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SCOTTISH PUBLIC PENSIONS AGENCY

Annual Report
and Accounts
2005-2006

Scottish Public Pensions Agency

Annual report and accounts 2005-2006

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Foreword and Forward Look by the Chief Executive

This document sets out our annual report and accounts for the period from 1 April 2005 to 31 March 2006. This is the 13th such report since we became an Agency in 1993 and the 4th since our relocation to Tweedbank in September 2002.

The Agency is currently undergoing the most far reaching change in its history. The Pension Reform agenda, which the Agency manages on behalf of Scottish Ministers, will result in the introduction of entirely new pension schemes across all the public sector schemes for which the Agency is responsible. Changes within the broader political landscape are also creating new pressures and challenges for the Agency, as it responds to a number of Scottish Executive agendas covering issues such as best value, efficient government and shared services. And internally, the Agency has embarked on a three year programme of business change, the most significant element of which is the procurement of a new IT casework system which is due to be implemented in 2008.

Against this context the last year has been both challenging and successful. It has been characterised by 5 main features.

The first has been the Agency's success in meeting and in some cases surpassing its key performance targets set by the Scottish Executive. These targets, which primarily relate to the timeliness, accuracy and quality of our customer facing services, are tangible proof of our commitment to provide our customers with a first-class service.

The second has been a continued growth in our core pension administration business. The number of active pensioners and pensioners in payment increased by more than 11% during the year. This trend, which is driven by demographic and workforce factors, has meant that in cumulative terms the Agency's core business caseload has increased by around 20% over the past three years.

The third trend has been to secure significant increases in business efficiency. The Agency's average staff in post figures fell by around 7% during the year and the Agency's overall administration budget has remained static for the second year in a row.

The fourth main feature has been the resolution - or near resolution - of a number of "legacy" issues which the Agency inherited upon its relocation to Tweedbank in September 2002. The most significant achievement has been the reduction of the Agency's "Data Cleanse" backlog to less than 50,000 items from a high of almost 350,000, in less than two years. The Agency also completely revised and updated the scheme documentation available both to members and employers, and has made significant progress in ensuring that the pension scheme valuations (which establish the total liabilities of each scheme) are brought up to date.

The fifth feature has been the amount of time spent in handling the Pension Reform Agenda. During the course of the year new schemes for the police and fire services were agreed and these came into force in April 2006. Significant progress was also made in developing the new arrangements for NHS and teachers, due to be implemented from 2007. The Agency also expended considerable energies in preparing for the A-Day Taxation reforms which were implemented in April 2006, and incorporating a number of other legal changes - most notably in connection with civil partners - into the scheme regulations.

2005-06 also represented the first year of the Agency's three year organisational change program. As part of this I am delighted that the Agency achieved Investor in People status during the year, and that it also made significant progress in developing the technical specifications for its new pensions casework IT system which is on schedule to be implemented in 2008. The Agency also successfully completed a number of smaller projects aimed at securing efficiency gains across a broad number of operational areas and processes.

During the course of the year the Agency undertook its first ever customer survey. From a sample of over 2,500, the Agency received almost 1000 responses from scheme members and from employing organisations. The overwhelming response was very positive. The Agency received an average satisfaction rating of 93%, with similarly high responses covering areas such as staff courtesy, speed of response, and ease of contact.

Looking to the future, 2006 will be a critical year for the Agency. It should see the delivery of the Pension Reform Agenda across the five schemes which the Agency has responsibility for, and it will require the Agency to plan for the implementation of the STPS and NHS reforms from 2007. The process of organisational change will continue apace, with the completion of two major projects designed to provide the Agency with recurring cost savings, the further strengthening of our staff training programme and the completion of contract negotiations with an IT supplier for our new pensions administration IT application.

The Agency's staff deserve enormous credit for improving the quality of customer service throughout the year while also coping with the challenges posed by increased workloads, decreasing staff numbers, pension reform and the development of new services. Our staff are by far our most important asset and it is only right that their contribution to the Agency's success should be acknowledged in this report.



Neville Mackay
Chief Executive

1. Introduction

The Scottish Public Pensions Agency (SPPA) is an Agency of the Scottish Executive. Its principal role is to administer the pensions, premature retirement and injury benefits schemes for employees of the National Health Service in Scotland and for members of the Scottish Teachers' Pension Scheme (STPS).

The Agency also has responsibility for developing the regulations covering the National Health Service (Scotland) Pension Scheme (NHS(S)PS), Scottish Teachers' Pension Scheme (STPS), Local Government, Police and Fire pensions schemes in Scotland; for determining appeals made by members of these schemes; and for providing a pension calculation service for the Scottish Parliamentary Pension Scheme, the Legal Aid Board for Scotland and (for 2005-06 only) Scottish Executive Environment and Rural Affairs Department (SEERAD) Scheme.

The overall framework within which the Agency operates is set out in its Framework Document which can be accessed on the SPPA website at www.sppa.gov.uk.

Mission Statement

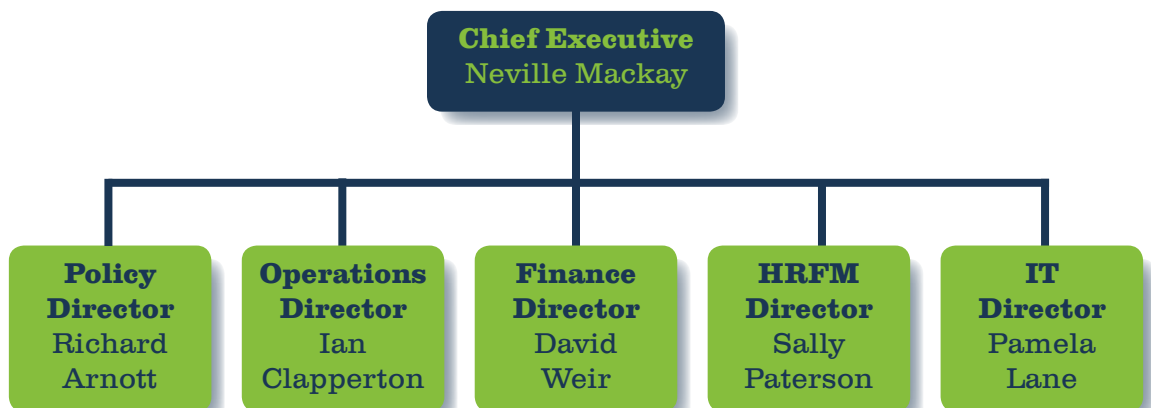
The aim of the SPPA is to deliver a high quality, customer focussed and cost-effective service to its stakeholders.

Core Values

Our core values are:

- to put our customers first;
- to support our staff so that they are empowered to achieve and deliver excellence; and
- to maintain the highest standards of probity and governance whilst using our resources efficiently and effectively.

The Agency's senior management structure at 31 March 2006 was as follows:



2. Aims

The aims of SPPA, as set out in its Framework Document, are as follows:

- 1) to administer, on behalf of the Scottish Executive the public service pension, premature retirement compensation and injury benefit schemes for which the Scottish Ministers have administrative responsibility so as to provide an efficient and effective service for the benefit of those who use the schemes, at an economic cost to the public purse;
- 2) to prepare in accordance with the Scottish Executive's policy the regulations governing these and other schemes for which the Scottish Ministers have regulatory responsibility;
- 3) to determine questions under the regulations on which there is a right of appeal to Scottish Ministers; and
- 4) to advise the Scottish Ministers on occupational pensions policy generally.

The Agency's targets for 2005-2008 are listed in the Corporate Plan which can be accessed through the SPPA website.

