

**SCOTTISH PUBLIC PENSIONS AGENCY
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT
13:30 HOURS ON 5 FEBRUARY 2013 AT TWEEDBANK**

In attendance:

James Taylor	Chair
Julia Edey	Non-executive Director
Alex Smith	Non-executive Director
Eleanor Emberson	Head of Revenue Scotland
Colin MacLean	Director of Financial Strategy
Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of Operations
Marion Chapman	Director of Corporate Services
Chris Fenton	Director of Finance
Minutes	Lila Tereszczyn

Apologies: Chad Dawtry

1. Apologies and introduction

1.1 Mr Taylor welcomed everyone to the meeting in particular to Eleanor Emberson who will be replacing Colin MacLean when Colin retires later in the month.

1.2 Apologies were received from Ms Stafford and Mr Dawtry.

2. Minutes of last meeting and matters arising (paper 33.2)

2.1 The minutes of the previous meeting on 23 October 2012 were agreed. There were no action points to be addressed. Mr Taylor asked that in the future the pages of the External Management Board minutes be numbered.

3. Audit and Risk Committee Report (oral)

3.1 Mr Smith reported on the discussion of the Audit and Risk Committee which had taken place earlier that day. He drew two matters to the attention of the Board. The first was the level and nature of the risks associated with the pension reform agenda. The second was the error made by the Government Actuary's Department (GAD) in the statement of liabilities which has emerged following the completion of the teacher scheme accounts for 2011-12.

3.2 On the first issue, the Board noted the levels of risk involved and the mitigating actions already being taken by the Agency and others. They asked to be updated at future Board meetings. On the second issue, the Board asked the Chief Executive to pursue the scope for compensation with GAD; and considered the handling issues which arose from the situation. associated with the issue.

3.3 Ms Emberson suggested that Mr Swinney might be provided with a letter to the relevant parliamentary committee noting that the figure used in the recent

accounts has been revised and setting out the process for tabling the corrected version. Mr Mackay agreed to consider the handling arrangements further and agreed to provide advice for Mr Swinney once this had been concluded.

4. Progress Report (including Q3 progress against Agency and Directorate Business Plan Targets) (paper 33.3)

4.1 Mr Mackay explained that he would report on items of interest and invited board members to comment on any issues raised. He began by noting that the Permanent Secretary, Sir Peter Housden visited the Agency on 11 January 2013 to meet staff and unveil the liP Gold Standard plaque. The visit was a success and went down well with staff. The Cabinet Secretary for Finance, Employment and Sustainable Growth has also expressed an interest to visit the Agency sometime soon.

4.2 Mr Mackay also reported on other visits made to the Agency including one from a senior manager from Standard Life to discuss governance issues; and one from the Chief Executive of the UK Veterans Agency. Further visits were being planned with other pension administrators in order to share experiences in the run up to the implementation of the new pension schemes in 2015.

4.3 Mr Mackay then reported on progress against each of the Agency's 30 key business tasks and against each directorate's service standards. He noted that the Agency had to take more care in the way some targets are expressed, and this would be reflected in the 2013-14 Business Plan.

4.4 Mr Mackay noted the facilitated business resilience test carried out on 17 October 2012. A number of changes have been made to the Agency's emergency planning documentation following the test.

4.5 Mr Mackay advised that the Agency was looking to secure the purchase of the Tweedbank building and noted the help he had received from Mr MacLean, Ms Emberson and others in facilitating this.

4.6 Mr Mackay reported that twenty new A3 staff who have joined the Agency on 2 year fixed term appointments. The business planning resourcing level was to be finalised for the next financial year.

4.7 Mr Mackay noted that the project for HMRC Real Time Information requirement which supports the Universal Credit system was progressing well.

4.8 Mr Mackay explained how the Agency was responding to the public sector equality duty in the Equality Act 2010, which Mrs Edey had raised at the last Board meeting. The Scottish Government was taking on the reporting of this duty and the Agency's policy was quality assured by them.

4.9 Mr Mackay reported on progress with a number of business improvement projects during the year, in particular the employers web interface. These projects were overseen by the Agency's Programme Board, and this ensured that there was more effective coordination and planning of project work.

4.10 Mrs Edey noted the concern raised by the Agency about the Voluntary Exit decisions which were overruled on appeal by SG HR. Mr Mackay said that he was concerned that such actions were at odds with his accountability responsibilities. Mr MacLean suggested he meet with the head of the SG's HR team in order to raise this and other HR issues. This was agreed.

4.11 Mrs Edey noted the 80% increase in Ministerial correspondence and official cases arising largely from the pension reform agenda. Mr Mackay noted that the agenda was placing considerable pressure on the Agency's resources and that this would have to be kept under continuous review.

