SCOTTISH PUBLIC PENSIONS AGENCY

Annual Report and Accounts 2012-13

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INVESTOR IN PEOPLE

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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 2012 to 31 March 2013. This is the twentieth such report since we became an Agency in 1993 and the eleventh since our relocation to Tweedbank in 2002.

The past twelve months have once again delivered both success and challenge in equal measure. The Agency has continued to implement its multi-year programme of business change which aims to enhance the efficiency, quality and effectiveness of its core pensions administration service. It has also managed, on behalf of Scottish Ministers, the challenging pension reform agenda which has addressed both short and long term changes to all five public sector pension schemes for which Scottish Ministers have a responsibility.

The year saw the Agency meet 9 of its 11 key performance targets. The two targets we failed to meet – relating to the issue of pension benefit statements and the collection of scheme contributions within the period prescribed by legislation - were both extremely close to being met. As in the previous year, we also met more than 90% of the stretching list of key business tasks which we set at the beginning of the year. At the same time we improved the high level of customer satisfaction, achieving an overall customer satisfaction marking of nearly 90%, an increase of 2.4% over the previous year. To achieve this against a context of scheme membership growth of 2.9 % and the development of the difficult and highly contentious pension reform agenda is highly laudable.

The year saw a number of significant operational developments, the most notable of which included the development of HMRC's Real Time Information requirements in January 2013. The Agency also consolidated the development of its member web interface, which allows scheme members to access their pension benefit statements online. Apart from providing a member with the facility to access and track their benefit statements directly, the interface also significantly reduces the security risks associated with transferring paper based personal member data via the postal system. By the end of the year more than 28,000 scheme members had registered to receive their pension benefit statements online for the first time and we continue to raise awareness and encourage as many members as possible to take advantage of this feature. The Agency also successfully participated in the National Fraud Initiative, which checks the Agency's data against that held by a number of other public bodies. The results of that exercise demonstrate the extent to which the steps taken by the Agency and others have significantly reduced the scope for fraud.

Other achievements included the successful continuation of our data cleansing activities. During the year the Agency initiated a project designed to further ensure that its member data is as accurate and up to date as possible. The project, which will report later in 2013, aims to benchmark SPPA's data against data quality criteria set by the UK Pension Regulator to see if any further improvements are required.

The Agency conducts a number of annual external benchmarking activities in order to establish how its performance compares to similar organisations. As already mentioned, we improved our customer satisfaction ratings significantly during the year, and this was matched by similar improvements in our staff engagement index, which demonstrates the extent to which staff are involved in and committed to the work of the organisation. We also undertook our annual independent benchmarking exercise which compares the Agency against similar pension administrators both in the UK and overseas. This confirmed that SPPA remains within the "low cost/high quality" quadrant.

Our commitment to investing in our staff to deliver our business objectives was rewarded during the year by the award of Gold status from Investors in People Scotland. This is the highest level of accreditation possible, and is achieved by fewer than 3% of all IiP accredited organisations. Our staff deserve immense credit for their contribution to this achievement and to the success of the organisation. To have gone from the basic IiP accreditation to achieving Gold status in just six years is a tremendous achievement, and our investment in personal skills and knowledge is reflected in the quality of service we provide our customers.

On the policy side, our work has been dominated once again by the development of the UK Government's pension reform agenda, primarily delivered in tandem with the passage of its 2012 Public Service Pensions Bill. Working with Scottish Government workforce directorates and scheme stakeholders, we have provided Scottish Ministers with policy advice across the five schemes for which they have responsibility and on other matters impacted by the Bill. In addition to implementation of the second annual increment of increases to employee contribution rates in April 2013, tri partite partnership negotiations took place to design the new schemes required by the longer term pension reforms to be in place by April 2015. These negotiations have taken longer than expected to resolve, due in part to the uncertainties created by the development of the UK Government's policy, although we aim to agree reformed scheme designs during 2013.

Looking ahead, the pension reform agenda will dominate the work of the Agency over the next 2-3 years. However, the period available to implement the reformed schemes in operational terms is highly compressed. Achieving full implementation by the statutory deadline of April 2015 will be extremely challenging. We have already began to plan for the transition to the new schemes, but at the time of writing the details of what those schemes might look like are unclear.

In addition to the operational challenges facing the Agency, the UK Government's 2013 Public Service Pension Reform Act requires a number of significant changes to be made to the schemes' governance arrangements. These will impact on the Agency and we have already begun to plan for them. We were one of the first public sector scheme administrators to meet with the UK Pension Regulator during 2012 - and during 2013-14 we will set out our plans for establishing the necessary statutory pension boards with wider stakeholder representation for both the NHS and STSS schemes.

None of our achievements and challenges would have been possible without the dedication and commitment of our staff, and I would like to formally acknowledge their contribution to the Agency's success. They have shown themselves to be professional, resilient, adaptive and imaginative in the way they have conducted their business, and it is to them that any credit for our success lies. We also thank our customers for their continued support and feedback. We never lose sight of the fact that we exist to serve them and listen very closely to everything they tell us, both positive and, on occasion, negative.

The Agency is also fortunate in being able to draw upon the advice and guidance provided by its small but perfectly formed External Management Board, under the chairmanship of James Taylor. The Board is now extremely knowledgeable about the work of the Agency, having been appointed originally in 2007. In order to ensure that their knowledge remains available to us until such time as the pension reforms have been implemented, all Board members have had their second terms extended until the end of 2015. I would once again like to acknowledge the invaluable role they have played in supporting and constructively challenging the Agency's Senior Management Team and in ensuring that we continue to improve as a business whilst maintaining the highest standards of governance and probity.

Looking ahead to 2013-14, the processes of business change and continuous improvement will continue apace. Apart from the challenges of pension reform, we shall continue to seek further business efficiencies where possible, and to develop our various IT and financial systems to ensure that they are ever more efficient and effective. We will continue to adhere to the principles of best value in the way in which we conduct our affairs, and we will continue to put the customer at the centre of all we do.

Taken together, 2013-14 promises to be another extremely challenging year for the Agency. However, based on its track record and drawing upon its increasing knowledge and competence of its staff, I am confident that we will succeed in meeting our business objectives and that the Agency will continue to provide a world class service to its customers.

Neville Mackay
Chief Executive
15 August 2013

1. Directors' report

Accounts direction

These accounts have been prepared in accordance with the Accounts 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.

Principal activities

The SPPA's principal role is to administer the superannuation, injury benefit and compensation schemes for the NHS in Scotland, and for members of the Scottish Teachers Superannuation Scheme. The Agency also provides a calculation service in respect of three smaller superannuation schemes: the Scottish Legal Aid Board Schemes, the Scottish Parliamentary Pension Scheme and the Northern Ireland Assembly Scheme. It also develops the regulations for these public service pension schemes for which Scottish Ministers have responsibility and advises the Scottish Government and Ministers on Scottish public sector pension policy issues.

Review of the business

The Agency is primarily funded by the Scottish Government. A small proportion of its income is self-generated from work associated with pension sharing on divorce and from the provision of pension calculation services to third parties.

Position at the end of the year

The Agency's Operating Cost Statement shows that net expenditure was £12.0 million in 2012-13, compared with £10.4 million in the previous financial year. A breakdown of expenditure is detailed in notes 2 and 3.

The Agency spent £5.2 million on non-current assets during the year. Further information on non-current assets is included in notes 5 and 6.

