

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT 13:30
HOURS ON 26 OCTOBER 2010 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 and Chad Dawtry.

2. Minutes of Last Meeting and Matters Arising (paper 24.2)

- 2.1 The minutes of the previous meeting on 3 August 2010 were agreed and noted.
- 2.2 It was noted that all action points had either been cleared or were included within the agenda for the meeting.

3. Audit Committee Report and Draft Minutes of last meeting (paper 24.3)

- 3.1 Mr Smith reported on the main issues and recommendations arising from the Audit Committee meeting on 12 October 2010. He noted and agreed that subject to minor corrections the draft minutes were representative of the meeting.
- 3.2 Mr Smith recommended to the External Management Board that Mr Mackay sign the accounts for the two schemes. Mr Taylor confirmed that the Board was content for the accounts to be signed accordingly.
- 3.3 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 risks associated in relation to Risk 8 - financial resources available to the Agency, and Risk 11 - data backlogs. Both risks had been subject to extensive discussion by the External Management Board and indeed there was a further paper on data backlogs tabled for the current External Management Board meeting.
- 3.4 Mr Taylor asked whether the Board was content with the level of service it was being provided with by Internal Audit and Audit Scotland. Mr Smith advised that based on his experience the service provided was adequate, and that the Agency was committed to continuing a dialogue with its auditors in order to further improve the audit process where possible.

4. UK Government Spending Review (oral) and Hutton Report on Public Sector Pensions (paper 24.6)

4.1 Mr Mackay advised that he would combine both his oral report on the UK Government Spending Review with Mr Dawtry's paper on Lord Hutton's report on public sector pensions.

4.2 Mr Mackay reported the recent UK Government Spending Review report covered a range of issues on public finance which would impact on Scotland once the Scottish budget was finalised in November. The SR report also contained commitments to amending some provisions relating to public service pensions by 2013. The most substantive short term changes involved consulting on changes to the methodology for calculating discount rates; and increasing employer contributions rates by 3.2%. A range of other issues remained under consideration and would be addressed by Lord Hutton's final report which was due to be published in March 2011. SPPA would in the meantime be consulting Scottish Ministers with a view to clarifying their preferences for handling the agenda in the short term.

4.3 Mrs Edey asked how the short term changes in contribution rate stood to affect the public sector pay review cycle. Mr Mackay agreed that there was a link between pay and pensions but added that the Scottish Government had not yet advised on how this was to be handled.

4.4 A range of related issues were then discussed by the board, including the way in which a 3.2% increase in contributions might be applied across each scheme; timing issues associated with implementing the reforms; the implications of the decision to freeze actuarial valuations for the time being; and the financial implications associated with managing the reform agenda within the Agency.

5. Agency Progress Report to 30 September (incl. Q2 progress against Business Plan Targets) (paper 24.4)

5.1 Mr Mackay noted that the main issues had already been covered in his oral report on the UK Government Spending Review and Lord Hutton's interim report on public sector pensions. He reported that presentation sessions had been held with Agency staff on how the Agency was approaching the spending review. He also noted that the Agency was making satisfactory progress against its key performance targets for the year.

5.2 Mrs Edey asked if there was any further development following the identification of a potential fraud by a survivor of a deceased pensioner. Mr Mackay briefly explained the background of the case, the current status of the investigation and the steps the Agency was taking to minimise reoccurrences. Following the most recent Audit Committee meeting Mr Mackay had e-mailed all staff on the necessity of reporting any potential fraud and overpayments immediately to both the Chief Executive and relevant Directors. Mr Smith asked for the Audit Committee to be provided with an update in due course.

Action: Mr Fenton to provide an update on progress with a potential fraud case for the next Audit Committee meeting.

5.3 Mr Smith asked for assurance that training remained a high priority in the organisation's agenda. Mr Mackay explained that the training team had retained the

same level of resource as in the past two years. The team had also moved towards developing quarterly training programmes in an attempt to be more responsive to operational needs. Due to the complexity of the potential changes to the pension schemes, the Agency would attempt to maintain a high level of investment in staff training for the foreseeable future, subject to the outcome of the Spending Review process. The Agency would also be shortly considering a paper prepared by its Operations directorate which reviewed the effectiveness of the current training arrangements.

