

**SCOTTISH PUBLIC PENSIONS AGENCY  
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT  
13:30 HOURS ON 3 AUGUST 2010 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, Strategy and Development
Ian Clapperton	Director of Operations
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 and Pamela Brown.

**2. Minutes of Last Meeting and Matters Arising (paper 23.2)**

- 2.1 The minutes of the previous meeting on 27 April 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 23.3)**

- 3.1 Mr Smith reported that the Audit Committee minutes were to be read as draft minutes and were subject to some minor amendments which he would pass to the Chief Executive
- 3.2 Mr Smith reported on the Internal Audit annual report. He confirmed that the level of assurance provided was acceptable to the Audit Committee.
- 3.3 Mr Smith then turned to the Audit of Financial Statements (ISA260) and drew the Board's attention to the clean set of accounts presented by the Agency to Audit Scotland. Audit Scotland advised that this was one of the most complete draft accounts they had received and had thanked to SPPA staff involved.
- 3.4 On the basis of the Internal Audit Annual Report, the level of assurance and clean set of accounts Mr Smith recommended to the External Management Board that they should authorise the Chief Executive to sign the accounts if he was content to do so. Mr Taylor then confirmed that the Board were content to recommend to Mr Mackay that the accounts be signed. Mr Fenton explained that the scheme accounts would be available at the October External Management Board and this would complete the cycle of accounts for sign off.

3.5 Mr Smith brought to the attention of the External Management Board two issues which had been highlighted in the Risk Register. These were the heightened levels of risks associated with i) future resourcing allocations (Risk 8) and ii) data backlogs (Risk 11).

#### **4. Agency Progress Report to 30 June 2010 (incl. Q1 progress against Business Plan Targets) (paper 23.4)**

4.1 Mr Mackay explained that the Agency was making satisfactory progress against its key performance targets. Mr Smith sought clarification as to whether the recorded progress was for the year or for the quarter. Mr Mackay said that at present the targets combined elements of both. He recognised that this might lead to confusion and said that in the future all targets would report against progress for the quarter in question. The comments section would then be used to report against progress for the year if applicable.

4.2 He then drew the Board's attention to a number of operational issues including progress with the summer STSS awards process. There had been an increase in the number of summer retirements of approximately 10% compared to the previous year. This had been handled effectively by the Agency, although it was noted that a number of employers were still making late applications.

4.3 Although Data Cleanse issues had been covered in detail at the Audit Committee, Mr Mackay drew the External Management Board's attention to the significant backlogs that were developing and to the Agency's means of tackling them.

4.4 On the AXISe system, Mr Mackay reported that the NHS interface issue was almost resolved with only the consistency checker element to be finalised. However, the Agency remained concerned about the slow progress being made by the supplier in resolving some functionality issues. Regular contact continues with the supplier and although some of the obstacles had been overcome, the Agency was holding back from paying milestone payments until the work was completed to the Agency's satisfaction.

4.5 Mrs Edey commented upon the importance of ensuring that the supplier delivered the means for providing electronic and interactive benefit statements. Mr Mackay explained that when the Agency signed its contract with the supplier it was on the clear understanding that this would be a mandatory deliverable. The supplier had subsequently advised that they were unable to provide a full web interface because of the existence of multiple employment contracts for many scheme members. Discussions were ongoing with the supplier to clarify what precisely could be delivered and what the Agency's options might be. He would report back to the Board in due course.

4.6 Mr Smith noted that the delays in developing system functionality could impact upon the timings of the 2005-2009 valuations exercises. Mr Clapperton explained that discussions had taken place with the supplier with regards to the development of system functionality to permit the data to be extracted. The functionality was now being tested with the extraction of data planned by the end of August and submission to GAD by the end of September. Mr Mackay added that the Agency always aimed to provide employers with at least one year's notice of any impending increase in scheme contribution rates. In order to mitigate the risks that

this might not be achievable, the Agency had established provisional indicative figures from GAD which would act as a proxy for the final data and which could be used as part of the SR10 process.

4.7 Mrs Edey asked about the number of NHS Choice packs returned from Royal Mail and what the next course of action was for those individuals affected. Mr Clapperton explained that the returned packs were being held in one location. As and when a member contacts the Agency to say he/she has not received a pack a check is being made against the batch held and if it is the Agency will redirect. The remaining returned packs were now being examined and employers were being contacted in order to establish revised address details.