	Allocation £m	Out-turn £m
Total operating costs (Statement of Comprehensive Net Expenditure)	9.8	12.2
Less depreciation (Statement of Comprehensive Net Expenditure)		(1.5)
Less notional charges (note 3.3)		(0.3)
Operating income (Statement of Comprehensive Net Expenditure)	(0.2)	(0.2)
Operating costs excluding depreciation	**9.6**	**10.2**
Depreciation	2.2	1.5
Total operating costs	**11.8**	**11.7**
Capital	**5.3**	**5.2**

The Parliamentary allocation was supplemented by £0.1m during the year to cover costs associated with the Scottish Government early departure exercise and by £0.2m to cover the costs of additional pension reform spend. These are included within the total operating costs allocation in the table above. The overspend of operating costs excluding depreciation of £0.6m has been agreed with the Finance, Employment and Sustainable Growth Portfolio at the Scottish Government and relates to the impairment of property (refer to note 5, and note 14). The depreciation allocation conforms with the 2011 Spending Review settlement. The capital allocation was supplemented by £5.0m to cover the costs of the purchase of the Tweedbank building.

Future developments

The Agency remains deeply involved in the discussions with stakeholders on pension reform in Scotland. Once agreement has been reached, the NHS and Teachers' schemes will be redesigned, following which the Agency will require to undertake extensive revision of its pensions management software.

In addition to pension reform, the Agency will continue to develop its systems in order to improve efficiency, effectiveness and the standard of service it provides to its stakeholders. Following the implementation of on-line benefit statements, the Agency will develop further its website to enable employers to record contributions payable, and other data on-line. The Agency will seek further efficiencies through a review of its financial processes, and will review its membership data quality and the processes used in updating its membership data.

Performance against key performance indicators

The Agency's aims, objectives and performance against key targets in 2012-13 are listed as a section in this Annual Report. The Agency's Key Performance Targets are listed in the Corporate Plan which can be accessed from the SPPA website at www.sppa.gov.uk

Corporate governance

A full statement of the Agency's corporate governance and risk management arrangements, and their application in 2012-13, is contained in the separate corporate governance statement included in this document.

The Directors

The Agency's management structure is detailed in the Leadership and Governance section of the Agency's Annual Report. The directors and senior management of the Agency at 31 March 2013 were:

Neville Mackay	Chief Executive
Pamela Brown	Operations Director
Chad Dawtry	Policy Director
Marion Chapman	IT and Corporate Services Director
Christopher Fenton	Finance Director
James Taylor	Non-executive chair
Alex Smith	Non-executive Director
Julia Edey	Non-executive Director
Alyson Stafford	Non-executive Director

Alyson Stafford holds the post of Director General Finance for the Scottish Government.

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

Health, safety and the 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 Government's Health and Safety Management Systems and procedures and we have a Health and Safety Committee, as well as trained Health and 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, and transport and landscape management. Further detail about the Agency's commitment to the environment can be found in the Corporate Social Responsibility section of the Annual Report.

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 Government guidance. Details of recruitment in 2012-13 and 2011-12 were as follows:

Pay Band	Number of Posts		Male		Female	
	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12
Up to £17,882	45	17	19	6	26	11
£22,173 - £25,165	15	1	6	0	9	1
£25,165 - £30,267	1	0	1	0	0	0
£32,249 - £40,173	1	0	1	0	0	0
£43,736 - £52,595	5	0	0	0	5	0
Total	**67**	**18**	**27**	**6**	**40**	**12**
%	**100**	**100**	**40**	**33**	**60**	**67**

The 2012-13 figures are considerably higher than 2011-12. This increase can be explained by a number of factors: preparation for additional work from the proposed Pension Reforms; the Agency has offered a number of previously Fixed Term Appointments as Permanent opportunities; and, during 2012-13, the SG Early Exit programme which led to an additional 8 members of staff leaving the Agency.

Employees with disabilities

The Agency complies with the Scottish Government's Civil Service Code of Practice on the employment of people with disabilities and is an Employment Services disability symbol user. The code of practice 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 Government, we fully subscribe to the Government'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.

Youth employment

During 2012 the Agency has supported the ambitious Modern Apprenticeship targets set by the Scottish Government and has recruited 2 MAP staff. This has proven especially valuable to the busy teams they have joined. Looking ahead to 2013-14 the Agency will again consider MAP applications for any A3 vacancies open to external recruits and will promote these opportunities through Skills Development Scotland to school leavers and unemployed youth.

Employee consultation

The Agency recognises the importance of good industrial relations and is committed to effective employee communications, which it maintains through 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.

Auditors

The accounts are audited by Audit Scotland. The notional fees are reported at Note 3.3. Audit Scotland has provided only audit services to the SPPA during the year. Internal audit services are provided by the Scottish Government internal audit department; the scope of work is determined following discussion with management and is subject to approval by the Audit and Risk Committee.

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.

Significant changes in non-current assets

The Tweedbank office building was purchased in March 2013 at a cost of £ 4.8m.

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

Important events occurring after the year end

There has been one event since the date of the Statement of Financial Position, in relation to the valuation of land and buildings at Tweedbank, which required revision of the figures in the financial statements. For further information please refer to note 14.

Supplier payment policy

The SPPA follows the Scottish Government supplier payment guidelines and ensures that all invoices not in dispute are settled within 10 days. The Agency processes invoices on the Scottish Government's Accounting System (SEAS). For the year, the Agency processed 100.0% (2011-12 99.9%) of all invoices within the 10 day period.

Charitable donations

There were no charitable donations.

Personal data related incidents

There were no personal data related incidents during 2012-13.

– Neville Mackay –

Neville Mackay
Chief Executive
15 August 2013

2. Management commentary

Agency mission, core values and aims

Mission statement

The SPPA's mission is to deliver a high quality, customer-focused 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
- to maintain the highest standards of probity and governance whilst using our resources efficiently and effectively.

Aims

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

- to administer, on behalf of the Scottish Government, 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
- to prepare, in accordance with the Scottish Government's policy, the regulations governing these and other schemes for which the Scottish Ministers have regulatory responsibility
- to determine questions under the regulations on which there is a right of appeal to Scottish Ministers
- to advise the Scottish Ministers on occupational pensions policy generally.

Our stakeholders

Our stakeholders include:

- our customers: existing pensioners, members, employing organisations and the Government Departments to which we provide pension administration services and policy input
- our staff
- our suppliers.

We are also aware of our Corporate Social Responsibility both to our neighbours and to the environment.

Key targets

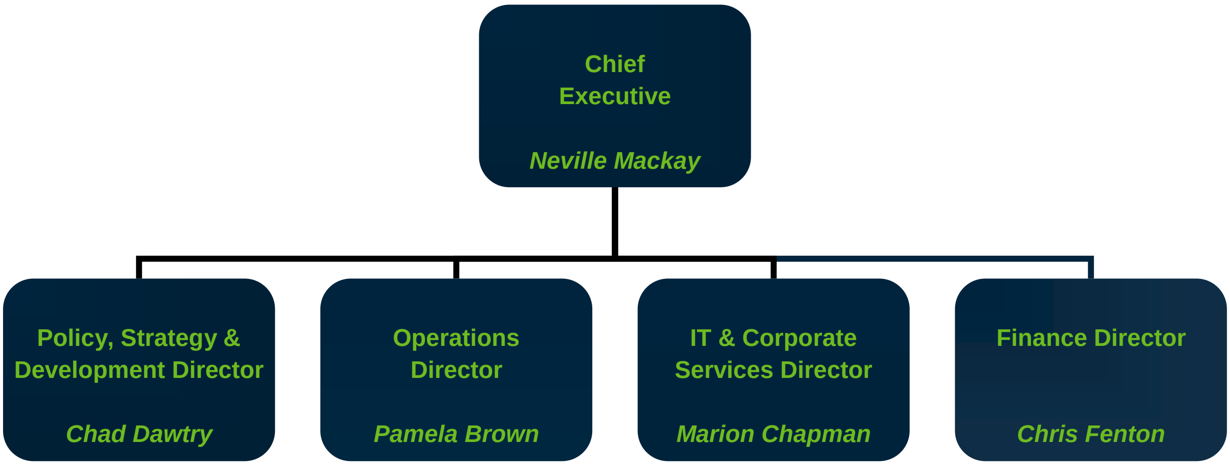
Target definition	2012-13	2011-12
Pay 100% of all existing NHS and STSS pensions on the due date	100%	100%
Pay 98% of new awards within one month of the due date	99%	98%
Ensure a minimum of 99% of all existing pension payments are correct at the point of payment	100%	100%
Maintain accuracy of all new pension awards at not less than 95% correct at authorisation stage	97%	98%
Collect 96% (2011-12 99%) of NHS contributions and STSS contributions by value within the period prescribed by legislation*	95.8%	99.4%
Ensure that accurate data is held for a minimum of 95% of active scheme members	98%	96%
Ensure that accurate annual benefit statements are accessible for at least 98% (2011-12 95%) of active scheme members for whom accurate data is held	97%	97%
Conclude pension reform activities within agreed timescales	Achieved	n/a
Meet annual requirements for corporate governance reporting and organisational efficiency within prescribed deadlines	Agency: achieved Schemes: achieved	Agency: achieved Schemes: achieved
Maintain and where possible improve customer satisfaction levels based on a three year rolling average	Satisfaction rating: 89.7%	Satisfaction rating: 87.3%
Deliver agreed annual improvements to financial contributions and debt management processes	Achieved	n/a

