

**SCOTTISH PUBLIC PENSIONS AGENCY  
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT  
13:30 HOURS ON 27 APRIL 2010 AT TWEEDBANK**

**In Attendance:**

James Taylor	Chair
Julia Edey	Non-executive Director
Alex Smith	Non-executive Director
David Reid	SG Deputy Director of Finance (observer)
Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of IT and Major Projects
Chad Dawtry	Director of Policy, Strategy and Development
Chris Fenton	Director of Corporate Services
Lila Tereszczyn	Minutes

**1. Apologies and Introduction**

- 1.1 Mr Taylor welcomed everyone to the meeting.
- 1.2 Apologies were received from Alyson Stafford. David Reid was attending in her place as an observer.

**2. Minutes of Last Meeting and Matters Arising (paper 22.2)**

- 2.1 The minutes of the previous meeting on 2 February 2010 were agreed and noted.
- 2.2 All action points were cleared or included on the agenda.

**3. Audit Committee Report (paper 22.3)**

3.1 Mr Smith reported on the main issues and recommendations arising from the Audit Committee meeting on 13 April 2010. He noted and agreed that subject to minor corrections the draft minutes were representative of the meeting. He was also encouraged with the progress made in the planning of the Internal Audit Plans for 2010 to 2013 which would result in better resource management.

3.2 Mr Smith confirmed that Audit Scotland would prepare reports on the interim controls and governance report, and ISA 260 on the Agency accounts for the next Audit Committee meeting. He noted that internal audit would be conducting a separate report following the implementation of the EPICOR system expected to be on 29 April and confirmed that the 2010-11 full year's contribution would be recorded on the new system.

3.3 Mr Smith reported that following the Audit Committee meeting the annual self assessment of the Audit Committee was carried out by the Committee and Chief Executive and concluded that the Committee was doing a reasonable job. The

annual self assessment of the External Management Board was scheduled for 3 August 2010 as noted in the meeting planner. Mr Taylor also reported that the Audit Committee had been asked to review the register of interests of Board members. These were subsequently signed off by each EMB member.

3.4 Mr Reid sought clarification as to when the Scheme Accounts would be published. Mr Fenton said they were usually three months behind the publication of the Agency accounts and that they would be finalised at the time of the October External Management Board meeting.

#### **4. Agency Progress Report to 31 March 2010 (incl. Q4 progress against Business Plan Targets) (paper 22.4)**

4.1 Mr Mackay explained that he would present the progress report in three parts – focussing first on progress against business plan targets; second on external environment issues; and third on operational issues. He drew the Board's attention to the progress achieved by the end of Q4 against the Agency's 25 key business targets. Looking back over the last financial year business plan targets for 2009-2010 eighteen had been met, two not met and five partially met of which two were outside the direct control of the SPPA.

4.2 Mr Mackay then addressed those issues which stood to affect the Agency after the outcome of the UK General Election. Although it was difficult to assess what the likely impact would be, the Agency was already planning to mitigate the risk of further significant financial reductions from 2011 and beyond. Mr Mackay also noted that two of the three main political parties had indicated public sector pension reform would be high on their agenda. Mr Mackay concluded that he and Mr Dawtry would be meeting with the Cabinet Secretary for Finance and Sustainable Growth on 3 June to discuss approaches and options for the pension reform agenda.

4.3 The Board discussed various possible financial and pension policy scenarios and their possible implications for the Agency. Mr Mackay said that the Agency was now engaged in preparing its submission for the SR10 Spending Review. Mr Reid indicated that December would be a reasonable assumption for the Agency to learn of any Scottish Government decisions on future budgets. The Board concluded that the Agency could not do anything more than it was doing at present. Mr Smith asked that the Board be aware of the risks and issues and that it should be kept informed of any further news regarding the timings of the SR process prior to the next meeting if required.

4.4 Turning to progress on Operational issues, Mr Clapperton reported on progress with the NHS Choice exercise. The position was that the exercise involved communicating to all active members of the NHS scheme. He confirmed that approximately 130,000 benefit statements had been issued to members direct to home addresses. A further 7,000 statements, relating mainly to GP practitioners, would be issued later. He reported on the arrangements in place to handle the high number of member enquiries relating to service, pay, transfers etc. The exercise would not be concluded before 2013 because of the need to manage members who returned to NHS employment after a break in service.