4.12 Mr Smith asked whether there were any concerns on the legal provision in Scotland regarding auto enrolment. Mrs Brown explained that the automatic enrolment of employees into occupation pension schemes remained an employer's legal duty. The Agency was helping to facilitate this with NHS and Teacher employers.

5. Agency Finance Report (paper 33.4)

5.1 Mr Fenton advised the board of the error by GAD in their calculation of the liabilities for the STSS 2011-12 scheme accounts. GAD had originally advised that they believed the liabilities were overstated by £1.2 billion. This was subsequently revised to £1.8 billion. The Board noted that it was due to have its annual meeting with GAD at the next Board meeting in April, and said that this issue would be explored in further detail with GAD at that time.

5.2 Mr Fenton reported on the forecast resource and cash out-turns for the year was exactly in line with the recently revised budget.

5.3 Mr Fenton noted that outstanding debt amounted to £1.6 billion of which £558 k was being recovered by instalment. Performance was slightly worse than the target. Average debtor days by end of the financial year was computed at 200 days against a target of 180 days.

5.4 On Agency finances Mr Fenton noted an underspend of £145k on salary costs and said that this would help to partially offset the higher than expected early retirement costs. He nevertheless expected to deliver a balanced budget by the end of the year.

5.5 On Capital expenditure he reported that an underspend of circa £100k was anticipated, largely due to the delays in finalising the pension reform policy agenda. SG have been advised on this.

5.6 Mr Fenton explained that the web based contributions system will be developed this financial year and implemented next financial year. This enhancement will allow employers to log onto the system to submit data returns automatically.

5.7 He also noted that the case submitted to Ministers for the purchase of the Tweedbank building had been approved, although this was awaiting formal confirmation.

6. Pensions Administration IT System: Future Options (paper 33.5)

6.1 Mrs Brown reported on the options being considered by the Agency in order to handle the administrative changes to pensions schemes which will result from the forthcoming pensions reforms. It is likely that the NHSSS and STSS alongside other public pension sector pension schemes will be changing from a final salary scheme to CARE (Career average). This represented a major business change programme for the Agency, and matters were complicated by the fact that the Agency's contract with its existing IT supplier was due to end in 2017. SPPA therefore needed to take a "whole project" approach which mitigated business risks across both the 2015 and 2017 phases of the project.

6.2 She explained that the paper set out the Agency's initial thinking on the various options for delivering these changes, although much further work would be required to finalise the proposals. A key aspect of this was to obtain the views of the existing IT supplier about the technical feasibility of the various 2015 options. She also drew the Board's attention to the results of the recent Audit Scotland review of IT procurement exercises within the public sector, and suggested that the Board would need to be closely involved and informed in the process.

6.3 The Board endorsed the general approach being taken and asked to be kept abreast of the agenda as it developed. It was agreed that there should be a further discussion of progress at the next Board meeting in April.

7. Agency Staff Survey Results (paper 33.6)

7.1 Mrs Chapman reported on the outcome of the staff survey which was run last October. The Agency obtained a 88% response rate which was the third highest response across the SG family. in the Agency. The survey responses were generally extremely positive and the Agency had increased its staff engagement index over the previous year. A number of areas requiring further consideration had been identified and these would be reflected in the revised action plan being developed for the People Strategy. The Board noted the improvements made and asked to be kept informed about progress in implementing the emerging action plan recommendations.

8. Agency Stakeholder Survey Results (paper 33.7)

8.1 Mrs Chapman then reported on the results obtained in the Agency's annual customer survey. Again, these demonstrated that the Agency was continuing to maintain and in some cases improve its already high levels of customer satisfaction.

8.2 The Board noted that the Agency's staff should be congratulated on its achievements in maintaining service quality in the face of a number of exceptional business pressures. Mr Smith suggested that some form of feedback to stakeholders should be prepared, illustrating how the Agency had acted upon the survey results. This was agreed.

9 Pension Reform Update (paper 33.8)

9.1 Mr Dawtry provided an update on progress with the pension reform negotiations. NHS and Teachers were rated green/amber for both negotiations and implementation on time. Police, Fire and Local Government rated red/amber. If the UK schedules keep in line the risks should subside. The Board discussed these developments in some depth and noted that the SG's Pension Reform Programme Board was helping to mitigate some of the risks associated with this work.

10. External Management Board Meeting Planner (paper 33.9)

10.1 The meeting planner was discussed and agreed. Mr Taylor suggested that the Board awayday in April should be used to discuss the new governance arrangements required as a result of the Public Sector Pensions Reform Bill, and this was agreed.

11. Any Other Business

11.1 EMB and SMT expressed their thanks to Colin MacLean for his invaluable assistance over the past two years and wished him a long and happy retirement. They also wished Lila Tereszczyn well following her recent appointment to a new post in the SG.

12. Date of Next Meeting

12.1 The date of the next External Management Board is Tuesday 30 April 2013 .