***** Failed to meet this target due to a small number of higher value receipts being received one day late.

Leadership and governance

The Agency is part of the Enterprise, Environment and Digital portfolio of the Scottish Government.

Its day to day management is overseen by the individual executive directors and through the Senior Management Team collectively. As at 31st March 2013, the Agency's Senior Management Team comprised:



The Agency also has an External Management Board comprising:

James Taylor (chair), Julia Edey, Alyson Stafford and Alex Smith.

The Agency's Audit and Risk Committee is chaired by Alex Smith and comprises additionally Julia Edey and James Taylor. The Agency's Chief Executive and Executive Directors, together with Internal Audit and Audit Scotland, attended the Audit and Risk Committee meetings during 2012-13.

Risk management

Risk Management is a key element in the Agency's governance arrangements. The Agency has a corporate risk register, which is reviewed quarterly by the Senior Management Team and by the Audit and Risk Committee. The corporate risk register is underpinned by directorate risk registers which are subject to regular review by the Senior Management Team.

Staff – our greatest asset

Employment policy/culture

The Agency places great emphasis on engagement with staff in the business planning process and in the alignment of individual objectives with the corporate objectives. The Agency has an active staff training, development and leadership programme to ensure that all staff members can fully realise their potential. The Agency's dedicated staff and the progressive approach to engagement has been recognised by Investors in People accreditation, which we are proud to highlight was upgraded to Gold status in 2012.

People strategy

In 2012 we introduced the SPPA People Strategy aiming to deliver a high quality, customer focused, responsive and cost-effective service. Staff involvement and development is encouraged and we are keen to emphasise the openness of our working environment by our Open Door policy which includes senior managers, directors and the Chief Executive. Staff are also regularly involved in discussions relating to business planning and all have the opportunity to comment and advise on a wide range of Business Improvement issues within their own and across other Directorates.

Employees

The HR role within Corporate Services adheres to Scottish Government HR Policy covering pay, attendance, performance, recruitment and disciplinary processes. The SPPA HR team provide local staff with guidance and support relating to the SG policies at all times following current employment law.

The SPPA and the SG support a wide range of family-friendly policies including:

- Flexi-working (including alternative working patterns)
- Parental leave
- Paternity leave
- Special leave
- Career break opportunities
- Childcare vouchers.

These policies have in the past helped to attract a large number of quality external applicants and interest from the local workforce. In the future these policies will help the Agency to retain staff, and continue as a positive way to engage current staff.

The overall average number of staff in post (full time equivalent) was 238 during 2012-2013. Approximately 52 members of staff worked part time hours.

The Agency provides a quality environment which is clean and safe to work in, with excellent equipment and up to date technology. The Agency aims to have quick and effective communication systems, including the facilitation of effective interpersonal, team, directorate and Agency-wide relations. The Agency provides participative support to all colleagues, and encourages all staff members to be involved in the decision-making processes of the business.

Corporate social responsibility

Acting responsibly is fundamental to how the Agency carries out every aspect of its business, which is important in earning and retaining the trust of the Agency's stakeholders and employees.

The Agency knows the value of its people, and shows this by encouraging their technical and managerial development, by recognising achievement and by looking after all aspects of their wellbeing.

People

The Agency actively encourages a healthy lifestyle by providing health checks, smoking cessation advice and a link through the SG Saltire Intranet pages to a Health and Wellbeing programme. During 2012, in collaboration with NHS Borders, the Agency continued to offer influenza vaccination on-site to staff members, and follow up health checks. Other practical activities include the facilitation of a running group that meets each week after work, yoga classes, and social events. The Agency continued supporting health and well being policies for staff and sustained our Healthy Working Lives Bronze accreditation. Looking ahead the Agency is now working towards Gold level.

Environment

SPPA has continued its efforts to improve its environmental performance, increase energy efficiency, and, where possible, minimise its use of resources.

The office building was designed to be energy efficient through effective thermal insulation, including a sedum roof, and utilises renewable energy from solar panels. As part of its environmental strategy SPPA is committed to responsible energy management and practises energy efficiency to protect the environment and avoid unnecessary expenditure.

In 2012-13 SPPA worked closely with the Scottish Government Environmental Team to collate its energy data and therefore support the Scottish Government in the preparation of its annual report on its Carbon Reduction Commitment.

Summary of progress against environmental performance targets 2012-13
Objective – use energy efficiently to minimise greenhouse gas emissions

Energy and emissions targets
Targets are set in two areas:

- emissions of the greenhouse gas carbon dioxide (CO2e)
- kilowatt energy consumption for gas and electricity.

Corporate target - maintain carbon emissions from energy consumption to within +/- 3% of 2011-12 totals by March 2013.

2011-12	Restated*	192.00	tonnes CO_2e
2012-13	Provisional	196.23	tonnes CO_2e
2012-13	Target	186.24 – 197.76	tonnes CO_2e

Progress: Achieved. An increase of 2.2% in carbon emissions compared to last year, caused in the main by the prevailing weather conditions. This result is still 9.2% lower than in 2010-11.
*Restated in line with revised Defra emission indices.

Target No 1 for 2012-13 - maintain kilowatt-hour consumption of electricity used per full time equivalent employee (FTE) to within +/- 3% of 2011-12 levels by March 2013.

2011-12	Actual	1,203	KWh per FTE
2012-13	Actual	1,133.9	KWh per FTE
2012-13	Target	1,166.91 – 1,239.09	KWh per FTE

Progress: Exceeded. A reduction of 5.74% was achieved compared to last year. This can be attributed to our continued use of solar sensitive lighting in non essential areas and stringent controls on timed lighting, as well as the use of software to automatically shut down any unnecessary IT equipment after office closing times.

Target No 2 for 2012-13 - maintain kilowatt-hour consumption of gas used per m^2 to within +/- 3% of 2011-12 levels by March 2013.

2011-12	Actual	81.1 per m^2	total usage 232,263 kWh
2012-13	Actual	105.8 per m^2	total usage 303,103 kWh
2012-13	Target	78.67 – 83.53 per m^2	total usage 225,295 – 239,230 kWh

Progress: Not Achieved. An increase in gas consumption of 30.5% of 2011-12 figures was registered. This increase is largely attributable to the inclement summer of 2012 and the colder winter in 2012-13 compared to the prior year.

Objective – use natural resources efficiently to minimise environmental impact

Natural resources target

Target No 1 for 2012-13 - maintain water consumption (m^3 per full-time equivalent member of staff - FTE) to within +/- 3% of 2011-12 totals by March 2013.