3. History of performance on Key Targets

| Target Definition | | 00-01 | 01-02 | 02-03 | 03-04 | 04-05 | 05-06 | |
|--|---|---------|-------|----------|----------|----------|---------|-------|
| To ensure that x% of awards and transfer payments are accurate | Target | 98 | 98 | 98 | 98 | 98 | 98 | |
| | Outturn | 99 | 99 | 98.5 | 99 | 99 (*3) | 99% | |
| Pay on time x% of all pensions and lump sums where the target date for receipt of claims is met: | (a) Pensions | Target | 98 | 98 | 98 | 98 | 98 | 100 |
| | | Outturn | 99.5 | 100 | 99 (*2) | 98 | 95 (*3) | 98.7% |
| | (b) Lump Sums | Target | 95 | 95 | 95 | 95 | 98 | 98 |
| | | Outturn | 99.5 | 97.5 | 100 (*2) | 97 | 95 (*3) | 98.7% |
| | Ensure that x% of the contributions due from employers of teachers are received within 15 days of the end of the month to which they relate | Target | 98 | 98 | 98 | 98 | 98 | 98 |
| | | Outturn | 98 | 92 | 98 | 98 | 98 | 99 |
| Ensure that x% of the contributions due from employers of NHS staff are received within 15 days of the end of the month to which they relate | Target | 96 | 96 | 96 | 96 | 96 | 96 | |
| | Outturn | 96 | 91 | 98 | 97.5 | 99 | 99 | |
| Pay on time the pensions comprising the monthly STPS payroll. | Target | 100 | 100 | 100 | 100 | 100 | 100 | |
| | Outturn | 100 | 100 | 100 | 100 | 100 (*3) | 100 | |
| Reduce identified operating costs per member/beneficiary by x% in real terms | Target | (*) | (*) | (*) | (*) | (*) | (*) | |
| | Outturn | 0.68% | -5.27 | 0.3 (*1) | -3.9 | (*4) | (*4) | |

Note the following assumptions

(*) Five-year target set for period 2000-01 to 2005-06

(*1) Not including Agency Relocation Costs

(*2) Measured at the end of the quarter 2 period during 2003-2004.

(*3) Due to changes in monitoring arrangements. Statistics for 2004-2005 were only recorded in the first quarter of the year.

(*4) This target was discontinued in 2004-2005 as it became unachievable due to relocation costs and pay increases in line with Scottish Executive pay awards.

4. Operations

The Operations Directorate represents the public face of the Agency and deals directly with more than 400,000 scheme members and beneficiaries and more than 1200 employer organisations. The Directorate employs around two-thirds of the Agency's workforce and they handle the majority of letters, telephone calls and emails received by SPPA. Each week they receive upwards of 3000 such contacts.

The Directorate is split into various teams with responsibilities as follows:

NHS

- Team 1. Borders, Ayrshire and Arran, Injury Benefits
- Team 2. GP Practices and Direction Bodies
- Team 3. Practitioners
- Team 4. Tayside, NHS 24
- Team 5. Grampian
- Team 6. Lothian
- Team 7. Fife and Forth Valley, Scottish Ambulance Service
- Team 8. Lanarkshire, State Hospital, NHS National Services Scotland
- Team 9. Glasgow and Clyde, Golden Jubilee National Hospital
- Team 10. Highland, Orkney, Shetland, Western Isles, Dumfries & Galloway

STPS

- Team 1. Argyll & Bute, Renfrewshire, Ayrshire, Dumfries & Galloway
- Team 2. Aberdeen, Moray, Highland, Grampian, Orkney, Shetland, Western Isles
- Team 4. Fife, Falkirk, Tayside, Central
- Team 5. Glasgow, SQA, Inverclyde, Stirling
- Team 6. Lanarkshire, Dunbartonshire, Borders
- Team 7. Edinburgh, Lothians (including Colleges and Universities)

Small Schemes

- SEERAD Pension Scheme
- Legal Aid Board Pension Scheme
- Scottish Parliamentary Pension Scheme
- Northern Ireland Assembly Pension Scheme

Special Projects Team

- Preston Cases for STPS and NHS
- Mis-selling cases for NHS
- Pension Sharing on Divorce
- Scottish Transport Group - distribution of remaining assets of former Scheme

Note for NHS

As a result of the demise of Argyll and Clyde Health Board the Agency took the opportunity to review the geographical arrangements for its Operations teams. The above distribution takes account of the necessary changes and at the same time reflects the decision to create a single team with responsibility for GP Practices.

Statistical Summary

Membership of the STPS and NHSPS has increased by 11% over the year, representing a cumulative increase of approximately 20% in the past three years.

Scheme Statistics

NHS(S) Pension Scheme 1 April 2005 - 31 March 2006

| Membership | |
|---|---------|
| Active Members | 152,247 |
| Preserved Members | 37,377 |
| Active Pensioners | 58,445 |
| Family benefits | 9,279 |
| Awards | |
| Award payments during year | 2,457 |
| Ill health retirements during year | 414 |
| Family benefit awards during year | 447 |
| Transfers | |
| Transfers In | 1,709 |
| Transfers Out | 1,189 |
| Refunds | 1,632 |
| Injury Benefits | |
| Injury Benefit Pensions | 536 |
| Injury benefit payment during year (includes Temp allowance payments) | 919 |

Scottish Teachers' Pension Scheme 1 April 2005 - 31 March 2006

| Membership | |
|------------------------------------|--------|
| Active Members | 74,174 |
| Preserved Members | 14,500 |
| Active Pensions TPP, GAC & TAPS | 44,260 |
| Family benefits | 5,544 |
| Awards | |
| Award payments during year | 1,285 |
| Ill Health retirements during year | 440 |
| Death in service benefits | 350 |
| Winding Down | 79 |
| Transfers | |
| Transfers In | 576 |
| Transfers Out | 399 |
| Refunds | 253 |

Key Achievements for the Operations Directorate

i. Service Standards

All the Agency's key performance indicators in respect of timeliness, quantity and accuracy of service were met during the year [see Section 3 - History of Key Targets].

ii. Data Cleanse

The number of individual data records requiring cleansing in order to operate effectively within the Agency's IT system has now been reduced to 40,000 items [affecting 18,000 members] on NHS and 9,000 items [5,000 members] on STPS, from a high of 350,000 items in early 2004. This represented substantial progress and the Agency has now met its target of reaching frictional levels by 31 March 2006. Over the course of 2006-2007 the Agency will continue to give priority to this area of business.

iii. Benefit Statements

Benefit statements based on information provided by employers at 31 March 2005 were issued to some 160,000 NHS and STPS members. This represents 79% of membership and an increase of over 14% from the previous year. This reflects both the improvement in the clearance of the data cleanse backlog and the continuing success of the Agency's employer outreach programme. Benefit statements were also prepared for all members of the Scottish Parliamentary Pension Scheme.

iv. Member Survey

The Agency carried out its first ever survey of members and stakeholders during the year. From a sample of approximately 2,500 over 93% expressed themselves satisfied with the level of service provided. The survey sought opinion on aspects such as politeness of staff, time taken to receive a response, standard of information and web services. Areas where we could do better were identified, such as telephone call handling, and an improvement plan is now in place. The Agency intends to repeat the exercise during 2006-2007.

v. Web pages and member guides

During the year significant progress was made to improve the Agency web pages. Members and employers can now find up to date information and advice about their Scheme and the Agency. In addition new member guides have been produced and these are available both on the web and from SPPA. Alternatively most employers will also hold limited stocks. The Agency is now taking the opportunity to review all pension application forms and these will shortly be available via the web.

vi. Complaints procedures

The Agency 'internal dispute resolution procedure [IDRP]' was reviewed in 2005-2006 and the revised arrangements were reproduced on our web site. To supplement the IDRP, SPPA introduced an internal complaints procedure to ensure that complaints about the standard of service were properly controlled and acted upon within specified timescales.

vii. Employer outreach

Employers are one of our key stakeholders and the Agency undertook a range of measures during the year to engage with them.

More than 80 separate meetings and visits were held, including:-

- arranging seminars for teacher employers
- visiting NHS payroll staff
- meeting GP practice managers
- presentations to GPs
- working in partnership with NHS payroll managers to resolve administrative issues

viii. Taxation and Civil Partners

Following the introduction of significant changes on these issues, in December 2005 and April 2006, the Agency successfully implemented these changes for members.

For taxation changes, members were informed via their benefit statements and also through information issued to employers. Efforts were made to directly contact members who would be adversely affected by the changes.

With civil partnerships, SPPA implemented the regulations on schedule and issued advice to members on how their pensions would be affected.

Information was also published via the Agency web site, and the member guides were amended to reflect the changes.

ix. Small Schemes

The Small Schemes team provides a pensions calculation service for the Scottish Parliamentary Pension Scheme, (SPPS), the Scottish Executive Environmental and Rural Affairs Department Superannuation Scheme, (SEERAD), Legal Aid (Scotland) Pension Scheme, (LA(S)PS), The Scottish Legal Aid Board Chairman Pension Scheme, (SLABC) and a new scheme (the Northern Ireland Assembly Pension Scheme) with effect from 2006.

