

**SCOTTISH PUBLIC PENSIONS AGENCY  
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT  
13:30 HOURS ON 31 JULY 2012 AT TWEEDBANK**

**In attendance:**

James Taylor	Chair
Julia Edey	Non-executive Director
Alyson Stafford	Non-executive Director (SG Director General of Finance)

Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of Operations
Marion Chapman	Director of Corporate Services
Chris Fenton	Director of Finance
Chad Dawtry	Director of Policy
Robert Giddings	Government Actuary's Department
Lila Tereszczyn	Minutes

**1. Apologies and introduction**

1.1 Mr Taylor welcomed everyone to the meeting.

1.2 Apologies were received from Mr Smith.

**2. Minutes of last meeting and matters arising (paper 31.2)**

2.1 The minutes of the previous meeting on 17 April 2012 were agreed and noted.

**3. GAD Annual Report of Activities (paper 31.3)**

3.1 It was agreed at the August 2011 External Management Board meeting that the Board would receive a report from the actuarial services provider from April 2012 on an annual basis. Mr Giddings detailed GAD's activities during the past year and set out a number of issues for consideration. The main issues last year concerned the provision of actuarial factors to the Agency to allow for the calculation of transfer values and the provision for updates, the move to CPI and the discount rate. He reported on the members' contribution increases, public service pension reform, the Scottish Teachers' analysis of demographic features/data and the IAS 19 resource accounts for NHSSS and STSS. Details of expected activity in 2012-13 were also provided covering public service pension reform, formal funding valuations, emerging issues on data analysis and assumptions.

3.2 Ms Stafford advised that this annual review was a relevant part of Board activity. It was noted that in addition to considering the annual report of actuarial activity, the Board had engaged with its actuarial advisers on a number of other occasions.

3.3 Mr Taylor asked whether GAD had sufficient resources in place to carry out the valuations whilst also advising on pension reform issues. Mr Giddings said that the resource capacity of GAD in the next 9-10 months was a challenge but not

impossible. The information was there, and additional resources would be brought in if required. Mr Mackay noted that the issue of GAD resourcing was one of the risks to be kept under review by the Scottish Government's Pensions Reform Programme Board which was chaired by its director of Financial Strategy.

3.4 Ms Stafford asked whether the data quality was adequate for SPPA to carry out its administrative and policy roles. Mr Mackay noted that the Agency had engaged in substantive data cleanse programme and was also developing a project which would try to identify data quality benchmarks for its most important data items. Mr Dawtry added that from the policy perspective, the main concerns lay with those schemes which were not administered by SPPA where third parties were responsible for owning and managing the data. It was expected that under the provisions to be set out in the UK Government's pension reform bill, the pension regulator would be empowered to set data quality standards for both employers and pension administrators.

3.5 Ms Stafford acknowledged the work carried out by the Data Cleanse team, which she had seen at first hand earlier that day.

#### **4. Audit and Risk Committee Report (paper 31.4)**

4.1 Mrs Edey reported on the main issues arising from the Audit and Risk Committee meeting on 17 July 2012 .

4.2 Mrs Edey re-iterated Internal Audit's substantive assurance given for the audits carried out in 2011-12. She also noted that an unqualified opinion had been provided by Audit Scotland for the completed Agency's 2011-12 accounts. The ISA 260 report contained no accounting matter that needed to be drawn to the attention of the members and Accountable officer.

4.3 Against this context, Mrs Edey recommended to the External Management Board that Mr Mackay formally be asked to agree and sign the Agency's accounts. Mr Taylor confirmed that the Board was content to recommend that the accounts be signed accordingly.

4.4 Mrs Edey explained that the draft Schemes' accounts and any emerging issues would be presented at the Audit and Risk Committee meeting on 9 October 2012.

4.5 Mrs Edey also noted the main items of change considered within the Agency's risk register and a number of adjustments which had been made in respect of mitigating actions.

4.6 Mr Taylor thanked Mrs Edey for acting as Chair to the Audit and Risk Committee during the absence of Mr Smith.

#### **5. Agency Progress Report (incl. Q1 progress against Business Plan Targets) (paper 31.5)**

5.1 Mr Mackay reported on the recent sad passing of a member of staff, Martin Lindsay, a Team Leader within Payroll. He paid tribute to Mr Lindsay's time with the Agency and said he would be sorely missed. The Board extended their condolences to his family.

5.2 Mr Mackay issued a letter at the beginning of the meeting from the Director General Governance and Communities which set out the Scottish Government's statement of corporate expectations governing the relationship between central government, Agencies and non departmental public bodies. Ms Stafford explained the framework, agreed by Scottish Ministers as part of their programme of Public Service Reform, would allow more corporate and consistent working practices to develop across the family of SG organisations.

5.3 Mr Mackay reported on a number of staffing issues including the recruitment of 3 staff under the Modern Apprenticeship Programme(MAP). Should the MAP trial prove successful the aim would be to recruit more apprentices in the future.