2011-12	Actual	5.56	m^3 per FTE
2012-13	Actual	5.94	m^3 per FTE
2012-13	Target	5.39 – 5.73	m^3 per FTE

Progress: Not Achieved. The introduction of a full canteen facility in November 2011 has contributed to the year on year increase in water consumption. SPPA will continue to monitor water consumption very closely in the coming year to ensure we fall in line with the Scottish Governments target on core estate buildings, 'to reduce water consumption in all our key buildings across the estate to 5.5 m^3 per FTE by 2014'.

Scottish Public Pensions Agency sustainability report for the year ended 31 March 2013

GREENHOUSE GAS EMISSIONS		2012-13	2011-12
Non Financial Indicators	Total gross emissions for scope 1 (direct emissions from consuming gas) & scope 2 (indirect emissions from electricity consumption)	196.23 tonnes of CO^2 equivalent	192.00* tonnes of CO^2 equivalent
	Gross emissions scope 3 (business travel)	28.49 tonnes of CO^2 equivalent	21.59 tonnes of CO^2 equivalent
Related Energy Consumption	Electricity	269,207 KWh	286,306 KWh
	Gas	303,103 KWh	232,263 KWh
Financial Indicators	Expenditure on energy	£42K	£36K
	Expenditure on official business travel	£38K	£31K*

*restated

PERFORMANCE COMMENTARY

The Climate Change (Scotland) Act 2009 requires Scotland to reduce its emissions by 42% by 2020 and by 80% by 2050. SPPA, as an agency of the Scottish Government, needs to ensure we play a full and leading part in its delivery and improving Scotland's overall sustainability/environmental performance. Total CO_2 emissions from energy use rose by 2.2% from the previous years levels. This is a direct reflection of the increase in gas usage over the past year due to the mild winter of 2011-12 followed by a very poor summer period in 2012 and a very cold and inclement winter of 2012-13.

Our electricity meter is compliant with the Scottish Government's carbon reduction commitment requirement to allow for automated reading and there are future plans to investigate whether the same technology could be installed on our gas and water meters to assist in this process.

CONTROLLABLE IMPACTS COMMENTARY

Electricity usage can be directly related to staff numbers and to the number of PCs in operation. Automatic shut-down systems are in place for IT equipment not in use. Good use is made of natural light, particularly outside the winter months, by using our solar sensitive electronic lighting control program. SPPA also complies with the Scottish Governments travel policies and promotes the use of video conferencing to reduce travel requirements with improved facilities being introduced during 2013-14. Expenditure on business travel has increased by £7k on the previous year due to activity associated with Pension Reform.

OVERVIEW OF INFLUENCED IMPACTS

The Agency occupies a modern building designed to have a low impact on the environment. The building is well insulated and includes features such as a sedum roof, which in addition to retaining heat in the winter, helps to keep the building cool during the summer. Air conditioning is used only in the computer server room.

Although designed as an energy-efficient building, the open plan environment and large expanse of windows present disadvantages during exceptionally cold weather. It is important to maintain a comfortable temperature for staff as we strive to control our CO_2 emissions.

WASTE			2012-13	2011-12
Non Financial Indicators	Total waste		29.75 tonnes	26.74 tonnes
	Non hazardous waste	Landfill	8.16 tonnes	6.40 tonnes
		Reused/recycled	21.59 tonnes	20.34 tonnes
		Percentage of waste reused/recycled	72.57%	76.07%
Financial Indicators	Total disposal cost		£6K	£6K
	Non hazardous waste	Landfill	*	*
		Reused/recycled	*	*

** = absorbed in total waste figure. Disaggregation of costs for individual waste streams identified for future development by our waste contractors*

PERFORMANCE COMMENTARY

Although no formal target has been set to reduce our waste, SPPA is committed to ensuring all staff are aware of their responsibility to ensure waste is not sent to landfill unnecessarily. SPPA also has an agreement with a local charity to remove and recycle our aluminium cans. The Agency is committed to ensuring at least 75% of its waste is recycled or reused with the aim to increase this to 80% by 2015.

CONTROLLABLE IMPACTS COMMENTARY

The Agency aims to be a paperless office, and holds most data electronically. Print levels are monitored, and staff are discouraged from printing documents unnecessarily and encouraged to re-use any misprints as scrap paper. SPPA procures its paper and envelopes from environmentally-friendly sources.

FINITE RESOURCE CONSUMPTION – WATER			2012-13	2011-12
Non Financial Indicators	Water consumption	Supplied	1,411 cubic metres	1,324 cubic metres
		Disposed	1,340 cubic metres	1,290 cubic metres
Financial Indicators	Water supply costs		£9.5K	£8K

PERFORMANCE COMMENTARY

Toilets are fitted with water reduction flushers and taps have an automatic shut off. Regular planned preventative maintenance visits ensure that any leaks are identified and repaired promptly. The installation of automated meter reading equipment is currently being investigated to ensure accurate recording and reporting of our water consumption.

Notes:

1. The above report has been prepared in accordance with guidelines laid down by HM Treasury in "Public Sector Sustainability Reporting" published at www.financial-reporting.gov.uk

2. The above report has been prepared using factors published by Defra in May 2012.

3. Emissions accounting includes all Scope 1 and 2 emissions along with separately identified emissions related to official travel. Detailed departmental policies for carbon accounting within the Agency can be found on our website

Operations

Background

Operations Directorate employs the majority of the Scottish Public Pension Agency workforce. We deal with the administration of pensions for members of the NHS and Scottish teacher's schemes and the payment of pensions to former members of those schemes. In addition, we carry out pension administration under contract for the Scottish Parliamentary Pensions Scheme and the Scottish Legal Aid Board. Our role involves handling all pension events such as initial award, pensioner payments and transfers to other schemes. The Directorate is the public face of SPPA dealing directly with more than 400,000 scheme members and beneficiaries and more than 1,200 employer organisations.

The main Operations Directorate activity is divided into four main functional teams –

Awards process all applications for age, ill health and early retirement together with providing estimates for those who are interested in retiring

Service are responsible for matters such as change of personal details, nominations for survivor benefits, transfers in and out, refunds of contributions, pensionable service enquiries etc.

Records maintenance look after the information provided by employers relating to members who join or leave the Schemes and annual returns

Pensioner payroll administer the payments to pensioners of the NHS and teacher's schemes and their dependents

These business areas are supported by a range of discrete specialist teams –

Small Schemes	calculate pensions for the Scottish Parliament and process pension sharing on divorce and mis-selling cases
Stakeholder Liaison	handle member complaints, manage communications via web and publications plus special one-off tasks such as auto enrolment
Operations Support	assist staff with IT support and system improvements
Technical Training	deliver training to operations staff and provide technical advice

Key achievements of the Operations Directorate in 2012-13

All the key performance indicators in respect of timeliness, quantity and accuracy of service were met during the year except for annual statements. The target for this was increased last year from 95% to 98%; however, we achieved the same level of performance as the previous year, 97%.

Target	Outcome
Pay 100% of all existing NHS and STSS pensions on the due date	Achieved 100%
Pay 98% of new awards within one month of the due date	Achieved 99%
Ensure a minimum of 99% of all existing pension payments are correct at the point of payment	Achieved 100%
Maintain accuracy level of new pension awards at 95%	Achieved 96.7%
Ensure that correct data is held for 95% of active members and that accurate annual statements are issued to 98% of those members	Achieved 98% for correct data Achieved 97% for statements
Maintain and, where possible, improve customer satisfaction levels	Achieved 88.1% (an improvement from 2011 results)

Other achievements in the year

Small schemes

The Small Schemes team provides a pension calculation service for the Scottish Parliamentary Pension Scheme (SPPS) and the Legal Aid (Scotland) Pension Scheme (LA(S)PS). Service level agreements are in place for the work we undertake and the terms of these agreements were all met or exceeded.