4.5 Mr Clapperton explained that the Annual Summary of the Quality Assurance report would be issued to Board members at the next meeting. He reported that the accuracy statistics over the year resulted in an achievement of just below 95% against a target for NHS/STSS of achieving 95% by 2011. The results were very commendable. He was slightly concerned that NHS were ahead of STSS in terms of accuracy but the gap was closing. With regards to timeliness the target of 99% was met. The Board discussed the varying aspects of timeliness, differing types of caseload and customer complaints relating to level of service.

**Action: Annual Summary of the Quality Assurance report to be issued to the Board members at the next meeting.**

4.6 Mrs Brown then reported on progress with the implementation of the AXISE system. In terms of implementation NHS went live in September last year. The main current issue was the inability to load NHS data validated to Agency requirements. The software fix for this had now been delivered and was under test. Daily reporting was being provided by the supplier to SPPA Chief Executive and IT Director together with regular telephone conference calls with the supplier Project Director to closely manage progress.

4.7 Mrs Brown raised concerns about progress in delivering the proposed web service functionality. The supplier is unable to handle the multiple employment contracts held for many of the scheme members despite this being a mandatory requirement of the contract. Advice was being sought on the options available to resolve the matter.

4.8 Mrs Brown also reported that the Agency plans to conduct a feasibility study during the year of the new Altair product, which might resolve some of the issues associated with multiple employment contracts.

4.9 Mr Dawtry reported on progress the contract to provide a pensions calculation service for a third party organisation. He stated that the SLA had been delivered last week for the third party to review, with a decision to proceed or not expected in mid May. The technical test associated with SPPA accessing third party member data had yet to be completed. This requirement has been escalated as this needs to be resolved prior to SLA sign off. The Agency have also worked with Scottish Government Legal Department to ensure the Agency liabilities were appropriately addressed in the contract with the third party.

4.10 Mr Fenton reported on progress with the contributions and debt management system (EPICOR). The new accounting software system would manage payment of pensions contributions from employers amounting to £1.4 billion per year and would enable the Agency to have more robust processes in place for recording and recovering pension overpayments. He outlined the accounting package and working system of EPICOR noting also that the project had been reviewed and monitored by the Agency Programme Board to ensure the effective management of the project. A formal decision to go live had been taken on 16 April, with a revised go live-date of 29 April 2010 agreed.

4.11 During general discussion, Mr Smith raised concern about the modest rise in the staff absence figures. Mr Mackay explained that three to four years ago the absence level was 14 person days per year but this had now been reduced to 10 person days per year. Senior management have asked Mr Fenton to prepare a report setting out how sickness is managed and identifying whether there is any more the Agency can and should do to address this. It was agreed that the outcome of this discussion should be shared with the EMB at its next meeting. Mr Reid noted that the Agency was tied to Scottish Government HR processes and noted that the profiles of SPPA grade structure skewed the attendance and sickness figures because of the high number of A3 administrators.

**Action: Mr Fenton to prepare an analysis report on how we manage absenteeism for the next External Management Board meeting.**

## **5. SPPA Finance Report Q4 (paper 22.5)**

5.1 Mr Fenton presented the finance position of the Agency and of the pension schemes at the end of March 2010, noting changes in discount rates and mortality assumptions. He said that they would have a significant impact on the costs of the schemes in 2010-11 and on Scheme liabilities with effect from 31 March 2009. He reported that performance for the year was based on an estimate of employers' accrued costs which would be modified on receipt of the Government Actuary's Department (GAD) FRS17 report at the end of June.

5.2 He explained that the Teachers and NHS schemes combined net resource expenditure was below budget by £27m, or 1.1%. The overall cash inflow to the end of March was £3 million below budget.

5.3 Mr Fenton reported that the Agency had been advised by HM Treasury that the discount factor to be applied to the Schemes' liabilities as at 31 March would be reduced from 3.2% to 1.8%. This change would increase the liabilities of the Schemes at 31 March 2010 and there would be a corresponding adjustment in the Statements of Total Realised Gains and Losses. The Income and Expenditure Accounts would not be affected in the year ended 31 March 2010. The Scottish Budget Bill provision stood at £2.516 billion, and this would be increased by £671 million, via the Autumn Budget Revision, to £3.187 billion. The Board discussed the implications of these changes. Mr Mackay confirmed that he had written to Alyson Stafford on this matter and would continue to liaise with David Reid and Ms Stafford as necessary.