5.4 Following the recent Scottish Government B Band recruitment exercise, twelve SPPA staff from a total of thirty five were successful in obtaining promotion. [note: a further member of staff received subsequent notification of success]. Mr Mackay noted that on a proportional basis, more SPPA staff succeeded in this exercise than staff from other parts of the Scottish Government. He said that this reflected well on the recruitment and staff development programme carried out by SPPA.

5.5 Mr Mackay advised that the receipt of the final annual report from CEM, which benchmarks the Agency's pension administration functions against a range of similar peer organisations. This confirmed the Agency's status as a low cost/high service quality organisation. Mr Mackay advised that the marking would have been higher had the Agency carried out more face to face interaction with members but this was something that was not offered as a general service. Mrs Brown explained that the introduction of pensioner web services and benefit statements would boost the service rating and this would have an impact on the next benchmark report. After discussion, the Board asked for CEM Benchmarking to present a formal paper at the next Board meeting.

5.6 Mr Mackay explained that the agreed final versions of the proposed Framework document, Corporate Plan and Annual Business Plan were still awaiting Ministerial clearance. Copies were provided to members of the Board. [note: This was received shortly after the meeting.]

5.7 Mr Mackay reported on the range of detailed business improvement projects being carried out across the Agency and how work was progressing aggressively to increase organisational effectiveness and efficiency.

5.8 Mr Taylor noted that the Data Cleanse Project was now closed and the records maintenance would become a normal operational function with progress reported to the Agency's Senior Management Team on a monthly basis.

5.9 Ms Stafford asked how the Agency identified projects which could be linked together in order to deliver a more cohesive and effective solution to issues. Mr Mackay explained that the Agency's Programme Board acted as a forum for this. Mrs Brown noted that continuous improvement was embedded within teams as a principle around which all work programmes were based.

5.10 Mr Mackay noted that there were no significant changes to the key HR metrics.

## **6. Finance Report (paper 31.6)**

6.1 Mr Fenton presented the financial position of the Agency and of the pension schemes as noted under Appendix 1 of his report. The overall trend of the schemes indicated a resource underspend due to lower interest costs and current service costs. NHS income was close to budget, but Teachers' income was 5% below budget to date. The net resource position was forecast to be 8.6% below budget at the year-end.

6.2 Mr Fenton reported on net cash expenditure which was slightly above budget to date, while the forecast for the year, an outflow of £407 million, was 5.3%, or £21 million above budget. The forecast outflow for 2016-17 was more than £700m, although this figure was not adjusted for higher members' contribution rates in 2013-14 and 2014-15. The Board noted with interest the widening gap between cash income and pensions in payment.

6.3 Ms Stafford asked whether the prediction of pension expenditure could be more accurate. Mr Mackay explained that he was acutely aware of the significance of potential constitutional change to the process of estimating actual pension expenditure. The agency was continually assessing whether smarter ways of being more accurate in predicting financial forecasts could be developed.

6.4 Mr Fenton indicated that the budget and Treasury forecasts were subject to various revisions during the financial year, reflecting changes in the interest costs, current service costs accrual rates and employers' payroll expenditure. Ms Stafford asked that he record the reasons for budget changes through the year.

**Action: CF - to record the reasons for budget revisions during the year.**

6.5 Mr Fenton reported on the number of overpayments invoiced. Outstanding debt amounted to £1.37 million of which £0.6 million was being recovered by instalment. The average debtor days was 129, compared with the target of 180 days.. The total amount written off this year was £30k, although this would increase substantially following the write-off of a large overpayment that originated when the payroll function was under Paymaster. The overpayment was £262k, of which the statute of limitations prevented the recovery of £172k.

6.6 Mrs Brown said that arrangements were under way to investigate cases where scheme members were in receipt of two pensions.

6.7 Mr Fenton advised on the Agency's finances noting that administration costs were below budget. This was mainly due to recruitment and staffing numbers not having reached budgeted complement and actuarial costs associated with pension reform which had not yet been billed. The £390k actuarial costs budget was not sufficient but assurances had been made from Scottish Government client bodies to meet increased actuarial costs associated with pension reform. He also noted the forecast for postage costs had been increased to cover costs for the remainder of the year following bulk mailing exercises.

6.8 Mr Fenton noted the modest capital expenditure budget, covering web development and IT infrastructure enhancements.

6.9 Mr Fenton reported on the budget arrangements to meet the requirements of HM Treasury, the Office of Budget Responsibility (OBR) and the Scottish Government. Annual budgets were prepared for the Scottish Government and HM Treasury with in-year revisions/supplementary revisions. The Schemes' budget bill was signed late autumn and forecast estimates for HM Treasury are prepared a month later,

6.10 Mrs Edey had made reference, at the April Audit and Risk Committee meeting, to Audit Scotland's Best Value Toolkit and commented that this might be a useful resource for the Agency. Mr Fenton noted that the toolkit, covering 18 separate areas and activities, was designed primarily to assist auditors in their assessment of organisations' performance. Nevertheless, the toolkits could provide a useful guide to organisations in planning further improvement. Directors should ensure that the relevant toolkits were applied in the future business planning processes, ensuring that the principles of better and best practice were assessed and applied.