A new service level agreement has been agreed with the Scottish Parliament for the provision of an ongoing pension calculation service until 31 March 2017.

Pension sharing on divorce

In line with legislation, SPPA charges for services to courts and solicitors. Income generated in 2012-13 from this source was £150,200.

Valuations

Data for the NHS scheme valuation for the period 2008-12 was submitted to the scheme actuary during the year and the collation of data for STSS valuation for the period 2009-12 was progressed. Our actuary will be updating demographic assumptions and finalising any scheme valuations in line with any new instruction from HM Treasury.

Real time information (RTI)

From 6 April 2013 all employers have to report payroll information to HMRC in real time. This has been a significant project for us to implement and SPPA has done so successfully, going live with RTI in January 2013.

Web services

In March 2012, we successfully introduced a new web based service called MyPension which provides a range of online pension services for members. Since its introduction, over 28,000 NHS and Scottish teaching staff have registered to use the online services. This year, for the first time, annual statements were made available electronically for all members. The next phase will offer pensioners access to online P60s and pension statements, and it is intended that the second phase will go live following a pilot in May 2013.

National Fraud Initiative

We have again participated in the National Fraud Initiative (NFI) and have begun to investigate the cases identified following our data matching exercise. There were only a small number of cases identified where the pensioner had died and about which we were previously unaware. This again demonstrates that our controls in this area are working well. The number of NHS re-employment cases identified for investigating has fallen slightly from the previous NFI results.

Pension reform

In the latter part of the year we started to consider the implementation of the significant changes resulting from the introduction of new schemes in 2015. In order to facilitate the implementation of the reforms at an operational level, a new technical working group has been set up with Scottish teacher employer representatives to look at detailed operational implementation issues for SPPA and teaching employers. This mirrors arrangements already in place with NHS employers.

Key tasks for 2013-14

The Directorate has many tasks for the year. The following key objectives are contained in the Directorate's business plan:

- achieve Agency and Directorate key performance targets specified in the plan
- achieve Directorate service delivery targets specified in this business plan
- deliver training, technical support and development opportunities which meets the requirements of the staff in the Directorate
- implement pension changes to taxation, auto enrol and injury benefits
- continue to develop improved AXISe and Resourcelink functionality and where necessary find and implement solutions to address outstanding functionality issues
- implement web services for pensioners and review their effectiveness post implementation
- seek ''continuous improvements'' across the Directorate and implement further consistencies of approach between NHS and STSS
- lead on the development of operational aspects of the Public Pension Service Reform Agenda
- improve engagement with internal and external stakeholders
- carry out a strategic review of data requirements and data quality.

Policy Strategy and Development

By its nature, the Agency's policy function blends the interpretation and maintenance of existing policy with periods of policy development. Though the 2012-13 blend contained more than its fair share of 'business as usual' ingredients, it was chiefly flavoured by the need to support the Scottish Government's response to UK Government driven reforms of public sector pension schemes.

Public service pension reforms

Derived from a number of Lord Hutton of Furness' 2010-11 findings and recommendations[1], the UK Government's programme of reform continues to have immediate and longer-term components which impact on public sector schemes in Scotland.

During 2012-13, the policy team was engaged in providing advice on immediate-term changes including: a further round of UK policy changes on pensions tax relief; and implementing the second annual increment of increases in employee contributions to public service pension schemes. Despite the Scottish Government's continued principled opposition to increases in member contributions[2], Ministers concluded that the second increment had to be introduced to the NHS, Teachers, Police and Fire-fighter schemes to avoid the UK Government making automatic deductions from the Scottish Budget. The Agency was instrumental in advising scheme-level negotiations and shaping the detail and distribution of these increases, ultimately delivering the necessary regulations to give effect to this policy.

On the longer term reforms, the policy team led on interpretation of, engagement on and advice around the development of UK Government policy, including a draft Public Service Pensions Bill. Subsequently enacted as the 2013 Public Service Pensions Act, this is the key framework legislation for reforms of the main public service pension schemes in Scotland by April 2015. Supported by the team, the Director of Policy played a leading role in providing advice to Ministers around UK Government policy and its potential impact on schemes in Scotland and represented the Scottish Government at UK-level discussions between officials, chaired by HM Treasury and Cabinet Office. At pension scheme level, policy managers were fully engaged in providing technical advice to tri-partite, partnership negotiations to design post 2015 schemes initiated by Cabinet Secretaries in March 2012; and represented the Scottish Government as observers in UK meetings to finalise the detail of counterpart UK schemes. The team also led on providing advice on the implications of the new governance regime for public sector pensions, such as around the new duties of the Pensions Regulator.

Delays caused by uncertainty around aspects of UK Government policy in relation to Scotland, and associated sensitivities, meant negotiations for the Teachers', Police and Firefighters' schemes continued into 2013-14. Similarly progress with negotiating the terms of a new Local Government scheme was largely confined to the end of the financial year. However, negotiations for a reformed NHS scheme for Scotland concluded in January 2013, in line with an earlier desire that they should finish during 2012-13. The policy team's focus subsequently shifted to pre-implementation planning, working closely with colleagues in the Scottish Government's Health Directorate and key stakeholders.

Business as usual

As well as dealing with correspondence about public service pensions policy; interpreting scheme rules and providing related advice to stakeholders including scheme administrators, employers and members and their representatives; and processing appeals under the various schemes' Internal Dispute Resolution Processes, 2012-13 highlights included:

[1] http://cdn.hm-treasury.gov.uk/hutton_final_100311.pdf

[2] See, for example, the Cabinet Secretary for Finance, Employment and Sustainable Growth's statement to Parliament on 28 November, 2012:
http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7964&i=72456&c=0&s=

- providing pensions advice related to the Scottish Government's decision to move to single police and fire authorities in Scotland
- delivering new sets of regulations across the various schemes (see **Annex A**) and progressing consolidation of the NHS (2008 section) and Teachers' scheme regulations
- supported implementation of the outcomes of a UK wide review of the NHS Injury Benefit scheme
- ongoing support around the policy implications of UK Government automatic enrolment policy
- responding to correspondence on the impact of public sector reforms and the potential implications of Independence in the run up to September 2014.

Corporate Services

The Agency's Corporate Services Directorate in 2012-13 covered the functions of Pensioner Payroll processing, Human Resources, IT and Project Support, Corporate Learning and Development, Corporate Communications, Mailroom Services and Facilities Management.

Corporate learning and development

The Agency is committed to developing the technical, managerial and leadership skills of its staff. The Corporate Training team plays a key role in supporting this commitment, by maintaining a comprehensive record of training needs and of training undertaken, and by supporting a wide range of training programmes including the Retirement Provision Certificate professional qualification. In addition, following the success of the Leadership Development programme the Agency is now focusing on developing middle and junior managers by rolling out specialist management and leadership training.

Corporate communications

The Corporate Communications function has steered a number of important pieces of work over the past year, including the annual stakeholder survey and the staff survey, the results of both of which are used to inform aspects of our work in the following year. The team coordinates the production of the regular staff newsletter, responses to FOI requests and the fortnightly Core Briefing to staff. In addition the team leads on key areas of work such as Information Assurance and Business Continuity planning.

Facilities and mailroom management

The purpose of the Facilities/Mailroom team is to provide a quality environment that supports the Agency's objectives with cost effective and quality business support mechanisms.

We are committed to managing our premises in an environmentally-friendly way, and to ensuring the safety of staff and visitors.

Health and Safety continues to be a high management priority throughout the Agency; procedures are now well established and training is provided to ensure that all of our staff are aware of their responsibilities.

Human resources

We continue to provide professional support and advice on HR issues to all colleagues, and the Senior Management Team, managers and staff are provided with accurate and clear information relating to staff resources, attendance, and performance issues.

