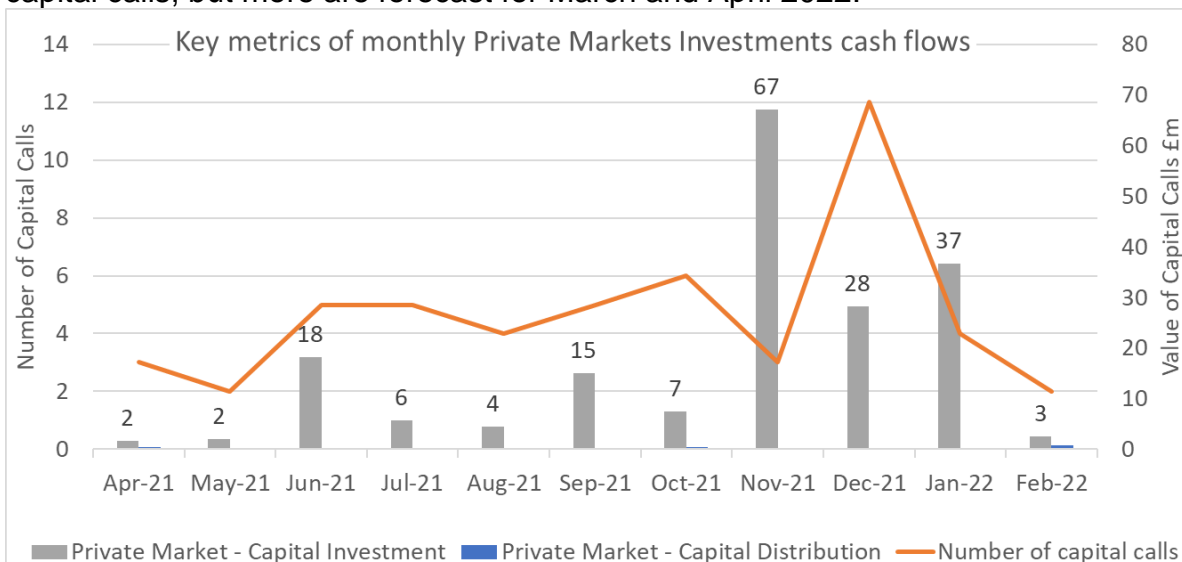
Summary Cashflow statement for Wiltshire Pension Fund													
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	
£m equivalent	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	2021/22
Opening Cash Balance	6.8	9.9	7.1	7.6	8.4	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	12.0	134.4
Operating Expenditure	(9.5)	(11.7)	(9.8)	(10.1)	(9.8)	(11.0)	(11.0)	(9.3)	(12.6)	(9.0)	(10.3)	(10.4)	(124.4)
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)	(4.6)	(193.5)
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	(100.4)	(171.4)
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	25.2	25.2
Maximum Balance	15.3	14.1	29.7	16.6	35.9	22.8	14.4	80.5	34.7	20.9	17.4	36.7	
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	23.6	
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%	0.7%	
Number of capital calls	3	2	5	5	4	5	6	3	12	4	2	3	
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)	1.6	10.0
Investing	(24.5)	(0.1)	1.9	2.4	12.9	(9.3)	2.4	4.2	11.9	(4.6)	(1.8)	13.0	8.3

22. 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.

23. In the last quarter there was a single day breach of the treasury limit in November 2021 which was flagged to Committee ahead of it happening, the cash balance reached £80.6m. This was due to a single £66m capital call for the secured income portfolio. The cash was held for a single day with our custodian.



24. 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 has seen a reduction in volume and value of capital calls, but more are forecast for March and April 2022.



25. Officers are working on an updated treasury management policy and strategy for ensuring sufficient liquid assets are available to facilitate the investments into the private markets portfolios. The increased treasury limit of £36m approved in September 21 has assisted the fund to hold sufficient cash to meet the calls, however this is not a sustainable long-term solution. The fund is disinvesting from other investments to provide cash to meet the calls, this disinvestment process has a lead time which is very close to the time period available to meet the capital call, which is a contractual obligation. This increases the risk of missing the deadline which would be bad for the fund's reputation and for future access to investment opportunities. Currently cash is held in money market funds which are highly liquid but offer negligible returns. Holding cash here lowers returns for the overall fund, acting as a 'cash drag'. Other liquid options are being explored by officers to provide a suitably sized liquid source of funds to meet capital calls whilst minimising cash drag, this could include Exchange Traded Funds (ETF's).

26. Officers have well progressed proposals for a revised treasury management policy however due to a procurement issue Officers plan to bring this to the July 2022 Committee for review and approval.

Planned improvements and key items to monitor

27. 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 for new pensioners only, and a one-off payments system within Altair. Existing 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.</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</p>

Improvement / Issue	Last RAYG* rating	Current RAYG* rating	Comments
			new system is in development to meet the Council and pension fund needs.
Completeness and timeliness of invoicing			Ensuring processes are in place such that all pension strain costs, added years and FRS102 items are charged to employers in a timely manner and paid promptly. New process being implemented to ensure FRS102 invoices are raised.
An overall review of reconciliations, and improved management information			Reconciliations are being reviewed and where required redesigned. Summary performance measures for each reconciliation are reviewed monthly and a new feedback process to address discrepancies will be established with the administration team.
Private markets investment transactions			<p>Inconsistent information is being received from Brunel regarding the accounting detail of the private markets drawdowns and distributions. This could affect the accuracy of data being recorded on State Street, which in turn could impact the Pension Fund's annual accounts.</p> <p>Examples were provided to Brunel who were able to review and correct and update their processes. Ongoing checks being undertaken by WPF of Brunel reporting via new cashflow model.</p>
Cashflow forecasting and monitoring			New cashflow forecasting model implemented. Outcomes being used to support new treasury policy strategy.
Treasury management			<p>New cashflow forecasting model and private markets cash flows provide the information required to model a new solution.</p> <p>Revised strategy well progressed and expected to be brought to the July 2022 Committee.</p>
Committee reporting dashboard			Performance summary included in this report.

Improvement / Issue	Last RAYG* rating	Current RAYG* rating	Comments
*RAYG = Red/Amber/Yellow/Green			
			Significant concern
			Not started
			Work has commenced
			Significant progress made
			Completed/situation under control

Environmental Impacts of the Proposals

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

29. There are no known implications at this time.

Proposals

30. 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.

Jennifer Devine

Head of Pension Fund

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