4.8 Noting that the handling of the outcome of complaints in quarter one had appeared to be within acceptable limits, Mr Smith asked if any scrutiny of the Agency's complaints handling procedures was being undertaken in order to verify that the conclusions reached by the Agency were robust. Mr Clapperton advised that there had been no external review of our procedures although he personally reviewed all complaints. Mr Smith suggested that the Board might reflect on this matter. Mr Mackay confirmed that this was a fair point and the Agency would reflect further upon the issue and report back to the next meeting of the External Management Board.

**Action: Mr Clapperton to consider robustness of our complaint conclusions and present findings to the next External Management Board meeting.**

4.9 Mr Taylor noted that the Agency was involved in three bulk transfer tasks: NHS Forth Valley to Serco, Prison Service to NHS and MacMillan Cancer to NHS. Mr Clapperton reported that these bulk transfers may impact on routine business later in the year and briefly explained the work involved.

**Action: Mr Clapperton to update the next External Management Board meeting on the three bulk transfer tasks.**

4.10 Mr Clapperton then reported on the Annual Summary of the Quality Assurance report. He explained that the aim was to look at compliance, timeliness, quality, change control and accuracy across the operational area of the Agency. In terms of accuracy in new payments the success rate did not drop lower than the target rate for last year. In terms of other work we were able to confirm that processes were being maintained and were complying with audit recommendations. Quality Assurance also reviewed the implementation of the NHS/STSS Scheme Reforms and were able to confirm that the review provided confidence that the changes had been correctly implemented.

4.11 Mr Clapperton also explained that Quality Assurance links with Technical Training were being strengthened this year. He also noted that the Change Control system introduced last year was working well and concluded that quality assurance was a definite and beneficial requirement to support the work of the Agency.

4.12 Mr Fenton then provided an update on HR Metrics. Mr Mackay noted that staff turnover for the first quarter had been zero. He advised that there had been no leavers during the first quarter and as a result the staffing budget was likely to

overspend significantly. This would require offsetting savings to be made from elsewhere during the course of the year.

## **5. Pension Reform - update (paper 23.5)**

5.1 Mr Dawtry provided the Board with an update on the UK Government's Independent Review of Public Sector Pensions Review announced on 20 June 2010. The Agency had been given a tight deadline to prepare a response to the UK Government. The review aimed to report in two stages. The first stage, focussing on short term changes was due in September. The second stage, focussing on longer term reform, was due in March 2011. Although occupational pensions policy remains reserved to Westminster, and whilst reserving their own position so far, Scottish Ministers are seeking active engagement in the review. It was understood that Lord Hutton will be in Scotland to meet the Cabinet Secretary in late August. Mr Dawtry also reported that the Agency was acting as the Scottish Government's focal point for advice to Scottish Ministers and that Mr Mackay would represent the Agency on a Proposed Senior level sounding group. The Board discussed the possible implications and Agency/Scottish Government involvement. Mr Taylor concluded that the Agency was uniquely placed in providing strategies to Ministers and indicated the Board's willingness to contribute to this work currently being undertaken.

## **6. Scottish Government Corporate Services Benchmarking Exercise (paper 23.6)**

6.1 Mr Dawtry provided an update on the Agency's approach to benchmarking. He noted that preliminary findings from the Scottish Government benchmarking review of Corporate Services had been received and these demonstrated the leanness of the Agency's current corporate service activities. Mr Mackay said it confirmed the findings arising from the parallel benchmarking report by CEM Limited. The Board discussed the report and noted that it would prove difficult for the Agency to identify further business efficiencies when its current cost base was so low.

## **7. SR10 update/ SPPA Planning for 2011-15/SPPA EMB Awayday (oral)**

7.1 Mr Mackay updated the Board with progress concerning the SR10 exercise. There were four stands of activity: (a) scenario planning to identify and calculate the impact of different levels of budget reduction; (b) an exercise identifying the costs of implementing the new round of Pension Reforms; (c) an examination of the scope for securing further efficiencies through amending existing processes and functions; and (d) the identification of the opportunities to secure additional efficiencies through further IT development.

