

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT
13:30 HOURS ON 25 OCTOBER 2011 AT TWEEDBANK**

In attendance:

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

1. Apologies and introduction

- 1.1 Mr Taylor welcomed everyone to the meeting.
- 1.2 Apologies were received from Ian Clapperton and Alyson Stafford. Colin Maclean was attending as a representative of the Fraser Figure.

2. Minutes of last meeting and matters arising (paper 28.2)

- 2.1 The minutes of the previous meeting on 2 August 2011 were agreed and noted.
- 2.2 It was noted that the action point had been cleared and was included within the agenda for the meeting.

3. Audit and Risk Committee Report (paper 28.3)

- 3.1 Mr Smith reported on the main issues and recommendations arising from the Audit and Risk Committee meeting on 11 October 2011. He noted and agreed that subject to minor amendments the draft minutes were representative of the meeting.
- 3.2 Mr Smith reported on the supplementary meeting with the auditors which took place earlier in the day. The main item was the Agency Schemes' Accounts and specifically the auditors concerns that valuation of the pensions liability in the accounts of the Scottish Teachers' Superannuation Scheme (STSS) might have changed as a result of changes in the workforce profile.
- 3.3 Mr Smith reported that following further work by the Government Actuaries Department, Audit Scotland were satisfied that the issues were now resolved.
- 3.4 Mr Smith reported that having obtained the relevant assurances from Audit Scotland he was able to, as Chair of the Audit and Risk Committee, recommend to the External Management Board that Mr Mackay sign the scheme accounts.

4. Agency Progress Report inc. Q2 progress against Business Plan Targets (paper 28.4)

4.1 Mr Mackay presented the Agency's progress report up to 31 September 2011. He commented on some of the major strategic developments taking place within the Scottish Government and on how this will directly/indirectly impact on the Agency over the coming years. He expressed some concern that Agencies were not always as closely involved with some of these issues as they ought to be, and he agreed to pursue this discussion further with Mr Maclean outside of the meeting.

4.2 Mrs Edey noted that the Agency had made good progress against its 29 key business targets during Q2. Mr Mackay said that he was confident that by the end of the 4th quarter all those targets which were within the Agency's gift would be achieved.

4.3 Mr Mackay provided a progress update on the issue log problem relating to AXISE, the pension administration casework system which he had raised with the supplier's chief executive. A special project team was set up to handle this matter and progress was encouraging.

4.4 Mr Mackay commented on the summer teacher retirements being up a quarter compared to last year. Mr Maclean commented that it was important for the agency to consider whether it could improve its predictions of workforce changes, both to allow more effective planning of the summer retiral process and also to improve the accuracy of the financial estimates provided to Treasury during the course of each year. Mr Mackay undertook to consider these issues and pursue them with Mr Maclean once he had the opportunity to reflect further on the points raised.

4.5 One of the Agency's projects to provide a web based solution to benefit statements was underway. This would deliver significant financial savings and reduce data handling risks. Mr Mackay reported that go live was due early next year for statements and April for pensioners. He also explained how the on-line service complemented the Agency's work with the Club Together proposal. This would also generate a considerable saving by allowing pensioner information to be sent at the same time as the magazine, at the expense of the magazine producers.

4.6 Mr Taylor commented on the IoM contract which was due to end at the end of the financial year due to the implementation of a single pension scheme which they would administer themselves. He said that although this was disappointing he understood that they had been delighted with the service, cost and delivery provided by the Agency. He also noted that the agency had derived considerable benefit from the process of bidding for the IoM contract, particularly in terms of identifying the true costs associated with pension administration.

4.7 Mr Smith noted that employer data error rates had increased to 26% and sought clarification of the current remedial steps being undertaken to reduce this figure. Mrs Edey asked whether the Agency was able to identify and target specific employers. Mr Mackay explained that this was not exclusive to one or two large employers and that the problem was more related to teachers than NHS. The solution was a combination of more employer education, and the development of new IT functionality which assisted the employer with the validation of their data.

4.8 Mrs Edey asked whether there had been a communication breakdown with COSLA with regards to the announced changes to teacher terms and conditions. Mr Mackay explained that the issues were being resolved and that this was more important than attributing blame to either party. There were lessons for everyone.

4.9 Mrs Edey was delighted that the cause of the roof leak had been identified and plans were in place to carry out remedial work.

4.10 As part of the Agency's programme of action designed to reduce the number of days lost through staff sickness, Mr Mackay reported that the Agency was carrying out an assessment of the viability of providing all staff with a winter flu jab. The Senior Management are due to discuss this further at their meeting on Monday 31 October 2011. [note: it was subsequently agreed to proceed with this.]