5.4 Mr Taylor noted that the HM Treasury MOCOP meeting to consider managing and taking forward the UK Government's Comprehensive Spending Review proposals was planned for 2 November and asked if the Board could be kept updated as to how the pension reform agenda was developing.

Action - Mr Dawtry to update the External Management Board on progress with pension reform at next meeting.

6. SPPA Finance Report Q2 (paper 24.5)

6.1 Mr Fenton presented the finance position of the Agency and of the pension schemes at the end of September 2010. He explained that we reported performance against both the Scottish Government's budget and HM Treasury's budget, and that these were subject to revision during the year. Because the timing of the revisions did not coincide, the two sets of figures were not always the same. He noted from the actuary's IAS19 report for the 2009/10 statutory accounts, that the actuary had recommended slightly higher factors for pension costs in 2010-11 than had been applied in the Schemes' budgets.. He also outlined the financial position for the NHS and the Teachers schemes, noting that the forecast to the year-end was slightly higher than budget.

6.2 He explained that the Teachers' and NHS schemes' combined net resource expenditure was above budget. He also reported on the Teachers' scheme net cash inflow as being higher than forecast with outflow noted as £62m above budget.

6.3 He explained that the outstanding debt in respect of overpayments at the end of September was £1.06m. Since the implementation of the EPICOR system, invoices for overpayments had been raised with a value of £1.1m, while receipts amounted to £0.9 m.

6.4 Mr Fenton then reported on the Agency finances. The allocation for the year, £8.47m, had included £300k which had not originally been part of the baseline provision. The restoration of the £300k had been confirmed in writing. Although there was an overspend on salary costs due to lower than expected staff turnover, compensating reductions could be found from elsewhere in the budget. He also noted that the Agency had set aside £49k for flexible early severance costs falling in 2010-11.

6.5 Mr Taylor noted the impressive reductions that had been made against some elements of administrative expenditure. The Board then discussed the various budget lines including potential overspend on IT of £41k. Mrs Brown explained that £18k could be capitalised which would reduce the overspend to £23k. The overspend had occurred because the number of PCs relinquished was lower than expected, and because the

Agency had decided to lease rather than purchase printers as this offered advantages in terms of upgrading and repairing.

7. AXISE Implementation Update (paper 24.7)

7.1 Mrs Brown reported on the AXISE system. Overall, significant progress had been made in the last quarter and the Agency was now at the point of successfully completing the project. Although the number of outstanding support logs remained high, the Agency was working with the supplier to significantly reduce the backlog by the end of the year.

7.2 Mrs Brown reported that the Gateway 5 review had taken place on 24 September 2010 where it was confirmed that the business case had been achieved and that the operational service was running smoothly. The Gateway Team had produced a very positive and complimentary report about the overall state of the project which the Agency had accepted in its entirety.

7.3 The next Project Board will be held on 5 November 2010 where it is expected that the project will be formally closed and handed over to Operations. There will be a lessons learned review within three to six months of project closure with a final report being issued. It was noted that SPPA would continue to withhold funds for any unfinished milestones associated with the project. One outstanding issue concerned the extent to which the Agency would progress with the development of web interfaces in respect of benefit statements. The supplier was currently costing out this option, and a decision would be made prior to the next project board meeting. Mr Smith requested that the External Management Board be updated with progress on this issue at its next meeting.

Action: Mrs Brown to update the External Management Board with progress on web interface for benefit statements.

8. SPPA Complaint Handling (paper 24.8)

8.1 The Board at its last meeting asked that the Agency review its complaint handling procedures and carry out benchmarking against external organisations. Mr Mackay explained that there were two types of complaint – the first being complaints against the outcome of decisions reached by the Agency and the second relating to case and customer handling issues. For the first category the Agency's current policy for handling complaints by NHS and STSS stakeholders was set out in its guide to the Internal Dispute Resolution procedures (IDRP) which were available to stakeholders via the Agency's website. This was consistent with best practice for the other pension schemes. In contrast, there was no formalised process for the Agency's handling of service related complaints. Although this was not a problem at present due to the relatively small number of complaints received, Mr Mackay felt that there was some merit in formalising both the policy and handling arrangements for these types of complaint.