Service level agreements are in place for the work the Agency undertakes. The terms of these agreements were all met or exceeded.

x. Pension Sharing on Divorce

The number of pension sharing cases across both the main Schemes continued to rise throughout the year and this trend has continued into the current year. The Agency increased its scale of charges for providing calculations to courts and solicitors in January 2006. The new rates more accurately reflect the time and effort required for the work, and are consistent with the charges made by other UK pension schemes. Cases reaching final implementation in the year were:-

| | Implemented | Charges |
|----------------------|--------------------|----------------|
| 01/04/05 to 31/12/05 | 29 | £11,926.25 |
| 01/01/06 to 31/03/06 | 8 | £ 6,580.00 |
| Total | 37 | £18,506.25 |

xi. Scottish Transport Group, Mis-selling and Part-Time Access to Pensions Cases

During the year a further 11 payments were made totalling just under £70,000 to former Scottish Transport Group Pension Scheme members and claims valued at £60,000 are in progress. A list of possible members who have still to make an initial claim remains on the Agency's website and a sum has been set aside to accommodate any claims arising from this. It is likely that Scottish Ministers will make a decision during 2006-2007 with regard to the future of the fund.

The reinstatement of scheme members who were mis-sold personal pensions is now almost complete, however new cases continue to appear. During the year 64 cases were received, 204 concluded and we now have 38 remaining.

Employment Tribunal claims on behalf of part-time workers who were excluded from membership of Schemes are still proceeding. We continue to receive new applications. SPPA has now logged approximately 700 cases with the Employment Tribunal and of those 273 have been completed. Of the remainder, 380 have been processed for consideration by the Tribunal, which leaves less than 50 for initial action by SPPA. Once the Tribunal reaches a view on the cases sent for consideration, SPPA will again have action to take. It is very likely that work in this matter will continue for some time.

xii. Circulars

During the year the Directorate co-ordinated the issue of over 30 circulars providing member and stakeholder information, and technical support to employers.

xiii. Valuations

The Directorate is now working with the Government Actuary's Department to produce the data for the NHS 2004 and the STPS 2005 valuations. These are due to be concluded during 2007.

xiv. GP contracts

The arrangements for implementing the new GP contracts were finalised and introduced during the year. Member information was issued and published on our web pages. To support the changes to the existing arrangements, the Directorate undertook several presentations to GP groups throughout the country.

5. Occupational Pensions Policy

Role

Under the Scotland Act 1998 Scottish Ministers are given executive powers to produce regulations for the pension schemes covering Police, Fire, Teachers, NHS and Local Government. It is the role of Policy Branch to prepare these regulations in line with UK occupational pension policy and legislation, the financial restrictions imposed by the treasury and the requirements of employers in Scotland.

The Scotland Act 1998 further empowers Scottish Ministers to administer public service pension schemes. The Policy Directorate, on behalf of Scottish Ministers, undertake a regulatory function by providing an internal dispute resolution procedure to independently determine appeals from scheme members.

The Policy Directorate also provide advice and guidance to Scottish Executive Departments and Non-Departmental Public Bodies on public service occupational pension related matters. This role extends to advising Scottish Ministers on issues surrounding the implementation of public service pension reforms and making recommendations for appropriate changes to public service schemes.

Reforms to public service pension schemes

The UK Government's proposals to raise the normal pension age of most public servants to 65 has been a major thrust of Policy Directorate activity in the last year and the work is still ongoing. The proposals, if implemented as planned, would result in new public service staff being required to work until age 65 in order to qualify for a full pension (different arrangements apply to police and fire because of the nature of their work and new schemes have been prepared so that all new entrants from April 2006 will be covered as part of a new scheme). Following negotiations by the UK Government, existing staff will be able to retain their current normal pension age unless they transfer to new pension arrangements.

The Agency has been actively involved in reviewing pension arrangements for all public service pension schemes in association with stakeholders throughout Scotland and the UK. This has involved extensive discussions with employers and staff representatives of each of the public service schemes. During the year the public and political profile of public pensions reform has increased and the Agency has increasingly been required to provide briefings for Ministers and support in responding to Parliamentary Questions and Ministerial Correspondence. Following consultation on proposals, the Agency will bring forward recommendations to Scottish Ministers on the overall design of schemes in Scotland and subsequently, regulations to implement the plans will be prepared for consideration by the Scottish Parliament.

During the year, the Agency has also prepared amendments to the existing scheme regulations to implement various changes including provisions for the implementation of the Civil Partnerships Act 2005, to make preparations for the changes to pensions schemes as a result of the HM Revenue and Customs A-Day taxation simplification and age discrimination legislation.

Summary of Policy Activity during 2005-2006

- 11 Scottish Statutory Instruments to amend NHS, Teachers, Fire, Police and Local Government pension schemes were made following consultation.
- 72 Appeals were received requiring determinations.
- Over 60 meetings attended with other UK pension colleagues, unions and employer representatives to discuss proposals for the development of reformed pension schemes.
- Regular meetings were held with trade union and employer representatives in Scotland about pensions policy developments.
- 20 requests under the Freedom of Information Act were processed.
- The Agency responded to approximately 550 Parliamentary, Ministerial and member communications on policy issues.

A list of Scottish Statutory Instruments made for public service pensions schemes in 2005-2006 is presented in Annex A.

6. IT and Business Support

The IT and Business Support Services team support the Agency and its staff by managing IT services and providing the following key functions:

- provision of IT support across the whole Agency. (Including the installation and maintenance of the software, hardware and telecommunications facilities);
- responsible for all mail franking, weighing, despatch, delivery and collection ;
- provision of scanning services and data storage for the Agency;
- management of contracts with third party suppliers of IT, office equipment and telecommunications on behalf of the SPPA and responsibility for negotiating terms, conditions and cost;
- co-ordinating changes and improvements to the SPPA Internet and Intranet;
- managing the Pension Change Project to introduce pension reforms from 2007; and
- ensuring SPPA IT systems are approved to interface with the Scottish Executive network.

During the course of the year, the team has contributed to the following achievements;

- continuing to schedule and run all the IT processes necessary;
- commenced a procurement exercise under EU rules to purchase an IT system to replace the current legacy system, implement the forthcoming pension reforms and to introduce services that can be accessed via the SPPA website;
- issued Benefit Statements for NHS and Teachers schemes by 20 December 2005;
- issued all P60 forms and Annual Pension Increase (API) letters on time;
- produced a series of Statistical Reports for the Government Actuary's Department (GAD); and
- implemented an Electronic Data Interchange Package to interface with Inland Revenue.

7. Finance

The Agency's Finance Directorate is split into three specific areas which cover the Agency Administration (running cost) income and expenditure, Operations (the pensions schemes income and expenditure) and Payroll (payment of STPS pensioners and beneficiaries). The work covered by each area is as follows:

Administration Finance

The Administration finance team was responsible for all income and expenditure in relation to the Agency's running costs. Work involved raising invoices for income due to the Agency for providing information to other pension providers on the mis-selling of personal pensions and for pension sharing on divorce work. This included making sure that the income was received on time, properly allocated, and debts were properly managed. However, mis-selling income reduced to a very small amount as this work is near completion.

The team pays all the invoices the Agency receive in respect of the running costs. The team's key target was to pay all invoices within the limits set by the CBI (30 days or less). In 2005-2006 the Agency paid 99% of all invoices on time. During the year the Agency tried to reduce the number of invoices that it paid manually, using the Government Procurement Card and Scottish Executive Ease Buy procurement system where possible.

The team produce the Agency Annual Report, Accounts and Corporate Plan and ensure that the documents are laid in front of the Scottish Parliament within the statutory timescales. The Agency met this target for the 2005-2006 Accounts. The team provided secretarial duties to both the Agency Management Board and Audit Committee and reported to these sub-committees in meeting with corporate governance objectives. This included providing monthly and quarterly reports to management and forecasting income and expenditure for the year. The team liaised with the Scottish Executive Finance Department on monitoring exercises and provided information for budgeting exercises. In addition, the team played an important part in monitoring the key targets of the Agency.

Operations Finance Team

The Operations finance team administer the collection of pension income for the Scottish Teachers and NHS (Scotland) Pensions Schemes, support the payroll section in making payments and recovery of overpayments, provide a cashier function for the Agency and produce resource accounts for the schemes above along with the Scottish Parliamentary Pension Scheme.

