

**SCOTTISH PUBLIC PENSIONS AGENCY  
MINUTES OF THE EXTERNAL MANAGEMENT BOARD MEETING HELD AT  
13:30 HOURS ON 7 FEBRUARY 2012 AT TWEEDBANK**

**In attendance:**

James Taylor	Chair
Julia Edey	Non-executive Director
Alex Smith	Non-executive Director
Colin Maclean	Scottish Government Director of Financial Strategy
Neville Mackay	SPPA Chief Executive
Pamela Brown	Director of Corporate Services
Ian Clapperton	Director of Operations
Chad Dawtry	Director of Policy
Chris Fenton	Director of Finance
Marion Chapman	Observer
Ken Kneller	Government Actuary's Department (GAD) (item 4 only)
Lila Tereszczyn	Minutes

**1. Apologies and introduction**

1.1. Mr Taylor welcomed Ken Kneller, Government Actuary's Department (GAD) and Marion Chapman who will take over the role as Director of Corporate Services next month, to the meeting.

1.2 Apologies were received from Alyson Stafford. Colin Maclean was attending on her behalf.

**2. Minutes of last meeting and matters arising (paper 29.2)**

2.1 The minutes of the previous meeting on 25 October 2011 were agreed.

2.2 It was noted that there were no action points to be cleared.

**3. Audit and Risk Committee Report (oral)**

3.1 Mr Smith reported on the main issues arising from the Audit and Risk Committee meeting on 7 February 2012.

3.2 Following the audit of the 2011-11 Annual Accounts, Mr Smith noted that the Agency had committed to a substantive range of measures designed to mitigate the various issues identified by the audit. The External Management Board agreed that it would review the progress being made with these changes at future meetings.

3.3 Mr Smith brought to the attention of the External Management Board two issues which had been highlighted in the Risk Register, which he noted was well presented and fit for purpose. These were the increased level of risk associated with the Pension Reform Agenda (Risk 4) and the new risks associated with the potential to mis-state the scheme accounts (Risk 12). He noted that a significant number of

more minor changes had also been made to the risk register and this provided reassurance that risks were being actively managed by the Agency. The board sought assurances that directorate risk registers were also actively managed. Mr Mackay provided this by explaining the quarterly review process which applies to both Directorate and Agency risk registers.

#### **4. Review of the SPPA Audits: Discussion with Scheme Actuary (paper 29.3)**

4.1 Mr Mackay explained that the External Management Board had previously discussed the way in which the Agency obtained actuarial advice, and had agreed that the EMB should receive an annual report from the Agency's actuarial provider which would form the basis for discussion at a Board meeting. Mr Kneller's attendance at this meeting was designed to further strengthen the Board's engagement with the Agency's actuarial provider and to allow discussion of some of the issues raised in the recent audit of the scheme accounts.

4.2 Mr Kneller provided the External Management Board with his perspective on the timing issues associated with the audit process, his observations on the recommendations made by Audit Scotland, and his suggestions for improving the audit process and improving the management of actuarially related risk.

4.3 Mr Taylor asked if the auditors used data quality benchmarks drawn from similar schemes in England and Wales which might allow objective assessments of scheme data issues to be made. Mr Mackay said he would discuss this issue in his next regular meeting with Audit Scotland, and report back on progress.

**Action: Mr Mackay to report back on discussion with Audit Scotland about possible data quality benchmarking to guide the audit process.**

4.4 Mr Taylor also asked about the extent to which some of the governance changes envisaged as part of the pension reform agenda might impact on data quality issues. Mr Mackay explained that the UK Government had still to publish its proposals for enhancing scheme governance, but that he expected that to include some discussion of ways in which data quality and financial transparency might be improved.

4.5 The Board then considered whether or not its deliberations would be strengthened by the presence of a qualified actuary on the Board. It concluded that the current arrangements provided it with sufficient access to actuarial advice when required, and that it would be premature to change the make up of the Board before the new governance requirements for pension administrators was set out by the UK Government.

#### **5. Agency Progress Report (incl. Q3 progress against Business Plan Targets (paper 29.4)**

5.1 Mr Mackay presented the Agency's progress report up to 31 December 2011. He explained that the Agency was currently in the process of recruiting a Deputy Director of Finance post and for two C band posts for the Policy Directorate. Mr

Mackay expressed his concern at the business risks to the organisation posed by the current arrangements within the SG for the recruitment to specialised posts.