5. Agency Finance Report (paper 28.5)

5.1 Mr Fenton presented the financial position of the Agency and of the pension schemes as at 30 September 2011. Income was below budget with a projected income shortfall for the year for the NHS of 7.2% and STSS of 6.2%. Accrued costs for the year were also noted as below budget. These would be revised as part of the autumn budget review.

5.2 Mr Fenton reported on the budgeted combined net cash outflow. There was an increase in the outturn forecast due to the increased level of teacher's retirements to date. Mr Mackay reminded the Board that it was not unusual to revise estimates of income and expenditure throughout the year as in this case. Nevertheless, the Agency had to be alert to sensitivities about scheme expenditure given the current climate associated with the pension reform agenda.

5.3 Mr Fenton reported on the number of overpayments recorded. The number of invoices issued in the last six months amounted to £678k with a balance to recover of £330k and an overall balance of £334k cumulative for the financial year. The average collection period was 202 days, against a target of 180 days. To recover those invoices which are paid by instalments, the average is adjusted to 137 days ahead of target. Mr Smith noted that the table was to be amended to reflect that it was almost 12 months since the beginning of May when Epicor began recording payments. Mr Mackay explained that overpayments of £5k and over were reviewed monthly at the Senior Management Team meetings.

5.4 With regards to the Agency's finance budget, Mr Fenton reported the capital expenditure budget had been revised to £489k. £100k would be returned to central SG finance. He reported that expenditure was below budget which was due to the pay budget settlement intended for 1 April being implemented 1 August 2011. Since August the Agency was running close to budget and there would be a slight under spend on pay to the end of the year. He also noted an under spend on administration costs.

5.6 Mr Fenton also provided clarity on the service costs based on factors provided by the Government Actuary's Department (GAD), financial assumptions, accrual costs and receipts and payments and the change from RPI to CPI.

6. SR11: Outcome (paper 28.6)

6.1 Mr Mackay reported on the successful outcome of the 2011 Spending Review (SR11) which was announced on 21 September 2011. This would enable the Agency to maintain and

deliver its core service for the next three years. He raised four points - i) the associated risks in delivering the equivalent of a 10% saving per year for core business functions ii) the challenge posed by the fixed date of April 2015 to implement pension reform; iii) the uncertainties and opportunities created by ongoing structural change within the police and fire sectors and iv) the tactics to be adopted in order for the Agency to deal with the significant reduction in budget which it might face from April 2015.

6.2 The Board agreed that these 4 issues should form the basis for discussion at its annual away day. Mr Maclean suggested that the discussion might also cover a fifth issue – the extent to which the SG might assist the Agency by changing the way in which it provides central services – and the board agreed to consider this aspect at the away day as well.

6.3 Mrs Edey suggested that the Agency use the next three years to review its core business and carry out more research into the extent to which its workload planning assumptions were being met. Mr Smith asked whether the Agency was plugged into discussions about the future nature of the integrated Scottish Police and Fire services, given the potential for the Agency to provide pension administration services to the sector. Mr Mackay explained there was a three year programme to introduce changes to police and fire involving the Justice project team and that the Agency was actively involved with an input to this.

7. Pension Reform Update (paper 28.7)

7.1 Mr Dawtry provided a report on the most recent developments around public sector reform relating to both the UK Government's short and longer-term agendas. The current position of the Scottish Government was noted.

7.2 The External Management Board discussed the various issues arising from this, including the management of risk, the resource implications, stakeholder reaction, and timing and handling aspects.

8. Pension Reform Operational Costs (paper 28.8)

8.1 Discussions on the costs associated with implementing the Pension Reform Agenda took place at the last External Management Board meeting where Board members asked the Agency to provide an assessment on the impact of a differential solution across the two schemes administered by the Agency. The Board discussed the main findings of the assessment prepared by Eleanor Guthrie and Mr Taylor asked for the Board to be kept updated on any substantive developments.

9. Purpose and Date of Awayday (oral)

9.1 It was agreed to trawl for dates for the Board's proposed away-day outside of the meeting.

10. External Management Board Meeting Planner (paper 28.9)

10.1 The Board agreed the dates of future meetings.

11. Any Other Business

11.1 There were no items raised.

12. Date of Next Meeting

12.1 The next meeting of the External Management Board is 7 February 2012

Summary of Action Points

13.1 None.

14. The formal meeting was followed by a private meeting between the External Management Board members and the Chief Executive.