

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT
13:30 HOURS ON 26 APRIL 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 Finance
Pamela Brown	Director of Corporate Services
Ken Kneller	Government Actuaries Department (item 7 only)
Mark Cockburn	Minutes

1. Apologies and introduction

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

2. Minutes of last meeting and matters arising

- 2.1 The minutes of the previous meeting on 1 February 2011 were agreed and noted.
- 2.2 It was noted that all action points were completed.

3. Audit and Risk Committee report

3.1 Mr Smith reported on the main issues arising from the Audit and Risk Committee meeting on 12 April 2011. He advised that the Internal Audit plan would be resubmitted to the committee after further discussion between the Agency and Internal Audit; that accounts production for both the schemes and the Agency was on track; and that Audit Scotland and Internal Audit indicated that their work would allow them to provide appropriate assurances within the set timetable. He also noted that in their private meeting with the Audit Committee, the external auditors had commented on the extent to which the Agency was being stretched as a result of current financial constraints.

4. Agency progress report to 1 April 2011

4.1 Mr Mackay presented the Agency's progress report up to 1 April 2011. He asked the Board to note that during the 2010-11 business year, the Agency had met 21, partially met 4 and had not meet 3 of its 28 key business targets. He noted that while the Agency continued to make excellent progress with ongoing tasks, it sometimes struggled to accommodate developmental and backlog tasks. These would become increasingly challenging if resources were to become even tighter

over the next few years. He noted that both Audit Scotland and Internal Audit had commented on the level of resources available to the Agency and he felt that this concern should be drawn to the attention of the Scottish Government as part of the discussions about the Agency's future budgetary requirements.

4.2 Mr Clapperton then commented on the progress being made with the changes in the taxation of annual allowances for accrued pension benefits. He noted while the number of members affected was small, the complexity of procedures and the costs to SPPA were considerable. He advised that system changes were being developed, that the Agency was liaising with employers; that plans were in place to write to the members affected; and that information on taxation had been included on the Agency's website. Mr Mackay pointed out that resources were only available for this task because the Hutton review timetable had been moved back. He estimated that the overall cost of this unfunded task was in the region of £150k for 2011-12, with a recurring cost of around £60k p.a. thereafter. Mrs Edey asked how many members would be affected, and was advised that this should be approximately 1,000 (predominantly NHS) members.

4.3 Mr Clapperton then explained that because of proposed changes in scheme design and benefit structure arising from the Hutton report, benefit statements issued in the current year would not provide forward projection of an individual's pension beyond 2015. The Board agreed with this approach.

4.4 Mr Mackay then drew the Board's attention to the Agency's continued participation in the CEM benchmarking exercise. The most recent annual report from CEM had indicated that SPPA had improved during the year and was now clearly a low-cost, high-service organization. Following discussion, the Board agreed that a representative from CEM should be invited to the next meeting in order to allow a more detailed discussion of the results.

4.5 Mr Mackay reported that the Agency's website had been updated. The project had given an opportunity to refresh the material and how it was maintained. It was agreed that the new layout was a big improvement both in terms of the design and content of the site.

4.6 Mr Mackay advised that the final report, of the LGPS Pathfinder Project, which was managed by COSLA and the Local Government Improvement Service, on shared pension administration services, had been discussed by the project steering group. The results were disappointing in that the report and the discussion of the project board both indicated that there would be no opportunities for SPPA to provide administration services for all or part of the LGPS. Against this background, and given the considerable effort that the Agency had made to support the work, the External Management Board agreed that for the time being the focus should shift towards exploring any opportunities that might arise to administer the Police and Fire schemes if those services were to be restructured and reformed following the Scottish elections.

4.7 Mr Mackay advised that sick absence had reduced to an average of 9.63 days in the year ended 31 March 2011, from 10.86 in the corresponding period in the previous year. He explained that the Agency had developed strengthened

procedures to manage sick absence and hoped to reduce the average further during 2011-12.

4.8 Mr Smith asked for an explanation of the Scottish Government's powers in relation to proposed increases in members' pension contributions. Mr Mackay advised that while Scotland could in theory adopt a different policy to that of the English and Welsh Governments, in practice Treasury needed to sign off any changes in the NHS and Teachers' schemes and in practice any significant variance in the approach to England and Wales would therefore seem unlikely. There was greater autonomy with the LGPS, Police and Fire, and in theory a different approach could be taken.

4.9 Mrs Edey noted the progress made with the development of the SPPA Leadership Development Programme and volunteered to assist with the selection process.

Action: Mrs Edey to participate in the Leadership Development Programme selection process.