5.2 Mrs Brown provided an update on progress in resolving some outstanding tasks associated with the AXISE pension administration system. Discussions continue to take place with the supplier, which has appointed a new Client Account manager to work with the Agency. A visit to the supplier to discuss the remaining system issues is planned for later in the month. She then set out the Agency's view concerning a potential upgrade to the newer ALTAIR system. In discussion, the Board agreed with the Agency's management that such a move could not be made until 2015 at the earliest, and that energies should be focussed on delivering improvements to the existing system in the meantime.

5.3 Mr Clapperton reported on progress with the new web-based member services due to be launched this month. Phase 1 will enable members to view pension benefit statements online, use online calculators to estimate pension and lump sum options, and allow direct electronic contact with the Agency. Phase 2 aims to extend this further to pensioners. The Agency will also examine the scope for extending aspects of this service to employers as a potential third phase of the project.

5.4 Mr Mackay then drew the board's attention to the significant efficiency savings delivered by the Club Together initiative and by the rationalisation of some customer mailing arrangements. This demonstrated that the Agency's efficiency plan was now delivering significant savings.

5.5 Mrs Brown reported that the Agency was on target to reduce levels of sickness absence by 10% during the current financial year.

## **6. Agency Finance Report (paper 29.5)**

6.1 Mr Fenton presented the financial position of the Agency and of the pension schemes as at 31 December 2011. The budget for the Schemes had been updated for the Scottish Government's spring budget revision exercise, whereby the resource elements are updated, and for the Treasury's Office of Budget Responsibility (OBR) cash forecast. Net resource expenditure for the schemes combined was 0.7% below budget, while the combined underspend forecast was 0.7%.

6.2 Mr Fenton noted that projected cash out-turn for the schemes combined was in line with budget and with performance to date following the OBR cash revision. Mr Smith asked about the extent to which this corresponded with the previous year's cash flow. Mr Fenton indicated that the level of outflow had been higher than in previous years and that this trend was likely to continue for the foreseeable future, despite the short term windfall to the schemes provided by the move from RPI to CPI.

6.3 Mr Smith requested that the forecast projections which were submitted to Treasury be added to the report as an annex and shared with the Board at future meetings.

6.4 Mr Fenton then reported on the number of overpayments recorded. Out of the number of invoices issued £0.5m was being recovered by instalments. The Agency had written off 778 invoices with an aggregate value of £116k and an average value of £150. Mr Smith asked whether there were any trends or comparisons in write offs to show indications of improvement in performance. Mr Fenton explained that comparable data were not available prior to the introduction of the Epicor system in 2011, but comparisons would be provided once a time series had been developed using Epicor data.

6.5 On the Agency's finances, Mr Fenton reported that despite the large unbudgeted sum of £245k which had been set aside for early departure costs for this financial year, he was optimistic that the Agency would break even or incur only a modest overspend. A letter of comfort had been obtained from the Scottish Government which committed them to meeting any overspend costs arising as a result of the voluntary redundancy programme.

## **7. 2012-15 Corporate Plan Emerging Thinking (oral)**

7.1 Mr Mackay provided Board members with a draft copy of the Agency Corporate Plan 2012-15 incorporating some of the emerging themes arising from initial discussions with staff. Although this represented work in progress, the Board was invited to comment on emerging themes and issues.

7.2 Following discussion, the Board agreed to hold a special meeting to review the final draft document prior to the next Audit and Risk Committee meeting on 3 April. Mr Mackay agreed to circulate a draft beforehand.

## **8. Agency Governance: Revised Scottish Government Guidance (paper 29.6)**

8.1 Mr Mackay drew the External Management Board's attention to the two documents produced by the Scottish Government in December 2011 relating to its Accountability and Governance Policy for Executive Agencies and its Guidance on Framework Documents. This guidance had been in the pipeline for a considerable time and represented a useful step forward.

8.2 The Accountability and Governance Policy for Executive Agencies relates to the relationship between Agencies and the Scottish Government. The Guidance on Framework Documents provides updates and clarification on the existing guidance. Mr Mackay highlighted some of the positive aspects of these documents, including revised guidance on the appointment of board members and a much clearer articulation of the benefits of the Agency model. He was however concerned by the new requirement to obtain Ministerial approval for Agency Annual Business Plans. This appeared out of step with the principle that Chief Executives were accountable for the delivery of day to day operational tasks whereas Ministers were responsible for approving strategic direction.

8.3 Mr Mackay also expressed his disappointment at the section on Scottish Government responsibilities within the revised Framework Document guidance. He felt it was difficult for Scottish Government Directors General to judge whether the

Scottish Government was providing effective and efficient services to Agencies when very few service standards existed. Mr Maclean provided a helpful update of progress within the Scottish Government at developing performance benchmarks for services provided by the Scottish Government.