The Agency's staffing complement over the past 3 years was:

	2012-13	2011-12	2010-11
Permanent staff complement	241	232	240
Average number of staff in post (FTE)	238	238	241

Staff turnover for 2012-13 was 11.94% (28.16 FTE members of staff). This figure includes:

- 10.81 staff who left to work in other Departments of the Scottish Government or other government departments (5 of these were Transfer on Promotion)
- 9 resignations from the SPPA and the Scottish Government
- 7.35 through the Scottish Government's early departure schemes
- 1 through dismissal.

Recruitment

The Agency recruited 33 new members of staff during the year. Five were transferred from a Scottish Government Department and 28 were recruited as 2-year fixed term appointees through an external, fair and open recruitment campaign. The Agency also recruited two Modern Apprentices in order to support the Scottish Government in its objective in tackling youth unemployment. In addition, one person was appointed on a secondment basis.

Sickness absence management

The Agency's sick leave figures have increased from the previous year. The average total number of sick days per person within the Agency in 2012-13 was 9.7 days. This is a 17 % increase in absences on the previous year's total. The Agency's senior management team closely monitors sickness absence levels and regular reminders are issued to all staff on the Scottish Government attendance management procedures.

Contractual and other arrangements that are essential to the business

Supplier	Product/service	Current expenditure £	Duration
Scottish Government Information Services and Information Systems Division	SCOTS, PCs and laptops	218k per annum	On-going
Northgate Information Solutions	Resource Link Pension Payroll System	150k per annum	November 2015
Heywood Ltd	AXISe Pension Administration System	210k per annum	Expires March 2015 (8 years)
Océ UK Ltd	Printers	10k per annum	Expires June 2015
VIP Communications Group Ltd	Telephone system	16k per annum	On-going
Oracle	Database software	8k per annum	On-going
Dell	2 Year Pro support and 4 hour Mission Critical – IT server maintenance & support	20k per annum	Oct 2014
Epicor	Financial software	6k per annum	July 2015
Pulsion	Members web service	10k per annum	March 2015
Scolocate	Web hosting	23k per annum	March 2015

IT and project support

The IT and Project Support team supports the Agency and its staff by delivering services to provide the following key functions:

- processing of pension payroll to agreed timetable
- provision and improvement of IT services and support across the whole Agency. This involves installation and maintenance of software, hardware and telecommunications facilities and running production schedules for pension administration and pension payroll processes
- the management of contracts with third party suppliers of IT, office equipment and telecommunications on behalf of SPPA and responsibility for negotiating terms, conditions and cost
- delivering changes and improvements to the SPPA Internet and Intranet
- providing the Agency with project management advice and support
- supporting the Agency Programme Board
- responsibility for ensuring that all SPPA IT systems are approved to interface with the Scottish Government managed SCOTS network

- database administration, ensuring that all IT services are running as effectively as possible. This includes completing server maintenance procedures, disaster recovery exercises, checking system backups, monitoring system performance and dealing with normal day to day problems

- ensuring all staff are made aware of, and understand, data and IT security rules and guidance.

During the course of the year, the team continued to schedule and run all the necessary IT processes and contributed to the following achievements:

- member and pensioner web services development

- implementation of Real Time Information for HMRC.

2013 – 14 Plans

- implementing further web services for employers

- review and next steps for the Modern Apprentice programme

- 2013–14 Management Training programme

- preparation and planning pension reform implementation

- continuing to deliver services to service level agreements

- implementing improvements and efficiency savings to current services.

Finance

The Finance Directorate manages the finances of the NHS and Scottish Teachers' pension schemes, and the finances of the Agency itself.

The main functions are:

- collection and management of pension contributions of around £1.5 billion annually

- preparation of statutory accounts of the NHS Superannuation Scheme (Scotland), the Scottish Teachers' Superannuation Scheme, and of the Agency itself

- preparation of budgets for the Schemes and of the Agency, and provision of medium-term forecasts to HM Treasury and the Office of Budget Responsibility on pension finances

- supporting the Agency in its benchmarking of the effectiveness efficiency and economy of the Schemes and of the Agency's support services

- supporting the Audit and Risk Committee and providing general support to the governance of the Agency

- monitoring and reporting of financial performance against budget throughout the year, reporting to senior management, to the External Management Board, to the Scottish Government and to HM Treasury

- maintenance of a sound internal control framework, including fraud risk management.

In addition to its recurring tasks, the Directorate has an active agenda to develop business processes, with the aims of enhancing efficiency, economy, effectiveness and sound financial controls. The Directorate is currently implementing a web-based system to further improve the efficiency and effectiveness of the contributions collections process.

Date accounts authorised for issue

The Accountable Officer authorised these financial statements for issue on 15 August 2013.

Annex A

2012-13 Scottish Statutory Instruments made for public service pensions schemes

NHS

- The National Health Service (Superannuation Scheme and Pension Scheme) (Scotland) Amendment Regulations 2012 (SSI 2012/69) coming into force on 1 April 2012
- The National Health Service Superannuation Scheme etc. (Miscellaneous Amendments) (Scotland) Amendment Regulations 2012 (SSI 2012/163) coming into force on 28 June 2012
- The National Health Service (Scotland) (Injury Benefits) Amendment Regulations 2013 (SSI 2013/52) coming into force on 31 March 2013

STSS

- The Teachers' Superannuation (Scotland) Amendment Regulations 2013 (SSI 2013/071) coming into force on 1 April 2013

LGPS

- The Local Government Pension Scheme (Administration) (Scotland) Amendment Regulations 2012 (SSI 2012/236)
- The Local Government Pension Scheme (Miscellaneous Amendments) (Scotland) Regulations 2012 (SSI 2012/347)

Police

- The Police Pensions (Contributions) Amendment (Scotland) Regulations 2013 (SSI 2013/89)
- The Police (Injury Benefit) (Scotland) Amendment Regulations 2013 (single authority – will come into force May 2013 with retrospective effect from 1 April 2013)
- The Police Pensions (Scotland) Amendment (No.2) Regulations 2013 (automatic enrolment – will come into force May 2013 with retrospective effect from 1 April 2013)
- The Police Pensions (Amendment) (Scotland) Regulations 2013 (will come into force May 2013 with retrospective effect from 1 April 2013)

Fire

- The Firefighters’ Compensation Scheme (Scotland) Amendment Order 2013 (will come into force May 2013 with retrospective effect from 1 April 2013)
- The Firemen’s Pension Scheme Amendment (Scotland) Order 2013 (will come into force May 2013 with retrospective effect from 1 April 2013)
- The Firefighters’ Pension Scheme (Scotland) Amendment Order 2013 (will come into force May 2013 with retrospective effect from 1 April 2013)
- The Firefighters’ Pension Scheme (Scotland) Amendment (No.2) Order 2013 (will come into force May 2013 with retrospective effect from 1 April 2013)

3. Remuneration report

Remuneration policy

Service contracts

The 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 Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The Recruitment Principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

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

Further information about the work of the Civil Service Commission can be found at www.civilservicecommissioners.gov.uk.

Non-Executive Directors

Non-executive directors during the whole of 2012-13 were James Taylor (chair), Alex Smith, Julia Edey and Alyson Stafford.

The non-executive directors are not salaried in their capacity of non-executive directors. Alex Smith received £2,403, James Taylor received £4,481, Julia Edey received £3,069 and Alyson Stafford received £NIL in fees and expenses in connection with their duties.

Senior Management Team

The senior management team in 2012-13 comprised Neville Mackay (Chief Executive), Pam Brown, Marion Chapman, Ian Clapperton, Chad Dawtry and Chris Fenton. All served for the whole year with the following exceptions:

- Ian Clapperton left the SPPA on 10 April 2012 on Voluntary Early Severance terms. The total cost of the early severance was £ 90,337
- Pam Brown served as Corporate Services Director until 10 April 2012 at which point she took up the role of Operations Director

- Marion Chapman was appointed Acting Corporate Services Director on 10 April 2012 and was appointed Corporate Services Director on 25 March 2013.

