

**MINUTES OF MEETING OF THE SPPA EXTERNAL MANAGEMENT BOARD  
TUESDAY, 4 FEBRUARY 2014**

**Present:**

James Taylor	Chair
Julia Edey	Non - Executive Director
Alex Smith	Non - Executive Director
Sheena Cowan	Non – Executive Director
Eleanor Emberson	Director of Financial Strategy and Revenue Scotland
Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of Operations
Chad Dawtry	Director of Policy
Ian Waugh	Director of Finance
Susan Gray	Director of Business Change Programme

**Apologies:** Marion Chapman

**Minutes:** Liz Rae

**Introductory Remarks**

1. Mr Taylor welcomed everyone to the meeting.

**Minutes of Previous Meeting, Matters Arising and Declarations of Interest  
(Paper 37.1)**

2. The minutes of the previous meeting, held on Tuesday 22 October, subject to some minor amendments, were agreed.
3. There were no Declarations of Interest submitted.
4. **The Board agreed** that the style of the minutes for future meetings should be changed so that comments arising from discussion were not attributed to specific individuals.

**Audit and Risk Committee (ARC) Report (Oral)**

5. Mr Smith gave a report on the ARC meeting, which had taken place earlier in the day, and requested that the Agenda be distributed to those who had not attended the meeting.
6. Most of the meeting had been used to cover routine business, but he asked that the following points be highlighted:

6.1 The SPPA Risk Register was a very professional and well set out paper which the ARC had noted contained some risks which were significant enough to be drawn to the attention of the Board. These were:

- Risk 9 – Failure of IT suppliers to deliver products or services;
- Risk 12 – Procurement process delivers unsatisfactory outcome; and
- Risk 14 – SPPA has insufficient time and resources to administer Fire and Police Pensions from 2015.

6.2 Pensions Overpayments Progress Report – The ARC members were satisfied with the actions taken thus far and the next steps to be taken.

6.3 Programme Board – Internal Control/Risk Management – The ARC members were satisfied that the actions taken were correct and were satisfied with the update provided and that the amber result from the '0' Gateway review was an acceptable result.

### **SPPA Progress Report Q3 2013 – 14 (Paper 37.2)**

7. Mr Mackay introduced his paper by drawing the Boards attention to:

7.1 The Scottish Government's (SG's) White Paper on Independence, which included a substantial section on pensions including the specific commitment that " the Scottish Public Pensions Agency will form the basis for delivering the additional responsibilities for public sector pensions that will be required in an independent Scotland".

7.2 Progress against the Agency's Business Targets - No substantive issues were arising and Mr Mackay was confident that all targets would be met by the end of the year. He also informed the Board that there had been 3 new tasks added to the Business Plan in October which reflected additional tasks which had been passed to the Agency since the start of the financial year, such as the Police and Fire Project and the development of the Business Change programme management arrangements.

7.3 The final CEM Benchmark Report was received on 21 January 2014 and John Simmonds from CEM will present the findings to SMT on 17 February 2014: and

7.4 Nine **new** staff fixed term staff started work on 20 January and 8 Modern Apprentices (MAPs) will start on 17 February.

8. Mr Mackay then asked if anyone had any questions/comments and the following points were discussed/agreed:

8.1 It was noted that SPPA is working alongside the SG in preparing transition planning arrangements in the event of a 'Yes' vote in the September

referendum. Details of the transition planning arrangements for SPPA will be brought to the next meeting of the EMB.

8.2 Concern was voiced over the accuracy and timeliness of STSS post payment checks which was low compared to NHS. It was reported that this was partly a result of experienced staff being moved to support activities associated with the business change agenda. It was explained that a resourcing meeting was due to take place in February to discuss staffing, and that would consider ways of limiting any potentially negative impacts on “business as usual” activities.

8.3 A discussion then took place regarding paragraph 11 which concerned a data issue where some member data had contaminated a small number of other member records. The Board were assured that this would have no impact on the payment of pensions and that the records would be repaired manually. Any backlog would be dealt with by the end of the financial year.