5.3 Mr Fenton explained that Appendix 3 gave a summary of the financial position of the Agency budget for 2009-10, noting that administration costs were under-spent by £77k while income earned was just £1k short of the budget. In respect of capital expenditure the estimated under-spend was £169k as a result of carrying forward some IT project expenditure to 2010-11. He noted that depreciation was £260k below budget attributable to IT systems being delivered later than planned and the consequent delay in starting to charge depreciation.

5.4 The Board discussed the financial position of the Agency together with the position of fee-paid staff which covered 1x Corporate Services, 1x IT and 1x Policy,

Strategy & Development. Mr Mackay noted the comments and explained that Senior Management had introduced a Programme Board to monitor all costs and progress of Agency projects to ensure efficiency and consistency in approach.

## **6. Agency Business Plan for 2010-11 (paper 22.6)**

6.1 Mr Mackay presented the Agency Business Plan for 2010-11. The plan identified 28 specific business plan tasks broken down into 14 annualised core business tasks and 14 new tasks. He drew the Board's attention to the proposed resource allocations within the Agency and to the risk register, which included major uncertainties associated with pension reform and financial allocations.

6.2 Mr Mackay explained that the Business Plan would be reviewed quarterly by the External Management Board and staff would receive regular progress reports. Following discussion the Board endorsed the Agency Business Plan for 2010-11 as presented.

**Action - The Board to monitor the Business Plan at the next meeting.**

## **7. Agency Approach towards Benchmarking and Efficiency (paper 22.7)**

7.1 Mr Dawtry reported on the benchmarking report from CEM which provided comparative data on the Agency against a range of national (UK) and international pension administration service providers. The report focused on how the Agency performed and how pension administration was delivered. The key findings were that the Agency was a low cost/medium quality organisation in terms of what the Agency provided compared to other fund providers and organisations; that the scope for securing additional efficiencies was limited; and that the main factor in achieving these was to secure greater economies of scale. The Agency had also participated in a parallel exercise managed by the SG which assessed the costs of certain support functions such as HR, IT and Finance.

7.2 The Board discussed the outcomes of these reports and its implication for the Agency. It was agreed that the SMT would provide an update at the next meeting.

**Action: Senior Management Team to discuss the next steps and update the External Management Board at the next meeting.**

## **8. Agency Staff Survey Results and Actions (paper 22.8)**

8.1 Mr Fenton presented a report including an action plan covering the results of the Agency Staff Survey. He reported that the survey attained a response rate of 74%. Questions were asked under several categories including leadership & managing change; how staff viewed their work; how staff viewed pay and benefits. Mr Mackay said that the results were generally very positive and that significant progress had been made in those areas which had caused concern in previous reports.

## **9. Agency Training Strategy (paper 22.9)**

9.1 Mr Fenton provided an update on progress against outcomes of the 2008 Agency Training Strategy. He noted that many of the objectives of the strategy had been successfully delivered. However, it was noted that significant progress required to be made to take forward the coaching and mentoring arrangements as well as the introduction of the Agency leadership programme. An evaluation of the pilot exercise on the Retirement Provision Certificate had been undertaken and it was acknowledged that more could be done to support staff studying for this qualification. He reported that 120 Agency staff now had achieved the ECDL qualification. He explained the success of Investors in People in achieving silver status was largely due to the training strategy and implementation.

9.2 The Board discussed the outcomes of the report and conveyed their congratulations to Gayle Murphy and her team on the plan.

## 10. Any Other Business

10.1 There were no issues raised.

## 11. Date of next meeting

11.1 3 August 2010

### Summary of Action Points - to be completed

Action Point	Paragraph	Responsible Officer
Annual Summary of the Quality Assurance report to be issued to the Board members at the next meeting.	4.5	Mr Clapperton
To prepare an analysis report on how the Agency manage absenteeism for the next External Management Board meeting.	4.11	Mr Fenton
The Board to monitor the Business Plan at the next meeting.	6.2	External Management Board/Senior Management Team
The next steps of the Benchmarking and Efficiency report to be discussed and the External Management Board to be updated at the next meeting.	7.2	Senior Management Team/Mr Dawtry