SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT 13:230 HOURS ON 17 APRIL 2012 AT TWEEDBANK

In attendance:

James Taylor	Chair
Julia Edey	Non-executive Director
Alex Smith	Non-executive Director
Colin Maclean	Scottish Government Director of Financial Strategy
Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of Operations
Marian Chapman	Director of Corporate Services
Chris Fenton	Director of Finance
Chad Dawtry	Director of Policy
Lila Tereszczyn	Minutes

1. Apologies and introduction

1.1 Mr Taylor welcomed everyone to the meeting.

1.2 Apologies were received from Alyson Stafford. Colin Maclean was attending on her behalf.

2. Minutes of last meeting and matters arising (30.2)

2.1 The minutes of the previous meeting on 7 February 2012 were agreed and noted.

2.2 The summary of the action points were addressed:

2.3 (4.3) Following discussions between Mr Mackay and Mr Taylor from Audit Scotland SPPA would be developing proposals for benchmarking financial data against that provided by similar pensions administrators in England and Wales. Audit Scotland agreed that it would assist through liaising with the National Audit Office in England and Wales.

2.4 (6.3) This item on forecast projections was included on the agenda as a supplement to paper 30.6.

3. Audit and Risk Committee Report (paper 30.3)

3.1 Mr Smith reported on the main issues arising from the Audit and Risk Committee meeting on 3 April 2012 and included in this an assessment of those risks which had been graded as red within the Agency risk register.

3.2 Mr Smith confirmed that the Audit and Risk Committee conducted, in private, their annual self-assessment by the Committee members and the Chief Executive.

A formal annual report of their activities would be tabled at the next Audit and Risk Committee meeting in July.

3.3 Mr Maclean asked how widespread the problem was for employers in implementing increases in contributions from 1 April 2012. Mr Smith advised that it was too early to judge. Mr Fenton was asked to provide a progress report to the next Audit and Risk Committee meeting.

3.4 Mr Maclean also asked about the process by which financial estimates of scheme costs were provided to HM Treasury. Mr Mackay explained this process, and noted the degree of error which was generated by revisions to factors which were unknown at the point at which the estimates are first provided, such as the discount rate and the rate of inflation. He noted that the Agency would develop its thoughts on the scope for improving the accuracy of these estimates as part of its 2012-13 work programme.

3.5 Mr Taylor made reference to the working relationship of Audit Scotland and Internal Audit with the Agency. Mr Smith indicated that there was strong support from both bodies although he was a little disappointed by the lack of senior representation at the last Committee meeting. Mr Mackay commented that audit work played a very significant role in helping to shape the Agency's business improvement agendas.

4. Agency Progress Report (incl. Q4 progress against Business Plan Targets) (paper 30.4)

4.1 Mr Mackay reported on the Agency's progress report up to 31 March 2012. The Agency had met 24.5 of its business tasks and not achieved 4.5. This represented an achievement of 84% of the target set at the beginning of the year. When adjusted to exclude those targets which were not achieved as the result of circumstances outside the Agency's control, for example policy decisions made by the UK Government, then the Agency achieved 90% of its targets. Mr Mackay asked the board for its views on whether this represented satisfactory progress, and on how such targets might be expressed in future planning documentation.

4.2 The External Management Board discussed the achievements of the key performance indicators and business plan targets. It agreed that the performance across the year had been strong. It recognised that the Agency was unlikely to ever meet 100% of its targets, partly because of the impact of external events and partly because the Agency's targets were deliberately stretching. It was agreed that the current balance was about right and that given the volatile business environment, the current success rate of 90% of targets and tasks was extremely praiseworthy.

4.3 Mr Mackay reported on some of the broader funding issues associated with the pension reform agenda. The amount of resource allocated to the Agency in 2012-13 was insufficient due largely to a significant increase in actuarial costs. A request for additional funding was under discussion with Scottish Government Finance and those Directorates General responsible for public sector workforce pension schemes. A programme board had now been established involving SG Directors to handle the corporate risks associated with the pension reform agenda, and this represented one of those risks. The board noted the seriousness of this issue and asked to be kept informed of developments.