8.4 The Board commented that in paragraph 13 of the paper the current Web Services registration figures seemed to be low. They were assured that the figures compared favourably to accepted industry standards. It was also noted that the issue of developing new “digital first” services was one of the items to be discussed at the External Management Board (EMB) away day which was scheduled for 5 February.

8.5 A discussion then took place regarding the changes being made by HM Treasury to the scheme valuation process, and the potential impacts of those changes on Agency and scheme finances. The Board will be kept informed of progress.

8.6 Within the context of the Business Continuity Plan (BCP), the Board were informed of an incident arising from the erroneous allocation of tax codes by HMRC which had the potential to contribute to the non-payment of a small number of Pensions. One of the main problems was that the incident occurred on a Friday after the SEAS closedown of 3 o'clock and there was no one available within SG finance to help.

8.7 As a result of this incident the Board agreed with the suggestion that there needed to be a mechanism in place between SPPA and Central SG to deal with this situation should it arise again.

8.8 The Board were also informed that contract negotiations with the Agency's main IT supplier regarding the Business Change agenda were continuing but were complex. The Board will be kept informed of developments.

**Actions:**

- 1. Mr Mackay to bring a paper on transitional planning arrangement to next EMB (para 8.1).**
- 2. Mr Waugh to set up mechanism between SPPA and Central SG to deal payments needed after SEAS closes (para 8.7).**

### **3. Mr Mackay to keep Board informed of Heywood contract negotiations.**

#### **SPPA Finance Report Q3 2013 – 14 (Paper 37.3)**

9. Mr Waugh presented his paper highlighting the following key points:

9.1 The overall net expenditure at the end of December 2013 was £7,225,000 and in line with previous forecasts and previous years the non-cash resource (depreciation) budget will be underspent by £431,000.

9.2 Following the Spring Budget Revision the anticipated £1.2 million allocation, was received from Justice (Fire & Police), Education, Health and Wellbeing and Local Government for pension reform actuarial services and a further £80,000 from Justice to cover extra staff costs for the implementation stage of the Fire & Police project which have been reflected in the full year forecasts.

9.3 The forecast capital outturn to date, excluding payments to Heywood under the contract addendum, is £331,400 which represents a £718,600 projected underspend. The Board were informed that there were some significant invoices due to be invoiced by Heywood in line with the contract addendum milestone payments which are yet to be finalised and some disputed invoices in relation to potential double counting of IT work performed which are still to be resolved which makes the final outturn unclear at this time.

9.4 In line with previous forecasts the 2013-14 Scheme Budget Forecast outturn there will be a resource underspend of £25 million on a net resource budget of circa £2 billion. The net cash budget for 2013-14 is £263 million and based on projected cash requirements there will be an underspend of £20 million.

9.5 As work on the 2012 funding valuation for the Teacher' scheme is not yet at a stage where the liabilities can be assessed by GAD, the possibility of further adjustments to the 2012 NHS valuation, the uncertainty surrounding the valuation of liabilities as at March 2012 and future amendments to the pension scheme, it was agreed with central Finance that the SG Budget Bill to be published in January 2014 will reflect the original draft numbers.

10. The following points were raised:

10.1 Regarding the £80k implementation costs referred to in paragraph 4 of the paper, it was pointed out that extra requirements may be needed as people move on and things change, a buffer may be needed.

10.2 It was also pointed out that the paper did not contain the usual annexes providing detail of Agency expenditure. Mr Waugh explained that he was looking to report to the EMB on an exception basis (the SMT having already considered the detail) and more broadly to balance the needs of the

EMB and that of the ARC which had met earlier in the day. The Board understood this but asked that for the next meeting there should be more explanation of the figures.

### **SPPA Business Transformation Programme Update (Paper 37.4)**

11. Mrs Gray presented her paper to the Board explaining that it concentrated on Stakeholder Engagement and Communication, Programme and Project Delivery, Resource Management, Governance, Assurance and Risk. She then went on to cover the following points:

11.1 **The** Stakeholder Engagement and Communication Strategy had been approved on 20 November. It set out a framework to involve those affected by the implementation of the Programme. She further explained that this was supported by key stakeholder engagement objectives which were to ensure a coordinated approach to stakeholder management, improve working relationships, change perceptions for the better, foster goodwill and support, remove obstacles at critical points in the programme and improve channels of communication.