Pension income totalling £1,172 million was received in 2005-06. There are set dates for the collection of pension contributions. 99% of pension contributions were received within the dates allowed. These contributions come from around 1,200 Education and Health bodies throughout Scotland.

Pension expenditure amounting to £1,007 million was made in 2005-06. This expenditure was reconciled against the Scottish Executive bank accounts. Payments outwith the normal payroll system were made by the team via the Scottish Executive accounting System. PAYE tax on pension payments were calculated and made to the Inland Revenue each month and reconciled to the year end return.

The team prepared budgets for the above income and expenditure to feed the Scottish Executive and HM Treasury spending plans. These figures were monitored and adjustments were made at the Spring and Autumn Budget Revisions.

Payroll Team

A payroll team was established in January 2005 to pay teacher's pensions, bringing together functions previously carried out by individual teacher's pension teams. The Agency had also hoped to bring the payment of the NHS pensioners in house in 2006 but software problems for NHS pensions payroll were identified at the testing stage. As a result, the project's implementation was deferred to 2006-07. However, once completed this should deliver a considerable efficiency saving for the Agency as well as improve the quality of service to our pensioner stakeholders.

8. Human Resources, Training and Facilities Management

The primary responsibility of the Agency's HRFM and Training Team is the management, development and care of all SPPA staff. The team work with other managers within the Agency to attract, develop and retain quality staff. The secondary function is to manage the building at Tweedbank and the associated services required to run a successful office and ensure the health and safety of our staff.

The Agency's staffing complement over the past 3 years has been as follows:

Staffing

| | 2003-2004 | 2004-2005 | 2005-2006 |
|---------------------------------|-----------|-----------|-----------|
| Permanent Staff Complement | 232 | 212 | 210 |
| Average Number of Staff in post | 232 | 220 | 202 |

Average annual staff turnover for 2005-2006 was 13% (27 members of staff). This figure includes:

- 15 left to work in other Departments of the Scottish Executive
- 9 resignations from SPPA and the Scottish Executive.
- 1 retirement
- 1 dismissal
- 1 death in service

Recruitment

The Agency recruited 25 new members of staff during the year

- 3 transferred from other Scottish Executive Departments
- 5 transferred from other Government departments
- 17 were recruited following a Scottish Executive internal and local external advertising campaign.

The Agency follows the SE Resourcing Policy and works closely to feed into the Finance and Central Services Department workforce plan.

Sick Absence Management

The Agency's sick leave figures were consistent with 2004-2005. The total average number of sick days per person was 7.6 days.

Training & Development

The Agency Training Strategy and Annual training action plan outlines the key competencies and skills required for each role and specialist area throughout SPPA. These form the basis for development, delivery and evaluation of all training.

In the period 2005-2006 staff have received an average of 5 technical and 3 non technical days training.

Investors in People

SPPA achieved IiP Accreditation in January 2006. The Internal Review Process will ensure annual health checks are performed across the IiP indicators and involve a cross section of staff. 3 Internal review staff have been fully trained through IiP Scotland.

Facilities Management

The Facilities team delivers and sustains a wide range of support services to meet the core business objectives and strategic needs of the Agency. It is committed to delivering the highest possible quality and level of service based on value for money and continuous improvement. The team is responsible for safeguarding and preserving the internal and external fabric of SPPA premises to ensure that staff and visitors are provided with high standards of accommodation and working conditions. This includes preventative maintenance of the buildings as well as undertaking minor building works and refurbishments. In the last year work was carried out to improve the Agency's recycling facilities and to enhance its physical security arrangements.

Health & Safety

Health, safety and welfare are an integral part of the working environment of the Agency. The Facilities Manager is responsible for the establishment and maintenance of effective health, safety and welfare arrangements, and co-ordination of the activities of the Agency's Health & Safety Committee and Safety Representatives. The Agency seeks to achieve high standards by enlisting the support and commitment of staff and Trade Unions, through effective communication and training.

Sustainability & Environment

The environment is an area to which the Agency attaches great importance. It aims to conduct its activities and operations to reflect best environmental practice and to improve our environmental performance as part of our wider commitment to sustainable development. The Agency has issued an SPPA Environmental Policy Statement and is developing environmental performance targets to help the environment at a local level and at the same time contribute to improvements that are needed to tackle environmental issues at a global level.

Annex A

SCOTTISH STATUARY INSTRUMENTS MADE IN 2005-2006

The National Health Service (Superannuation Scheme, Injury Benefits, Additional Voluntary Contributions and Compensation for Premature Retirement) (Civil Partnership) (Scotland) Amendment Regulations 2005 SSI 2005 No. 544

The National Health Service (Superannuation Scheme, Injury Benefits and Compensation for Premature Retirement) (Scotland) Amendment Regulations 2005 SSI 2005 No. 512

The Teachers Superannuation (Scotland) Amendment Regulations SSI 2005 NO 543

The Teachers Superannuation (Scotland) Regulations 2005 SSI 2005 NO.393

The Fire-fighters Pension Scheme Amendment (Scotland) Order 2005 SSI 2005 no. 566

The Police Pensions (part time service) Amendments (Scotland) regulations 2005 SSI 2005 NO. 495

The Police Pension Amendment (Scotland) Regulations 2005 SSI 2005 NO.200

Local Government Pension Scheme (civil partnership) (Scotland) amendments regulations 2005 SSI 2005 NO. 554

Local Government Pension Scheme (Scotland) Amendment (NO. 2) Regulations 2005 SSI 2005 NO. 315

Local Government Pension Scheme (Scotland) Amendment regulations 2005 SSI 2005 NO. 293

Local Government Pension Scheme (Scotland) Amendment regulations 2006 SSI 2206 NO. 123.

Scottish Public Pensions Agency

Accounts 2005-06

Accounts – Annual Report 2005-2006

Background and Directors' Report

Accounts Direction

The Accounts have been prepared in accordance with a Direction given by the Scottish Ministers in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

History and Statutory Background

The Scottish Public Pensions Agency (SPPA) was launched on 1 April 1993 as part of the Government's Next Steps Initiative. Its operating framework, including financial delegations, is established in the Agency's formal Framework Document. The Agency was known as The Scottish Office Pensions Agency (SOPA), before changing its name after the establishment of the Scottish Parliament on 1 July 1999. The Agency is headed by a Chief Executive who is directly accountable to the Scottish Ministers.

Principle Activities

SPPA administers the superannuation, injury benefit and compensation schemes for the NHS in Scotland, the superannuation scheme covering teachers in Scotland, and a closed scheme covering former staff of colleges which were grant-aided by The Scottish Executive Education Department. Four smaller superannuation schemes are also administered: the Scottish Legal Aid Board, the Scottish Executive Environment and Rural Affairs Department Schemes, the Scottish Parliamentary Pension Scheme and have agreed to administer the Northern Ireland Assembly Scheme from 1 April 2006. It also regulates the public service pension schemes for which Scottish Ministers have responsibility and advises Scottish Executive Departments and Ministers on any Scottish public sector pensions policy issues.

The Directors

The Agency's management structure is detailed in section 1 of the Annual Report.

The directors and senior management of the Agency at 31 March 2006 were:

| | |
|----------------|--|
| Neville Mackay | Chief Executive |
| Ian Clapperton | Operations Director |
| Richard Arnott | Policy Director |
| Pamela Lane | IT Director |
| David Weir | Finance Manager |
| Sally Paterson | HR Manager |
| Vivien Dance | Non-Executive Director (until her resignation in March 2006) |
| Peter Jeary | Non-Executive Director |

The Chief Executive is a member of the Senior Civil Service and remuneration is determined under the terms of section 5.3.6 of the Civil Service Management Code. The other board members

have their remuneration determined under the Scottish Executive's own arrangements which are negotiated separately and which are consistent with the Agency's own business needs and Government policy on Civil Service pay. The two non-executive board members are non salaried but receive a fee and expenses in connection with their duties.

Additional information on salary and pension entitlements can be found in the Remuneration Report.

None of the directors held any company directorship or other significant interests which may have conflicted with their management responsibilities during the year.

Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees services by payment to the PCSPS of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS. Separate scheme statements for the PCSPS as a whole are published. Details of the Scheme can be found at note 2 to the Accounts and the Remuneration Report.

Charitable donations

There were no charitable donations exceeding £200 in aggregate.

