

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT
13:30 HOURS ON 2 AUGUST 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
Chad Dawtry	Director of Policy
Chris Fenton	Director of Finance
Colin MacLean	Scottish Government Director of Financial Strategy
John Simmonds	CEM Benchmarking (item 8 only)
Lila Tereszczyn	Minutes

1. Apologies and introduction

1.1 Mr Taylor welcomed everyone to the meeting.

1.2 Apologies were received from Pamela Brown and Alyson Stafford. Colin Maclean was attending as a representative of the Fraser Figure. The External Management Board agreed to re-arrange the agenda items to accommodate Mr Simmonds' presentation and Mr Dawtry's early departure to travel to London.

2. Minutes of last meeting and matters arising (paper 27.2)

2.1 The minutes of the previous meeting on 26 April 2011 were agreed and noted.

2.2 It was noted that all action points were completed.

3. Benchmarking of SPPA Operational Services (paper 27.9)

3.1 Mr Mackay drew the Board's attention to the Agency's continued participation in the CEM benchmarking exercise. He explained that the Agency felt that benchmarking was an important feature of good governance. CEM were contracted to provide a report on how our core service compared with similar peer organisations both in the UK and abroad. This was their second annual report to the Agency.

3.2 Mr Clapperton explained that both he and Mr Dawtry were proactive in establishing benchmarking as a means of establishing global best practice, cost comparison and of improving stakeholder communication. A number of major service improvements had been taken forward following the production of the first CEM report in 2010. These had resulted in a significantly improved score being achieved in the 2011 report, with the Agency being adjudged to be a "high quality / low cost" organisation. Going forward benchmarking will become even more important and the Agency aims to establish ways to improve services through, for example, the web project and other improvements to our communication with members and stakeholders.

3.3 Mr Simmonds from CEM Benchmarking expressed his thanks to Mr Clapperton and the team in providing the data to populate his report. He expressed his congratulations to the Agency as the results presented themselves. He talked through the main findings of the Executive Summary.

3.4 The Board expressed their thanks to Mr Simmonds for this presentation and remarked on how the results of the years benchmarking presented the Agency in a positive light in relation to service and cost. The report also provided the Agency with the opportunity to identify best practice from their peer group. The Board noted that it would be interested in receiving an update on how progress was being managed in due course.

4. Audit and Risk Committee report (paper 27.3)

4.1 Mr Smith reported on the main issues and recommendations arising from the Audit and Risk Committee meeting on 26 April 2011. He noted and agreed that subject to minor corrections the draft minutes were representative of the meeting.

4.2 Mr Smith recommended to the External Management Board that Mr Mackay formally be asked to agree to sign the accounts. They were an impressive set of accounts with a marked qualitative improvement from the previous year which had been noted by both external and internal auditors. Mr Taylor confirmed that the Board was content to recommend that the accounts to be signed accordingly.

4.3 Mr Smith brought to the attention of the External Management Board two issues which had been highlighted in the Risk Register. These were the levels of risk associated in relation to Risk 8 - financial resources available to the Agency - and Risk 11 - data backlogs, work becoming unmanageable due to resource constraints. Mr Mackay explained the way both sets of risk were being mitigated and the importance of a positive outcome to the SR11 process in assisting with this.

4.4 Mr Smith noted that the quality of the service now being provided by the Agency's auditors had improved significantly over recent months, and the working relationship between the Agency and its auditors had also improved. He noted that assurance had been given by Internal Audit that the work scheduled for this year would be completed this year. The Agency would like to think this level of service would be maintained. Mrs Edey advised that it would benefit the Audit and Risk Committee to have a consistent team as it was not helpful with continuous new members in attendance.

5. Agency Progress Report incl. Q1 progress against Business Plan Targets (paper 27.4)

5.1 Mr Mackay presented the Agency's progress report up to 30 June 2011. He asked the Board to note that during Q1 of the business year the Agency had met 4 of its business tasks and 23 were on track. Two tasks had not been met or were significantly behind schedule, largely as a result of UK Government decisions relating to pension reform issues. He asked the Board to also note some minor changes to the report contained in Appendix A. These were: task 2 green to amber, task 7 red to amber, task 27 green to amber and task 29 green to amber.

5.2 Mr Clapperton then reported on the first quarter performance against targets for Operations. A paper was circulated to the Board setting out progress against all Operational performance targets. He explained that his report provided for both system and manual outcomes which would continue until all the 'old' workflows were cleared from the system. Thereafter system data only would be used. Mr Taylor explained that it was important to have these metrics and welcomed the planned extension of this methodology across other Directorates later in the year.

5.3 Mr Mackay then went on to comment on his concern about the number of outstanding issue logs relating to AXISE, the pension administration casework system. He had raised the matter personally with the suppliers' chief executive and was hopeful that this would help to address the matter. The Board asked to be informed about progress at their next meeting.