8.2 Mr Mackay therefore recommended to the Board the intention to formalise its complaints procedure in respect of handling issues, along the lines of the policy statement used by the England and Wales NHS Pensions Agency and extend coverage of the policy to the Agency as a whole. This would be promulgated via the Agency website.

8.3 Mr Taylor suggested the advisability of periodic reviews being made of the complaints procedures. Mrs Edey commented on the desirability of the website explaining people's rights under the Data Protection and Freedom of Information legislation. Mr Clapperton explained that the Agency adhered to the Scottish Government Freedom of Information (Fol) and Data Protection policies and that the website contained sections relating to both. The Agency also produced a Fol publications schedule which was available on the website.

9. Legacy and Data Cleanse Issues (paper 24.9)

9.1 Mr Clapperton presented his paper on legacy and data cleanse issues. The context for the paper had arisen from audit concerns that the Board may not be fully sighted on the nature of the various legacy issues faced by the Agency. He began by clarifying the difference between a legacy issue and a data cleanse issue. Legacy issues covered historical cases looking back; data cleanse concerned current cases going forward.

9.2 Mr Clapperton then identified the impact, current action and future position for each of the specific legacy tasks currently in existence. He noted that the main target of clearing historical arrears had already been achieved and the balance was incorporated within ongoing work to be taken forward by the Operations directorate during 2010 and early 2011.

9.3 Mr Clapperton then turned to data cleanse issues. For STSS cases, the context was provided by the outstanding level of data cleanse cases at the time of the migration of STSS cases to AXISe in September 2008; the interim issues created by protracted development of interface functionality; the current data errors resolved this year and progress in reducing the backlog to frictional levels. The aim was to reduce the number to a defined manageable level each year.

9.4 Mr Clapperton then turned to NHS cases and provided an in depth update on the level of data cleanse issues at the time of migration to AXISe between September 2009 and March 2010. He advised that an NHS/STSS data cleanse team of 18 staff was now in place and had a closely managed work programme aimed at resolving ongoing issues and reducing backlogs.

9.5 Mr Taylor thanked Mr Clapperton for his comprehensive report and the quality and speed of the remedial action being taken. He also asked what steps had been taken to increase the loading of data and to automate data checks. Mr Clapperton advised that an interim IT solution had been developed to provide validation program checks. The Agency was currently engaging with NHS and STSS employers with a view to establishing whether they could include improved validation arrangements to enable a better flow of data to the Agency starting in 2012.

9.6 The Board then discussed some of the specific issues raised by auditors about the risks associated with data cleanse and legacy issues. They were satisfied that the Agency was taking the issue seriously and that its response to each issue was appropriate.

10. Any Other Business

10.1 Mr Taylor reported back on his meeting with Ms Stafford in Edinburgh which was held on 25 October 2010. This had been very positive and had addressed some of the governance implications associated with the creation of the new Finance Directorate General. The Board had been fully briefed about this during a pre-meeting prior to the substantive Board meeting.

10.2 Mr Mackay advised the Board, following an informal discussion with Mr Smith, of the necessity of holding four Audit Committee meetings per year. He noted that as a natural consequence of the nature of the annual audit cycle, the Audit Committee meeting to be held in January would be lighter than the other three. He therefore suggested that the Board might wish to consider holding both the Audit Committee meeting and the External Management Board on the same day i.e. the 1st of February 2011, for this meeting only. The Audit Committee meeting could start at 11:30 and end at 13:00, and the External Management Board could start 13:30 ending at 15:45. The Board agreed to this change.

11. Date of Next Meeting

11.1 1 February 2011

Summary of Action Points - to be completed

Action Point	Paragraph	Responsible Officer
To provide an update on progress with a potential fraud case for the next Audit Committee meeting.	5.2	Mr Fenton
To update the External Management Board on progress with pension reform at next meeting.	5.4	Mr Dawtry
To update the External Management Board with progress on web interfaces for benefit statements.	7.3	Mrs Brown