Supplier payment policy

SPPA follows the CBI Prompt Payment Code and ensures that all invoices not in dispute are settled within 30 days or the agreed contractual terms if otherwise specified. The Agency processes invoices on the Scottish Executive's Accounting System (SEAS). For the year, the Agency processed 99% of all invoices on time.

Important events occurring after the year end

There were no material events occurring after the year end which had a bearing on the accounts.

Auditors

The accounts are audited by an Auditor appointed by the Auditor General for Scotland. Internal audit is covered by a service level agreement with the Scottish Executive Audit and Accountancy Services. Details of the Audit Scotland notional fee is shown at Note 3.3.

Employee Recruitment

Recruitment and promotion campaigns undertaken by the Agency were carried out on the basis of fair and open competition, selection on merit and in accordance with Scottish Executive guidance. Details of recruitment in 2004-2005 and 2005-2006 were as follows:

| Pay Band | Number of Posts | | Male | | Female | |
|-------------------|-----------------|---------|---------|---------|---------|---------|
| | 2004-05 | 2005-06 | 2004-05 | 2005-06 | 2004-05 | 2005-06 |
| Up to £12,833 | 1 | 8 | 1 | 2 | 0 | 6 |
| £12,300 - £14,144 | 0 | 0 | 0 | 0 | 0 | 0 |
| £14,000 - £15,968 | 14 | 16 | 7 | 3 | 7 | 13 |
| £14,350 - £18,479 | 0 | 0 | 0 | 0 | 0 | 0 |
| £17,000 - £22,791 | 4 | 0 | 2 | 0 | 2 | 0 |
| £21,292 - 26,803 | 0 | 0 | 0 | 0 | 0 | 0 |
| £26,650 - £36,383 | 0 | 1 | 0 | 0 | 0 | 1 |
| Over £36,203 | 2 | 1 | 1 | 1 | 1 | 0 |
| Total | 21 | 26 | 11 | 6 | 10 | 20 |
| % | 100 | 100 | 52 | 23 | 48 | 77 |

Employees with disabilities

The Agency observes the Scottish Executive Civil Service Code of Practice on the employment of people with disabilities and is an Employment Services disability symbol user. This aims to ensure that there is no discrimination on the grounds of disability and that access to employment and career advancement with the Agency is based solely on ability, qualifications and suitability for the work.

Equal opportunities

The Agency is an equal opportunities employer. Policies are in place to guard against discrimination and aim to ensure that there are no unfair or illegal discriminatory barriers to employment or advancement in the Agency.

The Agency is entirely comfortable with the legal requirement to promote race equality as set out in the Race Relations Act (as amended). As an Agency of the Scottish Executive, we fully subscribe to the Executive's Race Equality Scheme and we continue to develop structures and systems to ensure that equality becomes an integral part of our thinking and behaviour.

Employee consultation

The Agency recognises the importance of good industrial relations and is committed to effective employee communications, which it maintains through all staff notices, the staff newsletter and regular staff briefing sessions. The quarterly Partnership meetings provide the means for representatives of staff and management to discuss matters of concern or mutual interest. It has delegated detailed consideration of partnership issues to an Industrial and Employee Relations Group.

Disclosure of relevant audit information

As Accountable Officer, I am not aware of any relevant audit information of which our auditors are unaware. I have taken all necessary steps to ensure that I am aware of any relevant audit information and to establish that the auditors are also aware of this information.

Management Commentary

Review of the business

The majority of the Agency's budget comes from the Scottish Executive with a small proportion generated from mis-selling of personal pensions and pension sharing on divorce work. The Agency received an operating budget of £8.6m in 2005-2006 which includes a small income budget of £0.05m. The Agency also received a budget of £0.319m for capital expenditure. In line with the Efficient Government Review the Agency is committed to reducing its expenditure in real terms from 2004-2005 to 2007-2008. The Agency had to bid for some Supplementary Funding in 2005-2006 due to additional work pressures which could not have reasonably been anticipated at the time the Agency's 3 year budget allocation was set in 2004.

Position at end of Year

The total Agency budget includes both capital and running cost expenditure. The Agency Operating Cost Statement shows that total expenditure for the Agency was approximately £8.1m. The Agency income reduced substantially from the previous financial year from £0.17m to £0.05m. This was due to the Agency all but finalising the mis-selling of personal pension work. Details of the Agency's expenditure is shown at Notes 2 and 3. The Agency purchased new assets of £0.3m during 2005-2006. Details of the asset purchases are detailed at Note 5.

Indication of likely future developments

2006-2007 will be one of the most challenging years in the Agency's history as the Agency helps bring pension reform agenda to a successful conclusion and gears up to administer the new schemes from 2007-2008.

Research and development activities

The Agency continues to monitor changes to private and public sector pension schemes and gives policy advice to Ministers on pension changes. The Agency is also trying out different working practices to reduce costs where possible and looking for new work to raise income for the Agency.

Risks and uncertainties

SPPA has developed its risk management process and identified the key risks which it faces. SPPA is funded mostly by the Scottish Executive and has identified a reduction in Scottish Executive funding, following a spending review in 2006-07, as a possible risk to the long term ability of the Agency to provide a high quality customer service.

Performance against key performance indicators

The Agency achieved all of its 9 Key Performance Targets agreed for 2005-06. Full details of the targets can be found in the Agency Annual Report.

Health, Safety and Environment

The Agency aims to provide a safe and healthy working environment for all staff and, so far as is reasonably practicable, have systems and procedures in place which will ensure that all equipment, plant and premises are safe and free from adverse effects to health. We apply the Scottish Executive Health and Safety Management Systems and procedures and we have a Health & Safety Committee, as well as trained Health & Safety Liaison Officers to provide support services and advice to staff. We work in partnership with Trade Union representatives to address any safety issues and help to encourage a pro-active safety culture.

The Agency is committed to improving environmental performance as part of our wider commitment to sustainable development. We recognise our legal and ethical responsibilities to protect and enhance the environment and are working towards sustainable practices in the use and disposal of materials, energy, transport and landscape management. The Agency has published an environmental policy and is working with a group of environmental guardians to develop our own environmental management system.

Significant changes in fixed assets

The movements in fixed assets are set out in notes 5 and 6 to the financial statements. There is no significant difference between the value of the fixed assets shown in the financial statements and their current market value.

Audit Committee

SPPA's audit committee supports the Accountable Officer in monitoring and reviewing corporate governance, risk and control systems within the Agency. Membership comprises both Non Executive and independent external members to ensure that the committee remains objective. The Chairman of the audit committee is also a Non Executive member of the board. Members during 2005-2006 were:

Peter Jeary (Chairman)

Vivien Dance (Vivien resigned from the Audit Committee and Board in March 2006)

Joyce Roberts



Neville Mackay

Chief Executive

27th September 2006

Remuneration Report

Remuneration policy

The Agency's Chief Executive is a member of the Senior Civil Service.

Remuneration of senior civil servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body has regard to the following considerations:

- The need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- Regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- The funds available to departments as set out in the Government's departmental expenditure limits;
- The Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review body can be found at www.ome.uk.com

The other executive board members have their remuneration determined under Scottish Executive's own arrangements which are negotiated separately and which are consistent with the Agency's own business needs and Government policy on Civil Service pay. The two non-executive board members are non salaried.

Service contracts

Civil service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code, which requires appointment to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made. These principles, as set out by the Committee on the Standards in Public Life (The Nolan Committee), are also applied when appointments are made to non-executive director posts. Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

Unless otherwise stated below, the officials covered by this report hold appointments, which are open-ended until they reach normal retiring age of 60. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Peter Jeary and Vivien Dance were appointed on a 3 year contract commencing on 1 April 2004. Vivien Dance resigned in March 2006. The Agency are in the process of recruiting additional Non Executive Directors.