## **9. SPPA Staff and Stakeholder Review (paper 29.7)**

9.1 Mr Mackay reported on the findings from the Annual Agency Stakeholder and Employee Surveys. This year findings indicated a number of significant improvements in comparison with the previous year. Overall customer satisfaction for members, pensioners and employers increased by an average of 7.1% whilst the Employee Survey indicated gains in a number of thematic areas including resources and workload, leadership and learning.

9.2 The Board discussed the proposal that these action plans relating to the surveys should be linked to the new strategic objectives for the organisation which are being developed as part of the Corporate Planning process. They agreed that this approach should deliver a clearer link between proposed actions and strategic priorities, and would help to rationalise the number of action plans currently in existence across a range of related areas.

## **10. SPPA Strategic Staffing Review (paper 29.8)**

10.1 Mr Mackay reported that part of the Corporate Plan 2012-15 planning process involved taking stock of some of the strategic staffing issues faced by the Agency, and agreeing actions designed to address these. This work also addressed a specific recommendation by Audit Scotland. Mr Mackay then spoke to the main components of the paper, which considered the Agency's future strategic staffing needs against the context of a rapidly changing business environment.

10.2 As a reminder of what the existing corporate arrangements were, Mr Mackay explained that the current HR Strategy had been issued in 2009. This had informed the development of the Training Strategy and the current technical training work programme. Although the benefits of these changes have been evident a number of issues required further attention including succession planning, the filling of some skill gaps and leadership development.

10.3 The Board discussed the recommendations which had been agreed by the Agency's Senior Management Team and endorsed the main thrust of the report including immediate actions relating to skill gaps in the Finance and Policy Directorates. The Board noted that it was particularly important that staff in the Finance Directorate worked flexibly to address the issues arising from the production of the NHS and STSS scheme accounts.

## **11. SPPA Review of Overpayments (paper 29.9)**

11.1 Mr Fenton provided information on the main causes of overpayments, the limitations of the analysis undertaken (causes of overpayments in excess of £5k recorded in Epicor since May 2010), the types of overpayment identified (member error, official error and third party error), and what action the Agency would take to

reduce the incidence of overpayments of all sizes. Regular information was now being received from the General Registers of Scotland on deaths in Scotland, following receipt of which pension payments were stopped.

11.2 Mr Clapperton was content for those overpayments of more than £5k be referred to the Quality Assurance team. However, the remedial actions would need to be reviewed.

11.3 Mr Fenton noted that it was inevitable that overpayments would be made but at this stage the aim was to concentrate to reduce the outstanding amount further.

11.4 Mr Maclean asked whether comparisons with other organisations were available. He also noted that addressing correct data input into the system would eliminate much of the errors. Although scheme accounts were available Mr Mackay indicated that further research would be undertaken on this point.

## **12 Pension Reform Update (paper 29.10)**

12.1 Mr Dawtry provided the Board with an update of the latest positions of public sector pensions at a UK level and in Scotland. The first year of employee contribution rate increases is still targeted to take effect from 1 April 2012.

12.2 The External Management Board discussed the various issues covering the longer-term reforms including stakeholder reaction, managing resource, risk and timescales.

## **13 Meeting Planner (paper 29.11)**

13.1 The Board agreed to discuss the Agency Corporate and Business Plans at 11 a.m. on 3 April 2012 prior to the Audit and Risk Committee meeting.

## **14 Any Other Business**

14.1 Mrs Edey asked if the Board could be flexible regarding the meeting scheduled for 17 July and revisit this when more was known in April.

14.2 Mr Taylor, on behalf of the Board members, thanked Mr Clapperton for his contribution to the Agency over the past years. He commended him for the quality and thoughtfulness of his contributions and wished him a happy retirement.

14.3 Mr Mackay asked Board members if the handling of their expenses payments by the Scottish Government was satisfactory. They reported in the affirmative.

14.4 Mr Mackay advised the Board that auditors had requested to see copies of Board papers. The Board agreed that these could be provided on request once the minutes relating to a particular set of Board papers had been approved.

## **15. Date of Next Meeting**

15.1 The next meeting of the External Management Board is 17 April 2012.

## **Summary of Action Points**

<b>Action Point</b>	<b>Paragraph</b>	<b>Responsible Officer</b>
To report back on discussion with Audit Scotland about possible data quality benchmarking to guide the audit process.	4.3	Mr Mackay
The forecast projections which were submitted to Treasury be added to the Agency Finance Report as an annex and shared with the Board at future meetings.	6.3	Mr Fenton

