

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT
13:30 HOURS ON 30 JULY 2013 AT TWEEDBANK**

In attendance:

James Taylor	Chair
Julia Edey	Non-executive Director
Alex Smith	Non-executive Director
Alyson Stafford	Director General Finance
Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of Operations
Marion Chapman	Director of Corporate Services
Chad Dawtry	Director of Policy
Susan Gray	Director of Business Change Programme
Jane Murray	Deputy Director of Finance

Martin Greenhow Minutes

Apologies: Ian Waugh, Director of Finance

1. Apologies and Introduction

1.1 Mr. Taylor welcomed everyone to the meeting and introduced Martin Greenhow to members of the External Management Board.

1.2 Apologies were received from Mr. Waugh.

2. Minutes of Last Meeting and Matters Arising (Paper 35.1)

2.1 The minutes of the previous meeting on 30 April 2013 were agreed. The following action points were addressed:

STSS Accounts Actuarial Error

2.2 Mr. Mackay confirmed that there had not been any further developments regarding the GAD actuarial error and that the board should be reassured by Mr. Kneller's letter of 14 May that remedial measures had been put in place to avoid any recurrence.

ACTION: Mr. Mackay is to circulate Mr. Kneller's letter received on 14 May 2013 to board members.

Legal Status of New Schemes

2.3 Ms. Murray said that initial indications from HM Treasury (HMT) were that only one set of accounts was required to cover old and new schemes plus one actuarial valuation, but that this would be clarified in due course. Ms. Murray added that initial indications from HM Treasury (HMT) were that separate scheme accounts for the 2015 schemes would not be required, but that this would be confirmed shortly.

Pension Reform Progress Update

2.4 Mr. Dawtry's update was provided in board paper 35.8.

Pension Reform Programme Management

2.5 Mr. Mackay confirmed that he had written to SG Finance laying down a marker about future costs and ensuring these were factored into the 2013 spending round.

3. Audit and Risk Committee (ARC) Report & Minutes (Paper 35.2)

3.1 Mr. Smith said that the ARC meeting minutes tabled at paper 35.2 were still in draft form and a final version would be issued shortly.

3.2 He also advised that ARC recommended to the Board that the Accountable Officer should sign off the SPPA Annual Accounts – subject to a satisfactory outcome of the current uncertainty regarding the valuation of the SPPA's building.

3.3 Ms. Murray advised that the District Valuer had provided an early indication of the likely valuation figure for Tweedbank and that this would be further discussed at agenda item 9.

3.4 ARC had been impressed by the engagement of SPPA managers - in particular middle managers - in the risk process and with the overall performance on risk management to date.

3.5 Ms. Stafford commended the substantial assurance given by the internal audit review of systems and processes for 2012-13.

3.6 Mr. Smith emphasised to meeting members that the reference to known cases of fraud in paragraph 6.3 of the ARC report was a general statement and did not refer to any one particular case. Nor did it imply that there was any concern with the way in which fraud cases were handled within the Agency.

3.7 ARC noted that the overpayment position was being thoroughly examined and that Mrs. Brown had presented an extensive report to them. Although the process was not yet complete, they were content with progress so far and would review the position at the ARC meeting to be held in January 2014.

3.8 The handling of the recovery of tax from overpayments had been highlighted as a potential area of uncertainty and it was noted that the Agency had agreed a protocol with HMRC in June for this. There was a need to maintain good links with HMRC. Ms. Stafford suggested that all future overpayment write offs should be reported to the ARC split between net overpayments and tax where applicable.

ACTION: Ms. Murray is to ensure that overpayment write-offs reported to ARC are split into component elements of net and tax where applicable.

4. SPPA Progress Report 2013-14 Quarter 1 (Paper 35.3)

4.1 Mr. Mackay reported that the Scottish Government (SG) had recently transferred the Historic Scotland policy function into the SG so that there would be a better fit with other related policy areas. There are no indications that this will be the case for SPPA.

4.2 Updating the meeting on the possibility of SPPA administering the Police and Fire Fighters Pension Schemes, Mr. Mackay said that the SG Justice Department was currently taking advice to determine whether ministers can achieve this in a way which was compatible with procurement obligations. A decision is likely by the end of September 2013.