The following sections provide details of the remuneration and pension entitlements of the senior management team of the Agency.

Remuneration (audited information)

Name and Title	**2012-13**			**2011-12**		
	Salary	**Bonus Payments**	**Benefits in kind**	**Salary**	**Bonus Payments**	**Benefits in kind**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Neville Mackay **Chief Executive**	75-80	0	0	70-75	0	0
	Salary and bonus payments			**Salary and bonus payments**		
Pamela Brown **Director of Operations**	60-65		0	60-65		0
Ian Clapperton **Director of Operations** **(retired April 2012)**	0-5 (part year salary, 55-60 full year equivalent)		0	55-60		0
Chris Fenton **Director of Finance**	60-65		0	60-65		0
Chad Dawtry **Director of Policy**	55-60		0	55-60		0
Marion Chapman **Director of Corporate Services**	40-45		0	-		-

Band of highest paid director's total remuneration	75-80	70-75
Median total	£18,132	£17,882
Remuneration ratio	4.2	4.1

The Chief Executive, as a member of the Senior Civil Service, has his pay set by the Cabinet Office.

SPPA does not have a separate performance pay scheme for senior managers, but applies the Scottish Government-wide remuneration policy equally to all staff including senior management. Total remuneration includes gross salary; overtime; recruitment and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation. This report is based on accrued payments made by the Agency and thus recorded in these accounts. None of the Senior Management Team was paid a bonus during the year.

In accordance with the Government Financial Reporting Manual (FReM), reporting bodies are required to disclose the relationship between the remuneration of the highest paid director in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest paid director in the SPPA in the financial year 2012-13 was £75k-£80k (2011-12, £70k-£75k). This was 4.2 times (2011-12, 4.1) the median remuneration of the workforce, which was £18,132 (2011-12, £17,882).

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by Her Majesty's Revenue and Customs as a taxable emolument.

Compensation

SPPA made no compensation payments to any of the Senior Management Team.

Pension Benefits

Name and title	Real increase in pension and lump sum at pension age	Total accrued pension at pension age as at 31March13 and related lump sum	CETV at 31March13	CETV at 31March12 *	Real increase/ decrease in CETV
	£000	£000	£000	£000	£000
Neville Mackay Chief Executive (current employment)	0-2.5 and 0-2.5 for lump sum	10-15 plus 0-5 lump sum	240	200	24
Neville Mackay (previous employment)	0-2.5 and 0-2.5 for lump sum	20-25 plus 65-70 lump sum	439	405	13
Pamela Brown Director of Operations	0-2.5 and 2.5-5 for lump sum	25-30 plus 85-90 lump sum	505	461	17
Ian Clapperton Director of Operations (retired)	0-2.5 and 0-2.5 for lump sum	25-30 plus 85-90 lump sum	641	639	1
Chris Fenton Director of Finance	0-2.5 and 2.5-5 for lump sum	20-25 plus 60-65 lump sum	472	427	11
Chad Dawtry Director of Policy	0-2.5 and 0-2.5 for lump sum	10-15 plus 30-35 lump sum	206	183	12

Marion Chapman Director of Corporate Services	0-2.5 and 0-2.5 for lump sum	10-15 plus 30-35 lump sum	197	174	13

***The figure may be different from the closing figure in last year's accounts. This is due to the CETV factors being updated to comply with The Operational Pension Schemes (Transfer Values) (Amendment) Regulations 2008. There are many reasons that could cause a decrease in the real increase in CETV including:

- if a rise in pensionable salary is less than the rate of inflation
- if someone joined or left mid year
- the pension factors for the over 60s decrease the value of the pension that could have been taken at 60.

All information in the tables above has been subject to audit.

The following information has not been subject to audit.

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. A CETV 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 membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The figures include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their purchasing additional pension benefits at their own cost. CETVs are calculated in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, and contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement). It is worked out using common market valuation factors for the start and end of the period.

Civil service pensions

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a "final salary" scheme (***classic, premium***, or ***classic plus***); or a "whole career" scheme (***nuvos***). These statutory arrangements are unfunded with the cost of benefits met by monies voted by parliament each year. Pensions payable under ***classic, premium***, ***classic plus*** and ***nuvos*** are increased annually in line with Pensions Increase legislation. Members who joined from October 2002 may opt for either the appropriate defined benefit arrangement or a "money purchase" stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are salary related and range between 1.5% and 3.9% of pensionable earnings for ***classic*** and 3.5% and 5.9% for ***premium, classic plus and nuvos.*** Increases to employee contributions will apply from 1 April 2013. Benefits in ***classic*** accrue at the rate of $1/80^{th}$ 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 $1/60^{th}$ of final pensionable earnings for each year of service. Unlike ***classic***, there is no automatic lump sum. ***Classic plus*** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per ***classic*** and benefits for service from October 2002 worked out as in ***premium***. In ***nuvos*** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with Pensions Increase legislation. In all cases members may opt to give up (commute) pension for lump sum up to the limits set by the Finance Act 2004.

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 chosen by the employee from a panel of three providers. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of ***classic***, ***premium*** and ***classic plus*** and 65 for members of ***nuvos***.

Further details about the Civil Service pension arrangements can be found at the website:

www.civilservice-pensions.gov.uk

– Neville Mackay –

Neville Mackay
Chief Executive
15 August 2013

4. Governance statement

1. Framework

The External Management Board currently comprises three externally appointed non-executive members, together with the Scottish Government's Director-General Finance or her representative. The Board meets formally four times each year, and meets additionally to consider longer-term strategic issues. The Board's work includes, but is not confined to:

- considering the Agency's annual business plan and three-year corporate plan
- quarterly reports from the CEO on the Agency's progress in meeting plan targets and reports on key performance indicators
- receiving reports on finance matters from the Director of Finance and on Pension Reform from the Director of Policy
- considering strategic plans on key corporate issues including HR, training and communications
- receiving reports from the Audit and Risk Committee
- considering the Agency's draft annual report and accounts
- receiving reports from the Schemes' actuary
- considering threats to the long-term ability of the Agency to meet its objectives.

The Board is supported by an Audit and Risk Committee which comprises three non-executive members of the Board and also meets formally four times each year. The committee's work includes, but is not confined to:

- reviewing the Agency's risks and risk management processes
- directing the work of internal audit
- receiving reports from internal audit on the progress and conclusions of its work
- receiving reports from the Agency's management on: fraud; losses; internal controls; finance policies (including whistle-blowing, fraud, bribery and corruption); and solvency in respect of its Scottish Government allocations
- reviewing the Agency's policies on fraud, corruption and whistle-blowing
- reviewing the Agency's accounts, informed by the reports received from internal audit and from Audit Scotland.

The Agency does not have a remuneration committee because the Agency applies the Scottish Government-wide remuneration policy equally to all staff members.

The Agency's Senior Management Team (SMT) comprises the Chief Executive, and the Directors of Finance, Operations, Policy, and Corporate Services. The SMT meets fortnightly, and receives reports from each Directorate as well as considering cross-cutting, strategic and developmental issues. In addition, the SMT reviews the corporate and directorate risk registers quarterly, the fraud risk register annually, and reviews all reports received from external audit and from internal audit. The deliberations of the SMT are minuted and published on the Agency's intranet.

The Agency has an active Programme Board, comprising all the members of the Senior Management Team, the purpose of which is to ensure that sound project management disciplines are exercised in all projects of significance undertaken by the Agency. The Programme Board met on five occasions during the year.

The Agency has a programme of activities which are designed to deliver efficiencies and service improvements in all areas of its operations. This is an embedded part of the business planning process, and enables the Agency to manage its increasing caseload without compromising quality of service. This work is supported by a range of internal and external benchmarking processes.