11.2 The Board were then directed to Annex A of the paper which contained an assessment of stakeholders relevant power and interest first at an absolute level then relative to certain conditions.

11.3 The Board were then informed that the Programme Board had met twice since the last EMB. Mrs Gray drew the Boards attention to the key decisions that had been taken at those meetings and that in accordance with the Gateway Review (which had taken place in January 2014), a key priority going forward was the development of Project and Programme Contingency Plans which was a priority for the Programme in the next quarter.

11.4 Under Programme Resource Management the Board were advised that the Gateway Review had also recommended that the Programme needed to confirm the overall requirement for and availability of key skills and adjust the Programme accordingly. There was also the possibility that the Programme Office would benefit from specialist support, for a limited period, on key Programme activities. The Board were also advised that the Programme has been allocated a cost centre and each project allocated a new project code to facilitate the effective capture of Programme and Project costs.

11.5 The most significant assurance activity to date is the Gateway '0' Strategic Assessment. The Delivery Confidence assessment reached by the Review Team was Amber. This means that successful delivery appears feasible but significant issues already exist requiring management attention. These appear resolvable at this stage and if addressed promptly should not present cost / schedule overrun.

12. Mrs Gray then asked the Board to comment on the following:

12.1 Stakeholder Analysis conducted to date – the Board agreed that the way this was set out in Annex A was excellent and agreed that the positions at the moment were fine but would change in the future, There was also a recommendation to change some of the wording within the table.

12.2 Programme and Project Delivery – it was noted that this is more about skills and expertise rather than numbers and making effective use of the resources already available.

12.3 Programme Board relationship with EMB – The Board requested that they be provided with the minutes of the Programme Boards and a copy of the key findings of the Gateway Review.

12.4 Gateway Review Action Plan – the Board agreed the plan so far but asked that they be kept informed of any relevant developments.

**Actions:**

**4. Mrs Gray to provide the Board with a copy of the '0' Gateway review key findings and keep them informed of progress.**

**Fire and Police Project Progress Report (Paper 37.5)**

13. Mrs Brown presented her paper to the Board highlighting the following areas:

13.1 The transfer of service provision for the Scottish Fire and Rescue Service (SFRS) and the Scottish Police Authority (SPA) to SPPA is planned to take effect on 1 April 2015. The service is currently provided mainly by Local Authorities pension administrators most of whom use either Heywood's Altair or Axise platform. A key challenge is to migrate all those services to a single integrated service. Once the service is implemented, SPPA will also be required to handle data transmission from each of the current administrators until at least 2015/16 as the SPA and SFRS will still have separate payroll systems across the regions.

13.2 Meetings took place between SPPA, SG Justice, SFRS and SPA in September and then with SPPA and Heywood, as a result it was decided that a project would be set up as part of the Agency's Business Transformation Programme.

13.3 The Board noted the Progress to date of the Project and the steps that needed to be taken before the next Project Board on 24 February.

13.4 The current estimated costs are Implementation - £2.185m and On-going service provision £1.902m. Some costing's are still under negotiation and there may be additional costs due to new scheme costs.

13.5 A Risk Register has now been developed and the key risks have been identified as:

- Timescales for delivery may not be met – conflicts with other changes;
- Resources – SPPA, current administrators and Heywood – skills, knowledge and experience spread thinly; and
- Lack of agreement on scope – joint agreement required to ensure project progresses.

13.6 The plans on the Payroll side are business critical and there will be a meeting about that next week.

14. EMB were then invited to comment on the paper or ask any questions:

14.1 The Board asked if the Risks had been incorporated in the Agency and Programme Risk Registers and were assured that they had.

14.2 They asked if there was any commonality between the 4 schemes and were advised that the calculations was similar but the governance was different.

14.3 A contingency plan is essential and it must be one that the Board can believe in especially the payroll aspect and buy in is needed from all parties.