4.3 Mrs. Edey asked about the size of these two schemes. Mr. Mackay said that there were approximately 25,000 active scheme members and pensioners in the Police scheme and 4,000 in the Fire Fighters scheme. Each scheme would also have three sections relating to the historical points at which reforms had been introduced.

4.4 Ms. Stafford pointed out that the in-year forecasting of costs associated with these new schemes for SPPA would need to be robust as they currently drew upon SG DEL funding. Unlike the NHS and STSS schemes which were AME funded, if costs of fire and police pensions exceeded planned figures, these would have implications for expenditure elsewhere across the Scottish Government's budget. Early visibility of emerging variances would be essential.

ACTION: Mr. Waugh is to ensure that there is early visibility of emerging variances in these schemes.

4.5 The table at paragraph 4 detailed the progress made against each directorate's service standard. Mr. Smith suggested that a better descriptor for the 'Not Known' category would be useful.

ACTION: Mr. Mackay is to identify a better descriptor for the 'Not known' category of the Directorate Service Standards table.

4.6 Mr. J Taylor and Ms. Stafford were both concerned at the shortfall in STSS payment accuracy and timeliness shown in paragraph 5 of the report. Mr. Mackay reassured the meeting that there would, more than likely, be improvements by the next report. The STSS Awards team were in the middle of summer retirals, which had increased the number of cases going through the system. Mrs. Brown said that there was currently a level of inexperience on the team and that this was the first time in two years the targets had not been achieved for a specific quarter.

4.7 Mr. J Taylor congratulated the agency on its health and safety record highlighted at paragraph 21.

4.8 Ms. Stafford asked whether there were any indications from GAD about proposed changes to scheme valuations. Mr. Dawtry said that discussions were still on-going, but there was a possibility of an increase in National Insurance

Contributions and employer costs. Ms. Stafford requested that this issue be tracked by the Board and shared with SG Finance for its impact on future strategic financial planning.

ACTION: EMB is to ensure that this information is tracked and shared with SG Finance for its impact on future strategic financial planning.

4.9 The recent success of the modern apprentices at SPPA was welcomed by Ms. Stafford.

5. SPPA Finance Report 2013-14 Quarter 1 (Paper 35.4)

5.1 Ms. Murray presented the Finance Report to the meeting. She pointed out that the budget for the rent of the SPPA building, which we now own, has been removed from the running costs figures in appendix 2 of the report. Also, an additional £1m would be required to cover the expected actuarial costs relating to pension reforms from GAD. Ms Stafford highlighted that the underspend on rental costs and likely underspend on capital expenditure would cover the extra budget necessary for actuarial costs this year. She also advised that in the future, SPPA budget reports should allow board members to track back to the original financial allocations granted to the Agency in the SG Budget.

5.2 Mr. Mackay added that additional funding of £1m was also required to cover the costs of stakeholder communications for pension reforms.

5.3 Ms. Stafford suggested that additional funding requirements should be discussed at the Pension Reform Programme meetings.

5.4 Mrs. Edey noted that Table 1: Summary of Outstanding Debt showed there had been a marked decrease in the number and value of overpayments in 2012-13 compared to earlier years. She also asked what steps were being taken to recover the outstanding old debt. Ms. Murray confirmed that whilst debt recovery processes were in place and a number of members were repaying by instalments, old debt should be further reviewed.

ACTION: Ms Murray is to review debt recovery action with regards to old debt.

5.5 Ms. Murray reported that IT services costs had increased due to the growing costs associated with the transfer of RTI-related data to HMRC. The current supplier was now charging by the megabyte, increasing costs to £8k each month. In the short term, negotiations are underway with another supplier of this service to reduce costs. A future alternative to be explored would be to share costs with other Government Departments.

5.6 Mr. Smith queried whether the depreciation budget allocation outlined in paragraph 11 was sufficient to cover the additional charge for the Tweedbank site. Ms. Murray explained that there is currently an underspend on depreciation and that

due to the long time scale (35 years) over which the SPPA building would depreciate that this would have a minimal impact year on year.

6. Business Change 2015-17 Programme Management (Paper 35.5)

6.1 Mrs. Gray presented her paper to the meeting outlining her role in managing the programme, the key objectives across the projects within the programme and the interplay between them. She also discussed programme structure, governance and risks.