## **7. People Strategy (paper 31.7)**

7.1 Mrs Chapman reported on the Agency People Strategy, People@SPPA and its supporting action plan. Since 2005 the Agency had focused on developing individual Human Resource and Training strategies. A more integrated approach was now being taken. Last year the Scottish Government released a People Strategy which set out the working practices to enable the Scottish Government achieve its goals. The Agency translated this short strategy into a more meaningful document to enable the Agency to meet its task targets and review progress.

7.2 People@SPPA was based around delivering the Agency's mission statement, aims and themes. It underpins what the Agency wants to do, focusing on actions and outcomes for next year. As a living document, the People Strategy and Action Plan will change during this and the coming year in response to changing circumstances. The intention is for the People@SPPA and the Action Plan to remain a living document and be reviewed regularly by the Agency Senior Management Team and monitored by the Agency's Human Resources team. After discussion the Board approved the strategy and commended the Agency for the way in which it had involved staff in its development. It also welcomed the assurances given by the Chief Executive that the document would be given a high management profile throughout the current Corporate plan period.

## 8. SPPA Communications Strategy (paper 31.8)

8.1 Mrs Chapman then reported on the Communications Strategy and its supporting action plan. The Communications Strategy had been developed to support the People Strategy. Given the changes and progress made within the Agency over the past few years, there had been a need to update the previous communications strategy to reflect current business needs.

8.2 Mr Taylor commended the team effort in developing both strategies as living documents. Ms Stafford requested an electronic copy to share with Scottish Government colleagues and noted that the documents were good examples of effective staff participation in group conversations and how to maintain a continuous dialogue.

8.3 Mr Mackay said that the next step was to host a series of staff seminars which would raise awareness of the significance of the people strategy and challenge staff to identify ways in which they might be able to support it.

## 9. SPPA Programme Board (paper 31.9)

9.1 Mrs Chapman reported on the Agency's governance arrangements for managing high risk or high value projects which collectively contributed to SPPA's programme of business change.

9.2 Mrs Edey commented on how the Programme Board structure provided real benefits in terms of risk management and the management of multiple concurrent projects. Ms Stafford thanked Mrs Chapman for providing sight of the current list of projects being considered by the Programme Board. This provided the Board with substantial reassurance that high risk and high value projects were being managed in an integrated manner and that the major risks associated with each project were also being appropriately managed.

## 10. External Management Board Terms of Reference (paper 31.10)

10.1 Mr Mackay presented the External Management Board's Terms of Reference for its annual review by the Board. Based on the Agency's Framework Document and the role of the External Management Board only one minor change (highlighted in italics) had been made. This was for the membership of the Board to include the Scottish Government's Director General of Finance *or her/his nominated representative*.

10.2 The External Management Board was content with the change and asked for the annual review process to be added to the Annex D reference External Management Board in the Agency Framework Document.

**Action: "To report on the implementation of these roles annually" to be added to the Annex D Terms of reference External Management Board in the Agency Framework Document.**

## 11. Pension Reform update - restricted (paper 31.11)

11.1 Mr Dawtry provided an update on developments of the public sector pensions at a UK level and in Scotland. Tripartite negotiations were underway for NHS and Teachers' schemes and also around Police and Firefighters' schemes and the UK government would shortly be publishing its Public Sector Pensions Bill. A number of issues relating to the Bill and its potential impact on the agency was subsequently discussed. It was noted that it is expected that the Bill will give the Pensions Regulator a duty to regulate public service pension schemes across the UK, including in Scotland. It was agreed that the Agency would seek to establish a meeting with the Regulator to discuss their current thinking.

**Action: once the Public Service Pensions Bill is published and the Pensions Regulator's duties are known - SPPA to contact the Pensions Regulator to seek an initial meeting with the Board (including DG Finance).**

11.2 Ms Stafford asked whether the establishment of the new SG Public Service Pensions Reform Programme Board was assisting with the management of the reform agenda. Mr Dawtry noted that two meetings had been held and that they had provided the Agency with valuable guidance and support.

## 12. Any Other Business

12.1 Mrs Stafford expressed her thanks to Mr Mackay for hosting her short visit to the Agency and the feedback and enthusiasm received from staff on the improvement agenda.

## 13. Date of Next meeting

13.1 The next meeting of the External Management Board is 23 October 2012

13.2 The Annual Self Assessment of the External Management Board activity 2012 was carried out separately by the Chief Executive and Board members following the External Management Board meeting.

Action Point	Paragraph	Responsible Officer
To record the reasons for budget revisions during the year.	6.4	Mr Fenton
"To report on the implementation of these roles annually" to be added to the Annex D Terms of reference External Management Board in the Agency Framework Document.	10.2	Mr Mackay
Once the Public Service Pensions Bill is	11.1	Mr Dawtry

published and the Pensions Regulator's duties are known - SPPA to contact the Pensions Regulator to seek an initial meeting with the Board (including DG Finance).		
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