Salaries

Salary and pension entitlement of the Scottish Public Pensions Agency Board members were as follows:

| Names and Title | 2005-2006 Salary £000 | 2004-2005 Salary £000 | Real increase in pension and lump sum at age 60 £000 | Total accrued pension at age 60 at 31/3/06 and related lump sum £000 | CETV at 31/3/05 (Restated) £000 | CETV at 31/3/06 £000 | Real increase in CETV after adjustment for inflation and changes in market investment factors £000 |
|--|-----------------------|-----------------------|--|--|---------------------------------|----------------------|--|
| Neville Mackay | 65-70 | 40-45 | 0-2.5 and 0-2.5 for lump sum | 0-5 plus 5-10 lump sum | 30 | 60 | 15 |
| Richard Arnott Director of Policy*1 | 45-50 | n/a | 0-2.5 and 0-2.5 for lump sum | 15-20 plus 55-60 lump sum | 283 | 361 | 9 |
| Pamela Lane Director of IT | 45-50 | 15-20 | 0-2.5 and 0-2.5 for lump sum | 15-20 plus 45-50 lump sum | 183 | 246 | 14 |
| Ian Clapperton* Director of Operations | 40-45 | 35-40 | 0-2.5 and 0-2.5 for lump sum | 15-20 plus 45-50 lump sum | 242 | 313 | 8 |
| David Weir Finance Manager | 35-40 | 30-35 | 0-2.5 and 0-2.5 for lump sum | 5-10 plus 15-20 lump sum | 67 | 92 | 6 |
| Sally Paterson HR Manager | 25-30 | 25-30 | 0-2.5 and 0-2.5 for lump sum | 0-5 plus 10-15 lump sum | 33 | 45 | 4 |

* Ian Clapperton (previously Policy Director) became Director of Operations on 26 September 2005

*1 Richard Arnott replaced Ian Clapperton as Policy Director on 20 September 2005.

Our two non executive board members are non salaried but receive a fee and expenses in line with their duties.

Salary

Salary includes gross salary; performance pay or bonuses; overtime; reserved rights to London weighting or London allowances; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the Inland Revenue as a taxable emolument. In 2005-2006 this value was £nil (2004-2005: £nil).

Pension

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based “final salary” defined benefit schemes (*classic*, *premium*, and *classic plus*). The Schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under *classic*, *premium*, and *classic plus* are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality “money purchase” stakeholder arrangement with a significant employer contribution (*partnership pension account*).

Employees get tax relief on their contributions. These are set at the rate of 1.5% of pensionable earnings for *classic* and 3.5% for *premium*, and *classic plus*. Benefits in *classic* accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years’ pension is payable on retirement. For *premium*, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike *classic*, there is no automatic lump sum, but members may commute some of their pension to provide a lump sum up to a maximum of 3/80ths of final pensionable earnings for each year of service or 2.25 times pension if greater. *Classic Plus* is essentially a variation of *premium*, but with benefits in respect of service before 1 October 2002 calculated broadly as per *classic*. The *Partnership Pension Account* is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product. The employee does not have to contribute but where they do make contributions, these are matched by the employer up to a limit of 3% (in addition to the employer’s basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of risk benefit cover (death in service and ill health retirement).

Further details about the Civil Service pension arrangements can be found at the website: www.civilservice-pensions.gov.uk

Cash Equivalent Transfer Values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member’s accrued benefits and any contingent spouse’s pension payable from the scheme.

It is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the pension benefits they have accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total actual service as a civil servant, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service scheme and for which the Scheme has received a transfer payment commensurate to the additional pension liabilities being assumed. It includes any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Please note that the factors used to calculate CETV were revised on 1 April 2005 on the advice of the scheme Actuary (Hewitt Bacon Woodrow). The CETV figure for 31 March 2005 has been restated using the new factors so that it is calculated on the same basis as the CETV figure for 31 March 2006.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.



Neville Mackay
Chief Executive

27th September 2006

Statement of Agency's and Chief Executive's Responsibilities

Under section 19 of the Public Finance and Accountability (Scotland) Act 2000 the Scottish Ministers have directed the Scottish Public Pensions Agency to prepare a statement of accounts for each financial year in conformity with the accounts direction on page 49 of these financial statements, detailing the resources required, held or disposed of during the year and the use of resources by the Agency during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year end and of its operating costs, total recognised gains and losses, and cash flows for the financial year.

The Principal Accountable Officer of the Scottish Executive appointed the Chief Executive of the Scottish Public Pensions Agency as the Accountable Officer for the Agency. As Accountable Officer, the Chief Executive is responsible to the Scottish Ministers.

In preparing the accounts, the Accountable Officer is required to comply with the Government Financial Reporting Manual, and in particular to:

- observe the accounts direction issued by the Scottish Ministers, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards, as set out in the Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the Agency will continue in operation.

The responsibilities of the Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Memorandum to Accountable Officers from the Principal Accountable Officer.

Statement On Internal Control

Scope of Responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

As Accountable Officer, I am personally answerable to Scottish Parliament in accordance with section 15 of the Public Finance and Accountability (Scotland) Act 2000. I am responsible for the propriety and regularity of financial transactions under my control and for the economic, efficient and effective use of resources provided to the Agency, for ensuring that arrangements have been made to secure best value and for signing the Agency's annual accounts. I am also responsible for providing the necessary assurances to the Principal Accountable Officer to enable him to sign the Statement on Internal Control contained within the Scottish Executive Consolidated Accounts. I have responsibility for ensuring that effective management systems are in place within the Agency and that all risks are identified, assessed and managed appropriately.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

Purpose of the System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. The process within the organisation accords with the SPFM and has been in place for the year ended 31 March 2006 and up to the date of approval of the financial statements and accords with the guidance from Scottish Ministers.

Risk and Control Framework

All bodies subject to the requirements of the SPFM must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

All members of the senior management team have attended training on risk awareness and the Agency's Management Board has identified the top-level risks and consolidated these into a risk register together with a determination of a control strategy for each risk. Risk management is incorporated into the business planning and decision making processes of the organisation.

The Agency's Management Board and Audit Committee have ensured that risk management and internal control are considered on a regular basis at their meetings. The Audit Committee receive regular reports from internal audit and Audit Scotland concerning internal control issues and recommendations and are notified of actions to be taken to address any issues or weaknesses identified. The Audit Committee also consider the adequacy of arrangements, for the assessment and management of risk and adequacy of arrangements for corporate governance.

More generally, the organisation is committed to a process of continuous development and improvement, developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March and up to the signing of the accounts the organisation has:

- set stretching performance targets, including making savings under the efficient Government Review, which cover the main areas of activity and are regularly monitored.
- reviewed monthly monitoring of expenditure against budget; and
- set up a pensions change project team in connection with the proposed changes to the pension schemes we administer.

Review of Effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the systems of internal control. My review is informed by the:

- managers within the Agency who have the responsibility for the development and maintenance of the internal control framework;
- work of the internal audit team who regularly submit reports to the audit committee which includes the Head of Internal Audit's independent and objective opinion on the adequacy and effectiveness of the Agency's systems of internal control together with recommendations for improvement;
- audit committee overseeing the work of internal audit; and
- comments made by the external auditors in their management letters and other reports.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system.

The Agency uses and relies on the core financial management systems of the Scottish Executive to carry out its own accounting and payment functions. I have received assurances from the Scottish Executive that reliance can be placed on the central systems they provide.

Whilst these accounts only relate to Direct Running Costs, the Agency has responsibility for administration of the various pension schemes and the Statements on Internal Control for the National Health Service (Scotland) and Scottish Teachers Pension Scheme Accounts will incorporate the Agency's overall system of internal control.



Neville Mackay
Chief Executive

27th September 2006

Independent auditor's report to the Scottish Public Pensions Agency, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the Scottish Public Pensions Agency for the year ended 31 March 2006 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and the Statement of Recognised Gains and Losses and related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

Respective responsibilities of the Agency, Chief Executive and auditor

The Agency and Chief Executive are responsible for preparing the annual report and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Agency's and Chief Executive's Responsibilities.

My responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I also report whether in all material respects:

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and

- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

I also report if, in my opinion, the Annual Report is not consistent with the financial statements, if the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with Scottish Executive guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the Statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Background, Director's Report, Management Commentary, and the Remuneration Report except the section on Remuneration and Pensions. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the directions made thereunder by the Scottish Ministers, of the state of affairs of the Scottish Public Pensions Agency as at 31 March 2006 and the net cost of operations, recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

Bill Convery (CPFA)

Assistant Director

Audit Scotland

Osborne House

1/5 Osborne Tee

Edinburgh

EH12 5HG

3rd October 2006

Scottish Public Pensions Agency

Operating Cost Statement

for the year ended 31 March 2006

| | Notes | 2005-2006 £000 | 2004-2005 £000 |
|--|-------|-------------------|-------------------|
| Administration Costs | | | |
| Staff costs | 2 | 4596 | 4621 |
| Other administration costs | 3 | 2978 | 3461 |
| Depreciation | 5,6 | 514 | 492 |
| | | <u>8088</u> | <u>8574</u> |
| Gross Administration Costs | | 8088 | 8574 |
| Operating Income | | <u>(48)</u> | <u>(169)</u> |
| Net Operating Costs before Notional Interest on Capital | | 8040 | 8405 |
| | | | |
| Capital charge | | <u>54</u> | <u>64</u> |
| Net Operating Costs for the Year | | <u>8094</u> | <u>8469</u> |

The above results relate to continuing activities.