6.2 Mr. J Taylor stated that he appreciated the energy and focus contained in the report. Ms Stafford said that the use of the vision statement from the SPPA Corporate Plan in paragraph 6 was good and brought a sense of ambition to the programme.

6.3 It was agreed that Annex 1 was a useful tool, accessible and from which progress could be easily tracked. Mrs. Edey suggested that a performance measurement indicator should also be included in this annex. She felt that there appeared to be few people in the lead role category and their involvement in the programme could greatly impact on their normal job. She also thought that programme management should be reported to EMB. Mr. Smith agreed that the report should go to EMB, but the risks associated with it should also go through the ARC.

ACTION: Mrs Gray is to include a RAG status in Annex 1 as an initial indicator of performance.

ACTION: Mrs. Gray is to develop resilience in the Resource Plan to show a support structure to those people taking lead roles.

6.4 Mr. Smith suggested that the role of Internal and External Auditors in these arrangements needed to be determined.

ACTION: Mrs. Gray is to review the role of auditors in the programme management arrangements

6.5 Mr. Mackay suggested that a member of EMB should sit on the programme board. This was agreed. (Note: Mr Taylor subsequently offered to undertake the role.)

6.6 Ms. Stafford said Fiona Montgomery, Deputy Director of the Health & Social Care Quality Unit, could be a useful contact for improvement and science methodologies, outcomes and measurement, if required. Ms Gray agreed to establish a dialogue with her.

6.7 Mr. J Taylor summed up by confirming:

- EMB endorsed the vision for the programme;

- The proposed make-up of the board was agreed, but may need to be changed at a later date to ensure the right skills were available at the right time;
- Acceptance that a member of EMB should sit on the programme board; and
- Risk management aspects should be referred to internal/external audit, Audit Scotland and ARC

7. 2015 IT Options (Paper 35.6)

7.1 Mrs. Brown presented the 2015 IT Options paper to the meeting outlining the current position, the planning assumptions and the options investigated by the agency and its IT supplier, Heywood. She also discussed the options analysis and the preferred option.

7.2 Mr. J Taylor said that there were risks with the preferred IT option. Heywood were clearly disappointed with the decision to develop AXISE and there was a risk that the relationship with them now appeared to be one-sided. Mr. Mackay confirmed that there was an on-going dialogue with Heywood to keep the relationship at an appropriate level. He was confident that Heywood understood our concerns and would work with us to achieve a satisfactory outcome.

7.3 Ms. Stafford queried whether Heywood would remain willing to undertake the required development of AXISE. Mrs. Brown confirmed that only a bare minimum of development would be required and that there were existing contractual obligations covering system development. Mr. Mackay added that Heywood were already developing an AXISE solution for several local authorities in England and Wales which needed to come on-line one year before Scotland.

7.4 Mr. Mackay explained that in order to mitigate the risks associated with the chosen option, he wished to bring forward the procurement process for the longer term IT solution by one year.

7.5 Ms. Stafford asked whether SPPA would have a sufficiently defined scope ready for the procurement process being brought forward by one year. Mr. Dawtry confirmed that the STSS regulations were just about written for the England and Wales scheme and these would form the basis of the scheme in Scotland. Mr. Mackay confirmed that there would have to be an element of agile procurement, but by the time the initial stages were completed, the scheme regulations should be available from which to build up the final scope.

7.6 Mr. J Taylor asked whether the appropriate funding arrangements to bring the procurement process forward could be put in place. Ms Stafford confirmed that any requests for funding from the £10-12m already in the accounts paper needed to be made early. Mr Mackay confirmed that this had been brought to the attention of the appropriate people in the SG.

7.7 Mr. J Taylor confirmed that EMB endorsed the process to develop existing AXISE functionality and to bring forward the procurement process.

8. Pension Reform Agency Governance Proposals (Paper 35.7)

8.1 Mr. Dawtry presented the Governance Proposals paper to the meeting including how the proposed new board arrangements for the agency might be set up, the generic design for pension boards and scheme advisory boards, the arrangements for appointing members to them and the timing of these new arrangements. He confirmed that the target date of September 2013 suggested in step 2 of the Next Steps section of the paper was for completion of the consultation only.