4.4 Mr Taylor noted that he had circulated an email prior to the Board meeting on the desirability of setting up a programme board to manage pension reform. This would be discussed further at the end of the meeting.

4.5 Mr Mackay then asked Mrs Brown to provide a progress report on the main projects currently being undertaken by Operations. She explained that excellent progress was being made with the projects on taxation and auto enrolment; and that similar progress had been made with the data cleanse project. The Board recognised that this latter project in particular was a huge achievement and credit went out to the team involved. The launch of the first phase of the web services project had also been completed successfully. The Club Together newsletter had now been issued and this resulted in recurring annual savings of £60k. Although pensioners were provided with a new magazine and a range of offers for various services, the Agency did not promote any of the products. A small number of minor complaints had been received regarding junk mail and these were being addressed.

4.6 Mrs Chapman provided an update on AXISe. The relationship with the supplier had improved mainly due to the appointment of a new account manager. A delivery timetable was agreed with operations with arranged monthly review meetings. Mr Mackay noted that the lack of functionality in past business had been fixed and the backlog of support log errors to be fixed was reducing.

4.7 Mr Mackay drew the Board's attention to the reduction in sickness absence to 8.3 days. The target had been to reduce sickness absence by 10% to 8.6 days. The aim this year was to maintain or improve upon this target further. The Board commended the Agency for the work HR and managers were undertaking to actively managing this.

5. Key Performance Annual Report (paper 30.5)

5.1 Mr Mackay provided an end of year report on the extent to which each of the Agency's four Directorates had met their key operational business performance targets. Operations had met all their targets except one; Corporate Services had met the majority of their targets, with the exception of that relating to the provision of IT, which had been missed as a result of a three day IT failure; Finance had a variable overall outcome but met most targets effectively. Policy had missed a greater proportion of targets than other Directorates, although this was largely explained by the highly volatile nature of the pension reform agenda and a significant increase in the amount of Ministerial correspondence.

5.2 Individual Directors were then invited to comment. Mrs Brown indicated the stretching energy consumption target could not be reduced all the time, however the aim was to maintain the current target of +/- 3% per annum.

5.3 Mr Fenton referred to the Agency's accounts which were signed eight days after the target date. More care was required in order to ensure that annual leave did not interfere with the key processes prior to the signing of the accounts. The Agency was also addressing the resourcing issues within the Finance team in the expectation that this would alleviate some of the growing work pressures which had emerged during the year.

Agency Finance Report (paper 30.6)

6.1 Mr Fenton presented the financial position of the Agency and of the pension schemes as at 31 March 2012. The Schemes' position reflected eleven months of the 2011-12 financial year as the employers' contributions for March would not be received and accounted for until late April. The net resource expenditure for the schemes combined was £27m (1%) below budget while the forecast under-spend was £23m (0.8%).

6.2 Mr Fenton provided information on the pension cash requirement. Income for both schemes was below budget, with the result that the forecast net cash outflow would be £334 million, £16 million higher than budget.

6.3 Mr Fenton reported on the pensions forecast expenditure and income provided to HM Treasury in January 2012. The Board were requested to note the basis of the forecasts; the methodology employed and the significant increase in net cash outflow of the Schemes over the forecast period.

6.4 Mr Maclean highlighted that the cash position was forecast to deteriorate despite the increased members' contributions over the next three years.

6.5 Mr Fenton reported on the number of overpayments invoiced. At the end of March outstanding debt amounted to £1.5m, of which £600k was being recovered by instalments. The average debtor days was computed at 147 days after adjustment for balances being recovered by instalment, compared with a target of 180 days. He considered that the team was doing a difficult job with remarkable success and should be congratulated.

6.6 Mr Fenton then advised on the Agency's finances noting that adjustments for accrued costs at 31 March 2012 were still being processed but that expenditure remained within budget, taking account of the increase of £95k in the expenditure limit.

6.7 Mr Fenton also noted that the budget allocation for 2012-13 allowed for an increase in staff resources, including a strengthening of the Finance Directorate. A request had been made for an additional allocation to meet increased actuarial costs associated with pension reform.