14.4 There is a lot being learned from this process that can be taken forward to future exercises.

14.5 The Board stated that they were happy with the lines of reporting.

### **Agency Governance Proposals (Paper 37.6)**

15. Mr Dawtry highlighted the main points of his paper which was intended to provide External Management Board (EMB) with an update on progress towards establishing proposals for restructuring governance arrangements to adapt to the requirements of the Public Service Pensions Act 2013. He covered the main points as follows:

15.1 A short background report was given followed by a progress update. Issues have been discussed with the Pensions Regulator and a discussion on governance took place in early November 2013 which gave UK scheme policy leads the opportunity to explore issues and share experiences. There have also been sessions on scheme governance with lead stakeholders of all Scottish schemes.

15.2 The next timetable of events was provided for the Board in paragraph 5.

16. Mr Dawtry then informed the Board of a key development which was that there had been a formal consultation by the Pensions Regulator on its draft Code of Practice for schemes covered by the Act and its Draft Regulatory Strategy for taking

forward its new responsibilities. Issued on 10 December 2013, The consultation will run until 17 February 2014. On behalf of the Scottish Government, the Agency intends to respond from two perspectives:

1. As the Scottish Government's policy advisor;
2. As scheme manager for four public sector pension schemes from April 2015.

17. The Board then heard that the emerging conclusions were that we are seeking the correct balance between the improved transparency and accountability sought through the Act; the likely expectations of the Pensions Regulator; and the duty to achieve "effective and efficient governance and administration" of schemes.

18. Mr Dawtry then went on to explain to the Board regarding Scheme Advisory and Pension Boards. Four options had been considered:

- 1 combined Pension Board for all four schemes;
- 2 Pension Boards – a combined one for the NHS and Teachers' schemes and a combined one for the Police and Firefighters schemes;
- 3 Pension Boards – one each for the NHS and Teachers' schemes and a combined one for the Police and Firefighters schemes; and
- 4 Pension Boards – one for each scheme (as envisaged by the Act and as will the outcome elsewhere).

19. It was noted that a single board provided the most cost effective solution and reduced significantly the administrative overheads associated with servicing the pension board. However, stakeholders had clearly expressed their preference for 4 individual pension boards. We were therefore likely to have to go down the 4 board route. However, the Board agreed with the suggestion that we should not slavishly follow the regulator's guidance. We should engage in dialogue with the Regulator in order to explore the opportunity for doing things in a manner that was appropriate to the Agency's circumstances.

20. The paper also informed the Board of the various scenarios regarding the setting up of the Boards and asked SMT to note that the Pensions Regulator is using its consultation to seek views about the cost of the new arrangements set against a HM Treasury view that they largely formalise good practice so should not increase administrative costs.

21. The possible set up membership and frequency of meetings was set out within the paper along with the suggested next steps which were:

- Conclude discussions with stakeholders via the existing tri-partite policy advisory groups. Target date for completion end of March 2014;
- Conclude policy on remuneration of Pension Board members. Target date for completion end of March 2014;
- Draw together proposals for Ministerial approval, where required (especially Scheme Advisory Boards) and achieve sign off during April 2014;

- Begin investigation of the availability of independent people to serve on Pension and Scheme Advisory Boards and establish recruitment process for all Board members. Target date – end May 2014;
- Consider strategy for the induction, training and professional development of Board members. Target date – end May 2014.

22. There was concern that the target date of April 2015 was very challenging and that some of the tasks associated with establishing the new Board arrangements were dependent upon the agency's ability to allocate additional resources to that area. It was agreed the agency should attempt to establish the new board arrangements by April 2015, but should not compromise other arguably more business critical tasks in order to achieve that deadline.

### **Report on Annual Benchmarking Activities (Paper 37.7)**

23. Mr Mackay presented the paper in Mrs Chapman's absence explaining that it covered the results of the following external benchmarking activities:

23.1 Investors in People (IiP) – received Gold Status and the IiP assessor was extremely positive and praised our strengths in training, development and performance management. The one issue highlighted was consolidation of technical training, which being incorporated in the People Strategy action plan for 2014.