Statement Of Recognised Gains And Losses

for the year ended 31 March 2006

| | 2005-2006 £000 | 2004-2005 £000 |
|--|-------------------|-------------------|
| Net gain on the revaluation of tangible fixed assets | <u>10</u> | <u>29</u> |

The notes on pages 39 to 48 form part of these accounts.

Scottish Public Pensions Agency

Balance Sheet

As at 31 March 2006

| | Notes | 2005-2006 | | 2004-2005 | |
|--|-------|-----------|--------------|-----------|-------------|
| | | £000 | £000 | £000 | £000 |
| Fixed Assets | | | | | |
| Tangible Assets | 5 | | 1555 | | 1745 |
| Intangible Assets | 6 | | 14 | | 27 |
| | | | <u>1569</u> | | <u>1772</u> |
| Current Assets | | | | | |
| Debtors & Prepayments | 7 | 238 | | 468 | |
| Current Liabilities | | | | | |
| Creditors (due within one year) | 8 | (543) | | (186) | |
| | | | <u>(305)</u> | | <u>282</u> |
| Net Current Assets | | | | | |
| | | | <u>1264</u> | | <u>2054</u> |
| Total Assets less Current Liabilities | | | | | |
| Provision for Liabilities | 9 | | (177) | | (208) |
| | | | <u>1087</u> | | <u>1846</u> |
| Net Assets | | | | | |
| | | | <u>1087</u> | | <u>1846</u> |
| Represented by Taxpayers' Equity: | | | | | |
| General fund | 10 | | 995 | | 1758 |
| Revaluation reserve | 11 | | 92 | | 88 |
| | | | <u>1087</u> | | <u>1846</u> |

Neville Mackay
 Chief Executive
 27th September 2006

The notes on pages 39 to 48 form part of these accounts.

Scottish Public Pensions Agency

Cashflow Statement

For the year ended 31 March 2006

| | Note | 2005-2006 | | 2004-2005 | |
|--|-------------|------------------|-------------|------------------|-------------|
| | | £000 | £000 | £000 | £000 |
| Net Cash outflow from operating activities | 16a | | (6866) | | (7756) |
| Capital expenditure | 16b | | (190) | | (306) |
| Net funding | 16c | | 7056 | | 8062 |
| Increase or (decrease) in cash | | | <u>0</u> | | <u>0</u> |

The notes on pages 39 to 48 form part of these accounts.

Scottish Public Pensions Agency

Notes To The Accounts

For the year ended 31 March 2006

1. Statement of Accounting Policies

In accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 these financial statements have been prepared in accordance with the 2005-2006 Government Financial Reporting Manual (FReM). The accounting policies contained in the FReM follow UK generally accepted accounting practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

Where the FReM permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The Agency's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

The accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets at their value to the organisation by reference to their current cost.

1.2 Tangible Fixed Assets

The Agency does not own any land or buildings but has included assets for leasehold improvements in the balance sheet.

Tangible assets, excluding Information and Computer Technology (ICT) systems have been stated at current cost using appropriate indices. ICT systems are stated at historical cost. The minimum level for capitalisation of a tangible fixed asset is £1000.

1.3 Depreciation

Depreciation is provided on tangible fixed assets from the year they are brought into service. Rates are calculated to write off the acquisition cost less estimated residual value, evenly over expected useful lives as follows:

| | | |
|------------------------|---|----------------|
| Leasehold improvements | - | 10 to 20 years |
| Furniture and Fittings | - | 10 years |
| Plant and Machinery | - | 5 to 10 years |
| ICT Systems | - | 3 to 7 years |

1.4 Intangible fixed assets

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of £1,000 or more is incurred. Software licences are amortised over the shorter of the term of the licence and the useful economic life.

1.5 Operating income

Operating income represents:

- the recovery of costs from pension providers in respect of work arising from the Securities and Investment Board review of mis-sold personal pensions, and has all arisen in the United Kingdom.
- a charge for providing work in relation to pension sharing on divorce

1.6 Capital charge

A charge reflecting the cost of capital utilised by the Agency is included in the operating cost statement. The charge is calculated on the average carrying amount of all assets less liabilities at the real rate set by HM Treasury of 3.5% per annum (2004-2005: 3.5% per annum).

1.7 Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) which is a defined benefit scheme and is unfunded and non-contributory. The Agency recognises the expected cost of providing pensions on a systematic and rational basis over the period during which it benefits from employees services by payment to the PCSPS of amounts calculated on an accruing basis (further disclosures are included in Note 2 and the Remuneration Report). Liability for payment of future benefits is a charge on the PCSPS. Separate scheme statements for the PCSPS as a whole are published.

1.8 Value Added Tax

The Agency receives funding from The Scottish Executive Finance and Central Services Department Budget to meet expenditure incurred, inclusive of VAT. However in order to comply with Government Accounting Regulations and normal commercial practice, operating costs are stated net of VAT where VAT is recoverable by the Agency.

The Agency is registered for VAT as part of The Scottish Executive, which is responsible for recovering VAT from HM Customs and Excise on behalf of the Agency.

1.9 Leases

Operating lease rentals are charged to the operating cost statement on a straight-line basis over the term of the lease.

2. Staff Numbers and Costs

A. Staff costs

| | 2005-2006 | 2004-2005 |
|-----------------------|------------------|------------------|
| | £000 | £000 |
| Wages and salaries | 3728 | 3847 |
| Social security costs | 239 | 248 |
| Other pension costs | 588 | 445 |
| Temporary staff | 41 | 81 |
| | <u>4596</u> | <u>4621</u> |

The Principle Civil Service Pension Scheme (PCSPS) is an unfunded multi employer defined benefit scheme. The Scottish Public Pensions Agency is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2005-06, employers' contributions of £587,772 were payable to the PCSPS (2004-2005 £445,339) at rates in the range of 16.2 per cent to 24.6 per cent (2004-2005: 12 to 18.5 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every 4 years following a full scheme valuation. From 2006-2007, the salary bands will be revised and the rates will be in the range between 17 and 25.5%.

The contribution rates are set to meet the cost of benefits accruing during 2005-2006 to be paid when the member retires and not when the benefits are paid during this period to existing pensioners.

Employees joining after 1 October 2002 could opt to open a partnership pension account, a stakeholder pension with an employer contribution. No one from the Agency opted to join this scheme.

The Agency had no members of staff who retired on ill health grounds in either 2005-2006 or 2004-2005.

B. Staff numbers

The average numbers of whole-time-equivalent employees were as follows:

| | 2005-2006 | 2004-2005 |
|-------------------|------------------|------------------|
| Senior management | 6 | 6 |
| Other staff | 193 | 206 |
| Temporary staff | 3 | 8 |
| | <u>202</u> | <u>220</u> |

3. Other Administration Costs

| 3.1 General Administration Expenses | Notes | 2005-2006 | 2004-2005 |
|---|--------------|------------------|------------------|
| | | £000 | £000 |
| Actuarial services | | 197 | 114 |
| Payment and banking services | | 561 | 558 |
| Compensation payments | | 1 | 2 |
| Loss on disposal of fixed assets | | 0 | 0 |
| Medical services | | 248 | 260 |
| Travel and subsistence | | 89 | 121 |
| Consultancy | | 187 | 72 |
| Printing and copying | | 34 | 65 |
| Telephone charges | | 15 | 16 |
| Training | | 112 | 74 |
| Stationery | | 37 | 51 |
| Office machinery | | 27 | 20 |
| IT maintenance | | 442 | 343 |
| Financial services | | 7 | 20 |
| Postage costs | | 85 | 124 |
| Other minor running costs | | 25 | 46 |
| | | <u>2067</u> | <u>1886</u> |
| 3.2 Accommodation and Support Services | | 2005-2006 | 2004-2005 |
| | | £000 | £000 |
| Rent | | 420 | 420 |
| Rates | | 102 | 91 |
| Other accommodation costs | | 173 | 188 |
| Dilapidation costs | | 0 | 642 |
| | | <u>695</u> | <u>1341</u> |
| 3.3 Notional Charges | | 2005-2006 | 2004-2005 |
| | | £000 | £000 |
| Services provided by The Scottish Executive | | 70 | 97 |
| Audit fee | | 146 | 137 |
| | | <u>216</u> | <u>234</u> |
| | | <u>2978</u> | <u>3461</u> |

4. Related Party Transactions

The Scottish Public Pensions Agency is an Executive Agency of The Scottish Executive, which is therefore regarded as a related party. During the year the Scottish Public Pensions Agency has had a number of material transactions with The Scottish Executive. In addition, the Scottish Public Pensions Agency has had a small number of material transactions with other Government Departments and other Central Government bodies.