7.2 The Board agreed to discuss these issues further at its awayday on 28 September 2010.

## **8. SPPA Finance Report Q1 (paper 23.7)**

8.1 Mr Fenton presented the finance position of the Agency and of the pension schemes at the end of June 2010. He explained that the scheme finance budget position was complicated in that we report both to the Scottish Government (against the Scottish Budget Act provision) and to HM Treasury (against the most recent

revision). The Scottish Budget had been approved in early February and within a matter of days the provision for the NHS and Teachers' schemes had been superseded by the Treasury's Financial Statement and Budget Report (FSBR). The Scottish Budget would be amended via the Autumn Budget Revision (ABR) to take account of the FSBR being higher than the Scottish Budget Provision. The revision, by the Treasury, of the discount factor applied to future pension liabilities across the public sector.

8.2 He also reported on the accrued costs based on factors provided by The Government Actuary's Department (GAD) used in the Teachers' report.

8.3 He explained that the Teachers' and NHS schemes combined net resource expenditure was above budget by £8m, or 1%. The overall cash inflow at the end of June was slightly below budget.

8.4 Mr Fenton reported that the current debt recovery position at the end of June was £185k. He explained that since the implementation of EPICOR payments and response from debtors had been quicker than in the past. He intimated that the aim was now to utilise the system in bringing the debt down. An update would be given to the External Management Board in October. Mr Smith also asked if the figures in the summary report could be more clearly linked with those contained in the appendix.

**Action 1: Mr Fenton to provide an update to the External Management Board in October.**

**Action 2: Mr Fenton to ensure that the figures in the summary report to be more clearly linked with those contained in the appendix.**

8.5 Mr Fenton then reported on the Agency Finances. The allocation for the year of £8.47m included £300k that was not part of the baseline provision but which would be found from other areas within the FSG portfolio. Our aim was to have this amount reinstated in the baseline in future years. Mr Fenton reported that he had received an e-mail to confirm that this would take place. Mr Taylor noted that the Board had been looking for that assurance in writing.

8.6 Mr Mackay noted that although the Agency was generally on track financially, lower than expected levels of staff turnover had created additional costs in the salaries budget which would need to be offset during the course of the year.

## **9. Analysis Report - Managing Absence (paper 23.8)**

9.1 Mr Fenton referred to the previous report on HR metrics and the further analysis carried out of the Agency's sickness absence performance. He reported that the average sick absence of 10.8 days was an increase from 10 days in the previous year. The breakdown between short-term and long-term absence was 7.2 and 3.6 respectively. The Agency's performance compared with 5.1 days for the best-performing SG body, and 20.1 days for the worst. He noted that there was room for improvement. Mr Taylor noted that this was costing the Agency £314k and needed to be addressed. The Board then discussed and endorsed the measures the Agency had proposed to adopt to reduce absence and to monitor the situation over the next three months.

## **10. SPPA Leadership Development Programme (paper 23.9)**

10.1 Mr Fenton reported on detailed proposals to develop an Agency Leadership Development Programme. He explained that one of the strands of the HR Strategy seen last year by the External Management Board involved improving leadership capability. To achieve this would require mentoring; coaching; job rotation; and secondment for selected candidates. The paper set out how the Agency planned to deliver this and the associated costs. The Board discussed the proposals in detail and noted that the Agency's ability to proceed with the programme as currently envisaged would be dependent on its SR10 budget outcome.

## **11. Any Other Business**

11.1 Mr Taylor sought dates on the Board's proposed away-day. Mr Taylor proposed the 28<sup>th</sup> of September 2010. Mr Mackay confirmed that the away-day would be held at the Agency. Arrival time 10.30 for 11 a.m. start and meeting to close at 4 p.m.

## **12. Date of Next Meeting**

12.1 26 October 2010

## **13. Review of External Management Board Performance and Terms of Reference (paper 23.10)**

13.1 The terms of reference for the External Management Board and the Board performance were reviewed by Mr Mackay and Board members following the External Management Board meeting.

### **Summary of Action Points - to be completed**

<b>Action Point</b>	<b>Paragraph</b>	<b>Responsible Officer</b>
<b>To consider external benchmarking of our complaint procedures and present findings to the next External Management Board meeting.</b>	4.8	Mr Clapperton
<b>To update the next External Management Board meeting on the three bulk transfer tasks</b>	4.9	Mr Clapperton
<b>To provide an update on EPICOR debtor management to the External Management Board in October.</b>	8.4	Mr Fenton
<b>To ensure that the figures in the finance summary report coincide with those contained in the appendix.</b>	8.4	Mr Fenton