6.8 Mr Fenton then advised that the capital expenditure in 2011-12 was modest compared to prior years. The original 2011-12 capital budget of £489k had been reduced to £300k. The out-turn was likely to be around £206k, the further under-spend being attributable to the delay in the contributions web project, and to not incurring any contingency expenditure.

7. Agency Corporate Plan 2012-2015 (paper 30.7)

7.1 Following a discussion with the Scottish Government Fraser Figure, Alyson Stafford, on Friday 13 April, Mr Taylor reported that the Corporate and Business

Plans would be presented to Scottish Ministers for their formal approval shortly, and that the Scottish Government aimed to complete this process as quickly as possible.

7.2 Mr Mackay explained that the Corporate Plan being presented reflected the discussion undertaken by the Board on the third of February. Mr Taylor noted that the Corporate Plan stated the functions of the Agency and its current position.

7.3 The Corporate Plan 2012-15 was endorsed by the Board.

8. Agency Business Plan 2012 - 2013 (paper 30.8)

8.1 Mr Mackay presented the Agency Business Plan for 2012-13 which reflected issues raised during the informal meeting of the Board held on 3 April 2012. Following a review of the key tasks and the risk register, the Board endorsed the Agency Business Plan for 2012-13 as presented.

8.2 Mr Smith asked for the minutes to record that the financial allocations on which the business and corporate plans had been endorsed were as at September 2011. He also asked the Agency to reflect on Risk number 12 on finance staffing and to consider further debate at the next Board meeting.

8.3 Mr Mackay expressed his concern relating to Risks 4 and 8 on pension reform to the Board and had raised the issue with the Director General Finance.

8.4 Mr Maclean noted that the current staff levels were increasing by 10% and advised care to be taken in how the extra staff requirement was presented. It should be made clear that this was as a direct result of the considerable additional work generated by the pension reform agenda.

8.5 The Board were content for the Agency Business Plan 2012-13 to be submitted for Ministerial approval.

9. New Framework Document (paper 30.9)

9.1 Mr Mackay then presented the Agency's new Framework Document for 2012-15. This reflected both structural changes within Scottish Government which impacted upon the various accountability arrangements; and the revised SG guidance on Agencies and public bodies as discussed at a separate meeting in February 2012. The changes to the document were highlighted in yellow; and the omissions in red.

9.2 The Board discussed and endorsed the Framework Document to be submitted to Ministers for approval. They also requested copies of all three documents once approved.

10. Pension Reform Update (paper 30.10)

10.1 Mr Dawtry provided the Board with an update of the latest position of public sector pensions at a UK level and in Scotland. In March Cabinet Ministers met with union and employer representatives to set out the Scottish Government's approach to negotiating the long term reforms of the various schemes. On 28 March the Chief Secretary to the Treasury, the Right Honourable Danny Alexander MP, wrote to the Cabinet Secretary of Finance, Employment and Sustainable Growth, the result of which appeared to place additional constraints on Scottish negotiations. Scottish Ministers had responded seeking clarification.

10.2 Mrs Edey advised that it would be worth presenting under the statutory accounts a section on pension reform for the reader to understand.

11. Pension Reform Programme Board

11.1 Mr Taylor asked for an additional item to the agenda, that of establishing a Programme Board on the pension reform agenda. Mr Mackay explained that the purpose of the programme board would be to ensure the high level strategic management of the pension reform agenda, with a particular focus on the management of risks. The Programme Board would bring together Director level interests from across the SG and it was seen as a long term programme extending beyond the implementation of the reforms in 2015.

11.2 Mr Mackay suggested that a member for the External Management Board should sit on the Programme Board as this would provide an opportunity for more Board involvement. [Note: Mrs Edey subsequently agreed to take on this role.}

11.3 Following the Board meeting Mr Mackay and Mr Maclean agreed to hold a separate meeting to discuss the details of membership, terms of reference and working arrangements.

12. Meeting Planner (paper 30.11)

12.1 Mrs Edey was content with the meeting scheduled for 17 July.

13. Any Other Business

13.1 There were no items raised.

14. Date of Next Meeting

14.1 The next meeting of the External Management Board is 31 July 2012.

14.2 A private meeting followed with the External Management Board and Chief Executive.