5.4 Mr Smith noted that good progress had been made with the reduction in sickness absence. Mr Mackay noted that managers at all levels were now tasked with actively managing sick leave as part of their performance framework.

5.5 Mr Mackay noted that the Agency was also actively pursuing the possibility of leasing part of its office to a tenant. An expression of interest had been received from a public sector body to relocate a number of staff and the Agency was exploring whether it might be a suitable location for them.

6. Agency Finance Report (paper 27.5)

6.1 Mr Fenton presented the financial position of the pension schemes and the Agency as at 30 June 2011. Following indexation from RPI to CPI the accrued liabilities (on which interest costs are charged) were lower than forecast. Consequently accrued costs (which include interest costs) were 3.4% below budget for the year to date.

6.2 Mr Fenton reported that for the first time this year the budgeted combined net cash outflow exceeded income (by £163m). Projected schemes' combined net cash expenditure for the year was £55 million above budget.

6.3 Mr Fenton also reported on the number of overpayments recorded. Of 2600 invoices issued since May 2010 a balance of 651 remained to be recovered, with an outstanding value of £1.1m. While the average collection target was 195 days, if those being recovered by instalment were excluded, the average collection period would be reduced to 149 days. Mr Mackay said that although these figures appeared high, it should be noted that the recovery rate was also high and that the process involved dealing with a number of sensitive and difficult cases.

6.4 Mr Fenton also advised that with regard to the Agency's finance budget, a modest underspend during Q1 had been identified on salaries. He also brought to the Board's attention a potentially significant issue regarding the roof of the building which was likely to need some repair. Assessment and negotiations were currently ongoing and the Board would be informed of the results at its next meeting.

7. Pension Reform update (paper 27.8)

7.1 Mr Dawtry reported on the most recent developments around public sector pensions reform, highlighting both the UK Government's short and longer-term agendas. He noted the current position of the Scottish Government and referred to the consideration being given by the Scottish Cabinet to handling issues associated with the agenda.

7.2 The External Management Board discussed the varying potential outcomes and asked that they be kept informed of future developments.

8. SPPA Efficiency Tasks 2011-12 (paper 27.6)

8.1 Mr Mackay explained that a range of efficiency projects had been identified by the Agency for completion during the current financial year. The list of potential projects was set out in paper 27.6. He noted that not all the savings would be delivered in full this year. Some are in the early stage of research, some require up-front funding and some will not deliver benefits until 2013 or later. Nevertheless, collectively these projects would need to be pursued vigorously given the need for the Agency to become as efficient as possible in order to cope with current and future financial constraints.

8.2 Following discussion the Board requested that a brief summary of progress be provided at the next Board meeting in October followed by a more detailed report in February 2012.

Action: A brief summary of progress to be provided at the next Board meeting in October and a more detailed report in February 2012.

9. SR11: The Agency's Approach (paper 27.7)

9.1 Mr Mackay reported that the Scottish Government's 2011 Spending Review would determine public expenditure in Scotland for 2012-15 and would take place against a context of severe financial constraint. He commented that for SPPA the next three years would be characterised by year on year increases in core business and the development and implementation of the challenging pension reform agenda. It was the Agency's view that, whilst it may be manageable to maintain existing core business on flat-cash funding, it would not be possible to manage the pension reform agenda without significant additional resources. He explained that he had set out a detailed spending review bid in a letter to DG enterprise & Environment and was currently awaiting the outcome. This was expected towards the end of September when the draft Scottish budget was published in the Scottish Parliament.

9.2 The Board discussed their concerns about the outcome of the spending review and the implications for the pension reform agenda and Agency core business if sufficient funding was not made available. Mr Mackay confirmed that if a difficult choice about priorities had to be reached, the Agency would always prioritise the maintenance of its core business. Members of the Board confirmed their endorsement of this approach.

10. Any Other Business

10.1 The chairman informed the Board of his meeting on 22 June with Alyson Stafford. This discussed the future changes to the composition of the Board which

were likely to arise as a result of the UK Government's impending legislation on pension scheme governance. Ms Stafford agreed that it was essential for the External Management Board to maintain continuity of representation during what was likely to be a challenging transitional period. For this reason she was content to agree to the suggestion that existing External Management Board members be invited to extend their current term of appointment until the end of 2015.

11. Date of next meeting

11.1 The next meeting of the External Management Board is 26 October 2011

Summary of Action Points - to be completed

Action Point	Paragraph	Responsible Officer
A brief summary of progress to be provided at the next Board meeting in October and a more detailed report in February 2012.	8.2	Mr Mackay

12. Review of External Management Board Performance (paper 27.10)

12.1 A separate meeting with External Management Board members and Colin Maclean took place to carry out the review of the Board performance.