

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT
13:30 HOURS ON 1 FEBRUARY 2011 AT TWEEDBANK**

In Attendance:

James Taylor	Chair
Julia Edey	Non-executive Director
Alex Smith	Non-executive Director
Neville Mackay	SPPA Chief Executive
Ian Clapperton	Director of Operations
Chris Fenton	Director of Corporate Services
Pamela Brown	Director of IT and Major Projects
Lila Tereszczyn	Minutes

1. Apologies and Introduction

- 1.1 Mr Taylor welcomed everyone to the meeting.
- 1.2 Apologies were received from Alyson Stafford.

2. Minutes of Last Meeting and matters Arising (25.2)

- 2.1 The minutes of the previous meeting on 26 October 2010 were agreed and noted.
- 2.2 It was noted that all action points were either cleared or included on the agenda.

3. Audit Committee Report (oral)

- 3.1 Mr Smith reported on the main issues arising from the Audit Committee meeting on 1 February 2011.
- 3.2 Mr Smith was reassured that additional resource would be provided by Internal Audit to bring the audit programme back on track. He confirmed that the Assurance Statement would be available for the annual accounts.
- 3.3 Mr Smith noted that the Committee had supported the idea of asking the Government Actuary's Department (GAD) to meet with both the External Management Board and Audit Scotland in order to explain and discuss the arrangements for the provision of expert actuarial advice. Mr Mackay agreed to set these up.
- 3.4 Mr Smith advised that the Audit Committee had agreed to amend the levels of risk associated with the residual ranking to Risk 10 (Agency disruption caused by unexpected external or internal events) from green to amber.

3.5 To reflect best and common practice Mr Smith also recommended the Audit Committee be renamed Audit and Risk Committee. The External Management Board agreed to the name change.

4. Agency Progress Report to 31 December (incl. Q3 progress against Business Plan Targets) (paper 25.3)

4.1 Mr Mackay reported on the changes to the Scottish Government senior management structure. He explained that the Agency's programme budget funding was now the responsibility of DG Enterprise and Environment, although he had in effect delegated the day to day agency oversight role to DG Finance. Mr Mackay said he would brief the incoming DG Enterprise and Environment on the work of the Agency as soon as a permanent appointment had been made.

4.2 Mr Mackay then explained the organisational changes that were due to take place within SPPA from 1 April 2011. These primarily involved the transfer of some of the Corporate Service functions currently undertaken by Mr Fenton's Directorate to Mrs Brown. SPPA Staff had accepted this change positively and were also aware of the need for further structural changes due to take place during the course of the year.

4.3 Mr Clapperton then reported on the Efficiency review carried out by the Operations Directorate. This was a major staff-led exercise which had identified a number of efficiency gains that could be derived from improving pension administration processes. Although this was still work in progress, and the recommendations had yet to be formally approved by the Senior Management Team, staff had engaged enthusiastically with the review and a number of excellent ideas and proposals had been identified.

4.4 Mr Clapperton also reported on progress with the Operations Directorate structural review. He explained that although this supported the efficiency agenda, its main focus was on ensuring that the Directorate organised itself in a way that was appropriate for a post- AXISE environment. The main conclusion was that the Directorate should move to integrating its STSS and NHS teams by function. He explained the benefits of the proposed structural changes on efficiency, quality, and service delivery. He also noted that the merging of staff and skills would enable peaks and troughs in workloads to be handled more effectively, and would allow for more flexible staff deployments.

4.5 Mrs Edey sought clarification on the data protection issues associated with the proposal to make the Pensioner "Club Together" magazine available to NHS and STSS pensioners. Mr Clapperton explained that legal advice was being sought and that no final decision would be taken before this had been properly considered. It was likely that the Agency would be required to provide Members with the option to opt in or out before going ahead. The Agency would have control of the management of issue of the magazine.

4.6 Mrs Brown then provided an update of the AXISE system. The Project Board had last met on 5 November and had formally closed the Pension Change Project. Future support and development for the AXISE system would be mainstreamed

within the ISU and Operations Directorates. Any future major changes to the system would be overseen by the Agency's Programme Board, which had the responsibility for overseeing all major projects within the organisation. She then drew the Board's attention to the results of the options analysis regarding the potential development of online member services; and to the results of an assessment of the case for upgrading to the Altair system. In both cases, the Board endorsed the decisions reached by the Agency's Senior Management Team.

4.7 Mr Dawtry then reported on the Audit Scotland review of Public Sector Pension Schemes. He explained that the Agency had worked as closely with Audit Scotland and the Advisory Group as time and protocols allowed. The Agency had expressed concerns about aspects of the clearance draft received before Christmas and had subsequently met with Audit Scotland to discuss these.

4.8 The Auditor General would publish a report of Audit Scotland's review "The cost of public sector pensions in Scotland" in early February. The Board discussed the emerging recommendations, particularly in relation to Agency governance issues, and noted that it had already agreed to discuss the way in which actuarial services were provided at its next meeting. Mr Taylor noted that as part of this consideration, the Agency had been in discussion with the Government Actuary's Department regarding the extension of the current GAD contract, which was due for renewal on 31 March.

4.9 Mrs Edey sought an update on the Healthy Working Lives programme which was not included in the report. Mr Fenton explained that the Agency was currently pursuing the HWL silver award accreditation and the evaluation report would be submitted in May.

4.10 On the number of complaints handled by Operations and Policy Directorates Mr Smith advised that it would be helpful if in the future, trends were recorded for comparison purposes. Mr Clapperton agreed to ensure this took place.