5. SPPA Finance Report

5.1 Mr Fenton presented the financial position of the pension schemes and the Agency at the financial year end. The pension schemes resource expenditure was within 0.4% of budget with the NHS Scheme £3 million below budget and Teachers £11 million below budget. While the variance in cash outflow for the year was higher, this was a result of small percentage variances in the large cash inflows and outflows.

5.2 Mr Fenton reported a marked increase in the number of overpayments recorded. This was a result of introducing an amended overpayment policy. Of the £2.5 million overpayments recorded during 2010-11, £1.4 million was outstanding at the year end. He advised that EPICOR had improved the way SPPA managed this debt.

5.3 Mr Fenton advised that the Agency's administration costs outturn was within £3k of budget. There had been a significant under-spend on capital as a result of the decision not to purchase an electronic records management system or to invest at this stage in a customer web-based interface.

6. Agency Framework Document, Annual Business Plan and Corporate Plan

6.1 Mr Mackay presented the Agency's Framework Document and combined Annual Business Plan and Corporate Plan. He explained that the Annual Business Plan and Corporate Plan were still with senior Scottish Government officials for review and comment. Once these were received, the next stage was to obtain approval from Ministers. As the timetable for this was unknown, it was likely that the plan would be presented to staff with the proviso it was still subject to approval.

6.2 Mr Mackay explained that the plan included a list of Key Performance Targets for the Agency that remained stretching and were no less than those which had been

agreed in previous plans. He also drew attention to the expansion of the list of Directorate service delivery targets. He concluded by reminding the Board that they had previously agreed that the plan would be revisited during 2011 once the Agency's financial position for 2012-2015 was known.

6.3 Mrs Edey asked if the National Fraud Initiative work should be included in the Framework Document as a specific function. It was agreed this should be added but that it should be clear that the task was an optional activity and therefore subject to annual approval by the Agency's Senior Management Team.

Action: Mr Mackay to add National Fraud Initiative work to the Framework Document subject to annual approval by the Agency Senior Management Team.

7. The Government Actuary's Department (GAD)

7.1 Following audit comment about the extent to which the Board had access to actuarial expertise, Mr Kneller was invited to provide a short presentation on actuarial services and SPPA's relationship with GAD. The presentation outlined the role of the actuary; the nature of the contract between GAD and SPPA; tasks completed during 2010-11; and the planned work programme for 2011-12.

7.2 In discussion, Mrs Edey asked if changes to pay structures were taken into account when calculating scheme liabilities. Mr Kneller advised that they would try to take this into account. He explained it was not always easy to give a definite answer, but an order of magnitude could be indicated. Mr Smith asked if the actuarial services provided by GAD were a devolved role and what was the relationship with the Scottish Government. Mr Kneller advised that GAD was a government department but did not have a Minister. GAD was responsible to the UK Treasury but provided impartial advice. He explained the SPPA was free to appoint the actuary of its choice and that the current appointment of GAD had been market-tested. On the subject of independent advice he advised he had signed the actuarial code of conduct which required him to adhere to appropriate professional standards.

7.3 Following further discussion the Board agreed that the current arrangements governing the provision of actuarial advice were robust and appeared to work well. They did not feel that it was necessary to appoint an actuarial expert to the Board of the Agency, but agreed that it would be helpful for them to meet with and receive a report from the actuarial provider on an annual basis.

Action: Mr Mackay to ask GAD to provide an annual report for EMB from April 2012.

8. Lord Hutton's Final Report

8.1 Mr Mackay presented the paper on Lord Hutton's Final Report on pension reform. He advised that the main points were a move to pensions based on career-average salary rather than final salary, a move to a normal retirement age that was in line with the state retirement age, and retention of pension accrued under the existing arrangements. He observed that, while most of the recommendations had been expected, he had not predicted the scale of the proposed changes to governance arrangements. He advised that, while there could be no Scottish

decisions until after the election, Ministers would need to make quick decisions on how to proceed with this challenging agenda.

9 Staff Survey

9.1 Mrs Brown presented the staff survey report, which had concentrated on staff engagement. The level of participation had been very high at 91.21%. While overall there had been an improvement of 1% in staff engagement, some directorates had shown a marked decline. Mrs Brown described the points in the action plan intended to find the reasons behind the results and to better engage with staff. The Board endorsed the approach being taken and the actions proposed.

10 Any Other Business

10.1 None.

11 Date of Next Meeting

11.1 2 August 2011

Summary of Action Points

Action Point	Paragraph	Responsible Officer
Participate in the Leadership Development Programme selection process.	4.9	Mrs Edey
Add National Fraud Initiative work to the Framework Document subject to annual approval by the Agency Senior Management Team.	6.3	Mr Mackay
Ask GAD to provide an annual report for EMB from April 2012	7.3	Mr Mackay