8.2 Ms. Stafford suggested that SMT should be added to the diagram at annex B and that care should be taken with drafting to remove the inappropriate use of the 'political' in the paper. She also felt and that the report needed to better reflect what the benefits and outcomes of the exercise will be.

8.3 Ms. Stafford also said that the Agency might want to explore, in future, whether directors might have a pension scheme as well as a functional lead when attending future board meetings, the need to address the attendance of people with particular specialist roles and how a gender balance across the overall board membership might be achieved.

8.4 Mr. J Taylor stated that there was a need to ensure there were good lines of communication across all boards.

8.5 Mr. Mackay said that the model being suggested is unique as SPPA is the only organisation with more than one scheme to administer, there were some flexibilities in timescales and the model would flex as SPPA changed.

8.6 Mr. Smith was supportive of the proposals and said the detail of the paper reflected the discussions on the recent Away Day.

8.7 Mrs. Edey said that transition from the old to the new governance arrangements needed to be explained, that staggered appointments for board members should be considered and suggested that there may be a need for actuary expertise at agency board level.

9. Public Sector Pensions Reform Update (Paper 35.8)

9.1 Mr. Dawtry presented the pensions reform paper to meeting members which included: the latest position in Scotland for each of the NHS, Teachers, Police Scotland, Fire Fighters and Local Government pension schemes; delivery deadlines with red, amber and green status ratings; and scheme valuation directions.

9.2 Ms. Stafford suggested that the timescales for moving from one scheme to another and the way in which we communicate this to stakeholders should be considered. Mr Dawtry noted that this would clearly form part of implementation planning and related communications strategies for each scheme.

9.3 Ms. Stafford questioned whether the implementation of the reforms ought to be put through the Gateway review process and Mr Dawtry noted that the Scottish Government's Pension Reform Programme Board, chaired by the Director of Financial Strategy and Head of Revenue Scotland, on which all lead Scottish Government directorates were represented, could consider that.

9.4 Mr. Smith expressed concern that SPPA may not have sufficient levels of staff with the necessary skills in place to cope with the current demands being placed on the policy function. Mr. Dawtry said that this was already being discussed with his SMT colleagues.

ACTION: Mr. Dawtry is to discuss Policy function staffing with SMT.

10. Draft Annual Report and Accounts 2012-13 (Paper 35.9)

10.1 Ms. Murray presented the draft Annual Report and Accounts 2012-13 prepared by Mr. Waugh to the meeting. This detailed the progress made to date in finalising the accounts and in particular the efforts made to get the SPPA building valued through the District Valuer's Office.

10.2 Ms. Stafford acknowledged the good work undertaken by Mr. Waugh in relation to the valuation of the site. Mr J Taylor confirmed that EMB will sign off the report once finalised.

11. AOB

11.1 Mr. J Taylor thanked all those involved for the accuracy of the board papers and all the work that had gone into them.

11.2 It was noted for the minutes that immediately following the meeting the board would undertake its annual self-assessment of EMB activity; and would also review the current terms of reference for the Board.

12. Date of Next Meeting

12.1 The date of the next External Management Board is Tuesday 22 October 2013.

SUMMARY OF ACTIONS

Para	Action	Action Officer
2.2	Mr. Mackay is to circulate Mr. Kneller's letter received on 14 May 2013 to board members.	Mr. Mackay
3.8	Ms. Murray is to ensure that overpayment write-offs reported to ARC are split into component elements of net and tax where applicable.	Ms. Murray
4.4	Mr. Waugh is to ensure that there is early visibility of emerging variances in these schemes.	Mr. Waugh
4.5	Mr. Mackay is to identify a better descriptor for the 'Not known' category of the Directorate Service Standards table.	Mr. Mackay
4.8	EMB is to ensure that this information is tracked and shared with SG Finance for its impact on future strategic financial planning.	EMB
5.4	Ms Murray is to review debt recovery action with regards to old debt.	Ms. Murray
6.3	Mrs Gray is to include a RAG status in Annex 1 as an initial indicator of performance.	Mrs. Gray
6.3	Mrs. Gray is to develop resilience in the Resource Plan to show a support structure to those people taking lead roles.	Mrs. Gray
6.4	Mrs. Gray is to review the role of auditors in the programme management arrangements	Mrs. Gray
9.4	Mr. Dawtry is to discuss Policy function staffing with SMT.	Mr. Dawtry