23.2 People Survey - the SPPA engagement index increased by three percentage points to 62% which is two per cent above the benchmark score of the Scottish Government. Overall, SPPA are the 23<sup>rd</sup> highest performer out of the 98 organisations that took part in the survey.

23.3 Customer Satisfaction Survey - Over the past three years the overall customer satisfaction with the service provided by SPPA has remained consistently high rising by +0.1% in 2013. During 2013, customers were most satisfied with the politeness of staff (97.1% for members/pensioner and 95.3% for employers) and the greatest improvement has been the website up +8.9% (84.2% for members/pensioners) and +2.7% (84.6 for employers).

23.4 Health Working Lives – SPPA received the Silver Award.

23.5 People@SPPA – process currently underway and results will be given at EMB in May.

23.6 Procurement (PCA) – following the appointment of a procurement manager Agency's results have steadily improved and is targeting a significant improvement in 2014/15.

24. The board were also advised that the customer survey had resulted in some concerns over how the telephone system was managed but this was now being looked at again and Operations will lead in a project to look at the telephone system with input from all other areas within the Agency. Other areas for business

improvement have also been identified and these will be incorporated into the People Strategy which will be presented at the next EMB.

25. The Board were asked for any comments/questions on the paper.

25.1 The Board concurred with paragraph 32 that SPPA have achieved important assurance from participating in these external benchmarking activities and had achieved excellent results and the Board were now accustomed to the Agency receiving high results.

### **Strategic Data Review (SDR) (Paper 37.8)**

26. Mrs Brown presented the paper to the Board highlighting the following areas of the paper;

26.1 The purpose of the project which was to:

- Review the integrity of data already held on the system;
- Identify areas of risk and potential areas for improvement; and
- Identify the extent to which definitive data quality standards can be identified for those data items which are of the greatest significance in terms of their impact on the Agency's ability to deliver an accurate pensions administration service and an accurate set of annual scheme accounts.

26.2 The Board were informed that From the outset, SPPA was keen to seek strategic and technical advice as appropriate from external organisations with an understanding of the data SPPA collects. GAD, Internal Audit and Audit Scotland were asked to contribute to the steering of the project through a strategic advisory panel that would meet at key points to provide advice and an independent view.

26.3 The panel first met on 5 December 2012 to discuss the project and agree proposed terms of reference, methodology and project deliverables and will meet again to review the outcomes towards the end of February 2014.

26.4 The SDR objectives were set out in section 3 of the paper and the Board noted these.

26.5 It was further explained that in 2010 the Pension Regulator (TPR) set out guidance and standards for good record keeping for pension schemes and data had been defined into three types:

- Common Data – data that is common to all schemes;
- Conditional Data - schemes should identify the data items that matter to their own scheme and set out to measure those; and

- Numerical Data - contextual data rather than specific member data.

26.6 The Board were then directed to Annex A which set out the Objectives and Annex B which set out the Implementation Plan.

27. EMB were then invited to comment on the contents of the report;

27.1 The Board agreed that this was a very important area of work both in the Private and public sector and was a very worthwhile piece of work.

### **Any Other Business**

28. The Board were asked for their opinion on improving the challenges within the Programme Board and if they thought external members of the BTB Board would be appropriate – It was decided that this would be discussed further out with the meeting.

### **Next Meeting**

29. The next meeting of the Board is scheduled for Tuesday 29 April 2014 at 13.30 in SPPA.

### **Summary of Actions**

<b>Number</b>	<b>Para</b>	<b>Action</b>	<b>Action Officer</b>
1	8.1	Mr Mackay to bring a paper on Transitional Planning Arrangements to next EMB.	Mr Mackay
2	8.7	Mr Waugh to set up mechanism between SPPA and Central SG to deal payments needed after SEAS closes.	Mr Waugh
3		Mr Mackay to keep Board informed of Heywood contract negotiations.	Mr Mackay
4		Mrs Gray to provide the Board with a copy of the '0' Gateway review key findings and keep them informed of progress.	Mrs Gray