4.11 Mr Mackay also drew the Board's attention to the progress achieved by the end of Q3 against the Agency's twenty eight key business targets: sixteen had been met, nine partially met and three not met of which two were outside the direct control of the Agency as a result of the UK Government's Hutton review.

4.12 Mr Fenton referred to the HR metrics and sick absence reports. Figures for sick absence indicated that there was still room for improvement, and he reminded the Board that the Agency intended to incorporate the effective management of sick absences within the list of mandatory tasks to be included within each manager's forward job objectives for 2011-12. A report which could help inform the Agency's approach towards managing absence was currently under preparation. The Board would have sight of the final report once available.

5. Quality Assurance Report Q3 (paper 25.3a)

5.1 Mr Clapperton reported on quality assurance for the last quarter noting key points covering payment accuracy/timeliness checks; team leader authorisations; technical training feedback; audit checks; complaints;

communication/correspondence checks and change control. He also noted that performance evaluation, following previous comments from the Agency's external auditors, was now part of the Quality Assurance process. A review of the strategy targeting key areas would be carried out for next year.

6. SPPA Finance Report Q3 (paper 25.4)

6.1 Mr Fenton presented the financial position of the pension schemes at the end of December 2010. For the Schemes he noted the combined net resource expenditure was close to budget, while the forecast outturn was 0.1% below the revised budget.

6.2 Mr Fenton reported that since the introduction of the EPICOR system the level and value of outstanding debt recorded since April was £1.7m compared to £1.1m the previous year. He explained that the new policy on debt recovery now allowed for everything to be brought to the attention of Finance and logged onto EPICOR. Although the system allowed for greater transparency, it also supported completeness and this had resulted in the increase in the recorded debt figure.

6.3 Mr Fenton then reported on the Agency finances. The Agency's financial settlement for 2011-12 remained unchanged from 2010-11. The SMT was currently developing its full budget for 2011-12 and this would be shared with the Board once completed. In respect of 2010-11, the Agency was forecasting an underspend of circa £80k although this figure might change if, for example, the Scottish Government decided to run another early release scheme for staff.

7. Agency Governance and Business Plan Arrangements 2011-12 (paper 25.5)

7.1 Mr Mackay explained that the Agency's Corporate Governance arrangements for 2011-12 reflected the requirement for Ministers to approve the Agency's Framework document, Corporate Plan and Key Performance Indicators. As the Agency had only been allocated a financial settlement covering one year and because of a number of significant uncertainties including the outcomes of the Hutton review and the Christie review of the public services in Scotland, he recommended the option of updating the current KPIs for 2011-12 only; of undertaking a light refresh of the Framework Document; of combining the 2011-12 Business Plan with the Agency Corporate Plan; and to revisit all of these later in 2011, with a view to developing a Corporate Plan to 31 March 2015 once the various uncertainties had been resolved.

7.2 Mr Mackay explained that the business planning process was already underway within the Agency with the forthcoming budget being discussed on 2 February to ascertain clear tasks and identify specific projects. He advised that a draft Business Plan would be presented to staff by 1 April and a copy would be forwarded to the External Management Board for comment. The Board discussed and agreed this approach.

Action: Mr Mackay to forward a draft version of the Business Plan to the External Management Board for comment.

8. Stakeholder Survey 2010 Results (paper 25.6)

8.1 Mr Fenton presented a report setting out an analysis of the stakeholder survey results. This was the fifth annual survey, which focussed on a qualitative assessment of the Agency's performance. The Board discussed the findings and agreed the proposed action plan. It was noted that the needs of employers and members were to some extent incompatible, and that the Agency had decided to develop an organisational structure which tended to place the needs of the member above those of the employer. The Board discussed the issues associated with this choice and endorsed the Senior Management Team's approach to this issue.

9. Pension reform progress (paper 25.7)

9.1 Mr Dawtry provided an update on public service pensions reform covering the announcement on annual indexation liabilities; policy changes affecting both the Pensions Tax Lifetime Allowance and the amount of Annual Tax Relief that pension scheme members are eligible to receive; the change in indexation based on RPI to CPI; Lord Hutton's independent review; and the proposed short term increase in employee contribution rates. The Board noted the complexity of the agenda and commended the Agency on its approach in terms of the way in which it was working with stakeholders and Ministers in order to develop an informed debate which might ultimately resolve these issues.

10 HMRC Taxation Issues (paper 25.8)

10.1 Mr Clapperton reported on the Pension Tax Relief Project. In October 2010 the UK Government announced proposed changes to the legislation determining Pension Contribution Tax Relief. The Agency, as administrators to the NHS Superannuation Scheme and Scottish Teachers' Superannuation schemes, would have to implement these legislative changes. Mr Clapperton confirmed that the Agency had significant concerns about the administrative complexity of the proposals, the resource implications, the timetable, and the governance and accountability implications. These had been reflected in its response to the HMRC consultation exercise. HMRC are yet to respond to this.

10.2 The Board discussed the Agency's concerns and Mr Taylor agreed to raise these with Alyson Stafford at their next meeting.

Action: Mr Taylor to discuss HMRC taxation issues with Ms Stafford

11 External Management Board Meeting Planner (paper 25.9)

11.1 The Board agreed the dates of future meetings.

12 Any Other Business

12.1 There were no items raised.

13 Date of Next Meeting

13.1 28 April 2011

Summary of Action Points - to be completed

Action Point	Paragraph	Responsible Officer
Mr Mackay to forward a draft version of the Business Plan to the External Management Board for comment.	7.2	Mr Mackay
Mr Taylor to discuss HMRC taxation concerns with Ms Stafford	10.2	Mr Mackay