During the year, none of the Board Members, key managerial staff or other related parties has undertaken any material transactions with the Scottish Public Pensions Agency.

5. Tangible Fixed Assets

| | Leasehold Improvements £000 | Furniture & Fittings £000 | Plant and Machinery £000 | ICT Systems £000 | Total £000 |
|--------------------------|--|--|---|---------------------------------|-----------------------|
| Cost or Valuation | | | | | |
| At 1 April 2005 | 367 | 490 | 269 | 3105 | 4231 |
| Additions | 7 | 0 | 41 | 253 | 301 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Revaluation | 9 | 5 | -3 | 0 | 11 |
| At 31 March 2006 | <u>383</u> | <u>495</u> | <u>307</u> | <u>3358</u> | <u>4543</u> |
| Depreciation | | | | | |
| At 1 April 2005 | 34 | 129 | 88 | 2235 | 2486 |
| Charge In Year | 18 | 54 | 47 | 382 | 501 |
| Transfers | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Revaluation | 1 | 2 | -2 | 0 | 1 |
| At 31 March 2006 | <u>53</u> | <u>185</u> | <u>133</u> | <u>2617</u> | <u>2988</u> |
| Net Book Value | | | | | |
| At 31 March 2006 | <u>330</u> | <u>310</u> | <u>174</u> | <u>741</u> | <u>1555</u> |
| At 31 March 2005 | <u>333</u> | <u>361</u> | <u>181</u> | <u>870</u> | <u>1745</u> |

6. Intangible Fixed Assets

| | Purchased Software Licences £000 |
|--------------------------|---|
| Cost or Valuation | |
| At 1 April 2005 | 38 |
| Additions | 0 |
| Donations | 0 |
| Disposals | 0 |
| Revaluation | 0 |
| At 31 March 2006 | <u>38</u> |
| Amortisation | |
| At 1 April 2005 | 11 |
| Charge In Year | 13 |
| Disposals | 0 |
| Revaluation | 0 |
| At 31 March 2006 | <u>24</u> |
| Net Book Value | |
| At 31 March 2006 | <u>14</u> |
| At 31 March 2005 | <u>27</u> |

7. Debtors & Prepayments

| | 31 March 2006 | 31 March 2005 |
|-------------|----------------------|----------------------|
| | £000 | £000 |
| Debtors | 135 | 157 |
| Prepayments | 103 | 311 |
| | <u>238</u> | <u>468</u> |

8. Creditors & Accruals

| | 31 March 2006 | 31 March 2005 |
|-----------|----------------------|----------------------|
| | £000 | £000 |
| Creditors | 43 | 17 |
| Accruals | 500 | 169 |
| | <u>543</u> | <u>186</u> |

9. Provision for Liabilities

| | Rent Free Period | Early Retirement Costs | Total Costs |
|-------------------------------------|-----------------------------|---------------------------------------|--------------------|
| | £000 | £000 | £000 |
| Balance at 1 April 2005 | 177 | 31 | 208 |
| Provisions utilised during the year | (10) | (21) | (31) |
| Balance at 31 March 2005 | <u>167</u> | <u>10</u> | <u>177</u> |

Rent Free Period

The Agency were given a 6-month rent-free period, from the landlord, when they relocated to Tweedbank. This will be released against future rent expenditure throughout the period of the lease.

Early Retirement Costs

The Agency meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Agency provides for this in full when the early retirement programme becomes binding on the Agency by establishing a provision for the estimated payments.

10. Movement in General Fund

| | £000 |
|--|---------------|
| Balance at 1 April 2005 | 1758 |
| Net Funding | 7056 |
| Other department funding | 0 |
| Non-cash funding | 269 |
| Transfer from Revaluation Reserve (realised element) | 6 |
| Net Cost of Operations | <u>(8094)</u> |
| Balance at 31 March 2006 | <u>995</u> |

11. Movement in Revaluation Reserve

| | Notes | £000 |
|---|--------------|-------------|
| Balance at 1 April 2005 | | 88 |
| Surplus arising on revaluation in year | 5 | 10 |
| Transfer to General Fund (realised element) | | <u>(6)</u> |
| Balance at 31 March 2006 | | <u>92</u> |

12. Contingent Liabilities

The Agency are proposing to bring the payment of NHS pensions in house from early 2007. Under the terms of the contract with the current provider the Agency are bound to abide by TUPE (Transfer of Undertakings Regulations). The Agency are required to meet the associated employment costs with the transfer of this work from the current provider to SPPA. The consultation process is still to begin and likely costs are not known at this time. (31 March 2005: £nil)

13. Capital Commitments

Contracted capital commitments at 31 March 2006 for which no provision has been made were £150,000 (31 March 2005: £nil).

14. Commitments under Leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

| Operating Leases | 2005-2006 | 2004-2005 |
|---|------------------|------------------|
| | £000 | £000 |
| Obligations under operating leases comprise | | |
| Land and Buildings: | | |
| Expiry after more than 5 years | 399 | 399 |

15. Intra government balances

| | Debtors: amounts falling due within one year | Debtors: amounts falling due after more than one year | Creditors: amounts falling due within one year | Creditors: amounts falling due after more than one year |
|---|---|--|---|--|
| | £000 | £000 | £000 | £000 |
| Balances with other central government bodies | 115 | 0 | 125 | 0 |
| Balances with Local Authorities | 4 | 0 | 0 | 0 |
| Balances with public corporations and trading funds | 0 | 0 | 38 | 0 |
| Balances with bodies external to government | 119 | 0 | 380 | 0 |
| At 31 March 2006 | 238 | 0 | 543 | 0 |
| Balances with other central government bodies | 138 | 0 | 20 | 0 |
| Balances with Local Authorities | 4 | 0 | 0 | 0 |
| Balances with public corporations and trading funds | 0 | 0 | 68 | 0 |
| Balances with bodies external to government | 326 | 0 | 98 | 0 |
| At 31 March 2005 | 468 | 0 | 186 | 0 |

16. Notes to the Cashflow Statement

| | 2005-2006 | | 2004-2005 | |
|---|-----------|--------|-----------|--------|
| | £000 | £000 | £000 | £000 |
| Note a | | | | |
| Reconciliation of operating cost to operating cashflows | | | | |
| Net Operating cost | | (8094) | | (8469) |
| Adjustment for items not involving cash | | | | |
| Depreciation | 514 | | 492 | |
| Loss on disposal of fixed assets | 0 | | 0 | |
| Capital charge | 54 | | 64 | |
| Other notional charges | 216 | | 234 | |
| | | 784 | | 790 |
| <i>Adjustment for movements in working capital</i> | | | | |
| (Increase) / Decrease in debtors | 230 | | (217) | |
| Increase / (Decrease) in creditors | 245 | | 119 | |
| Increase / (Decrease) in provisions | (31) | | 21 | |
| | | 444 | | (77) |
| Net cash outflow from operating activities | | (6866) | | (7756) |
| Note b | | | | |
| Analysis of Capital expenditure | | | | |
| Fixed assets additions | | (190) | | (306) |
| Proceeds on disposal of fixed assets | | 0 | | 0 |
| Net cash outflow from capital expenditure | | (190) | | (306) |
| Note c | | | | |
| Analysis of financing and reconciliation to the net cash requirement | | | | |
| Net funding | | 7056 | | 8062 |



Scottish Public Pensions Agency

Direction By The Scottish Ministers

in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

The statement of accounts for the financial year ended 31 March 2006 and subsequent years shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FRM) which is in force for the year for which the statement of accounts are prepared.

The accounts shall be prepared so as to give a true and fair view of the income and expenditure, recognised gains and losses, and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 29 March 2001 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 17 January 2006

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