2. Scope of responsibility

As Accountable Officer, I am responsible for maintaining an adequate and effective system of internal control, which supports the achievement of the organisation's aims, objectives and policies including those set by Scottish Ministers, while safeguarding the public funds and assets for which I am personally responsible in accordance with the responsibilities assigned to me.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency, effectiveness and equality, and promotes good practice and high standards of propriety.

3. Purpose of the governance framework

The governance framework is designed to ensure that the Agency complies with the highest standards of probity while delivering value for money, safeguarding public funds, delivering good quality service to its stakeholders, and being fully accountable for its actions. The Agency complies with the guidance contained in the Scottish Public Finance Manual (SPFM) and with section 2 of "On Board: A Guide for Board Members of Public Bodies in Scotland" published by the Scottish Government.

4. Performance during the year

Data assurance

All staff members are required to undertake Cabinet Office data security training. No loss of personal or otherwise restricted data has come to the attention of the Agency during the year.

Staff resource, resilience and succession planning

In 2012-13 the Agency reinforced the Finance and Operations Directorates by creating new senior posts which have been filled by experienced and specialised staff. The appointments enable the Agency to make further improvements in its data quality, financial controls and in its processes and efficiency in a continuous programme of business improvement. The appointments contribute significantly to the resilience of the Agency, to its future succession planning arrangements and to the breadth and depth of specialist knowledge.

Internal Audit

The Agency directs the work of internal audit, informed by the Agency's risk registers and by the audit needs assessment undertaken by the head of internal audit. Reports are received and reviewed by the Audit and Risk Committee, which also receives reports from management on the progress in implementing the recommendations of audit, both internal and external. During 2012-13 internal audit mapped the Agency's 12 key performance outcomes against the corporate risk register and assessed the associated internal and external assurances. Assurance was assessed as high in all but one of the key performance outcomes. Five reports were received from internal audit during the year, all of which provided substantial assurance. The overall control environment in 2012-13 was assessed by internal audit as substantial.

Internal controls

The Agency operates a comprehensive system of internal controls, designed to safeguard its assets and to ensure the reliability of financial records. The systems are subject to regular review by internal audit, and reports are made available to the Audit and Risk Committee. The controls include financial delegations, and policies on fraud, corruption and whistle-blowing, which are approved by the Senior Management Team and reviewed by the Audit and Risk Committee.

Business continuity

A hardcopy version of the comprehensive business continuity plan is held off-site by all Directors and by members of the disaster recovery team. The plan was tested in October 2012, and subsequently revised in the light of the findings of the test. The plan is subject to annual in-depth reviews and quarterly reviews by the senior management team.

Efficiency and benchmarking

The Agency participates in an independently operated benchmarking exercise, which compares the Agency's quality and costs of service across a range of activities common to comparable pensions administration organisations both in the UK and internationally. The results consistently demonstrate that the Agency is a low-cost but high-quality provider of pension administration services. The Agency also participates in the Scottish Government's benchmarking of corporate services, the results of which consistently place the Agency in the lower quartile for costs and the upper quartile for service quality. The Agency also participates in the Investors in People process and achieved Gold status during 2012. It also runs an annual customer satisfaction survey and improved its overall customer satisfaction rating to 90% during 2012-13.

Pension liabilities

The Agency obtains advice from the Government Actuary's Department (GAD) on matters including, but not limited to, the annual assessment of the value of pension liabilities. The Senior Management Team considered and approved the financial and longevity assumptions used in the assessment of the pension liabilities of the NHS Superannuation Scheme (Scotland) and of the Scottish Teachers' Superannuation Scheme (STSS) as at 31 March 2013. The pension liabilities of the STSS as at 31 March 2012 were overstated by £1.8 billion in the valuation used for the accounts in 2011-12. The Agency's External Management Board has considered explanations from GAD as to the cause of the error, and received assurances that GAD has reviewed and revised its procedures to prevent a recurrence of such an error. The correct figures will be set out in a restatement of scheme liabilities contained within the 2012-13 STSS accounts.

5. Assessment of corporate governance

The Agency has a comprehensive set of risk registers at Directorate and Agency level that are reviewed quarterly by the Agency's Senior Management Team. In addition, a fraud risk register is reviewed annually by the Senior Management Team and by the External Management Board. Governance arrangements include a Programme Board, which monitors the management arrangements and progress of projects undertaken by the Agency. In April 2013 the External Management Board and the Senior Management Team met with the UK Pension Regulator to discuss future changes to the governance structure to ensure that the Agency is in full compliance with the UK Pension Regulator's developing recommendations for the governance of public sector pension schemes. These arrangements will be developed further during 2013 with a view to their being fully implemented by the statutory deadline of April 2015.

The External Management Board and the Audit and Risk Committee have both carried out a self-assessment of their effectiveness during 2012-13 using criteria set by the Scottish Government. Both were deemed to be effective in carrying out their functions. The Audit and Risk Committee has provided a full account of its activities over the past year to the External Management Board.

6. Assessment of the Agency's risk management arrangements and risk profile

The Agency maintains risk registers that cover all areas of activity, in compliance with the guidance contained in the SPFM. These are reviewed quarterly by the Senior Management Team, and, where necessary, mitigating action is taken. The corporate risk register is reviewed quarterly by the Audit and Risk Committee. A number of changes were made to the risk registers following these reviews, both in terms of reassessing existing risks and mitigations and identifying new ones. The risks associated with the development and implementation of the pension reform agenda increased significantly during the year, and the impact of this on the Agency's ability to fully implement the new administrative arrangements which are required to manage the reformed schemes from April 2015 will form a central part of the Agency's future risk management arrangements. The Agency also recognised that more could be done to ensure that both the likelihood of risks arising and the impact of those risks were quantified on a more objective basis. This will be built into the new risk registers being developed for 2013-14.

7. Efficiency and best value

The Agency has a duty to secure Best Value in the services it provides. Best Value principles are embedded in the Agency's planning, governance and business decision arrangements, and are communicated to staff through commitment, leadership and staff participation in the business planning process. The Agency has comprehensive budgeting, monitoring and reporting arrangements to ensure sound management of resources. The Agency participates in a pensions industry benchmarking group, and in the Scottish Government's benchmarking of corporate services. In addition, the Agency seeks the views of its stakeholders and staff through annual surveys. The Agency has a strong commitment to engaging its staff at all levels in setting the business agenda, and this level of commitment is reflected in the award of the Investors in People gold standard.

8. Written assurances provided to the Chief Executive

The Chief Executive has received written assurances from all Directors about the operation and effectiveness of internal controls in the areas for which they are responsible. Additionally, he has received assurance from the Scottish Government's Director General Finance in respect of the financial systems shared with the Agency, and from the Scottish Government's Director General Governance and Communities in respect of the Scottish Government's HR and payroll systems that are shared with the Agency.

Neville Mackay
Chief Executive
15 August 2013

5. 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 56 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.

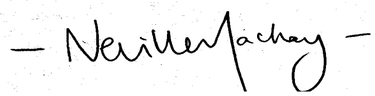
The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the yearend; and of its income and expenditure, changes in taxpayers' equity, and cash flows for the financial year.

The Principal Accountable Officer of the Scottish Government 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.



Neville Mackay
Chief Executive
15 August 2013

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

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 Scottish Public Pensions Agency for the year ended 31 March 2013 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flow, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2012/13 Government Financial Reporting Manual (the 2012/13 FReM).

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 for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on 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 directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2013 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In my opinion in all material respects:

- the expenditure and income 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.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Foreword and forward look by the Chief Executive, the Directors' Report and the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

Mark Taylor

Mark Taylor
Assistant Director
Audit Scotland
18 George Street
Edinburgh
EH2 2QU

22 August 2013

7. Scottish Public Pensions Agency Annual Accounts 2012-13

Scottish Public Pensions Agency

Statement of comprehensive net expenditure

for the year ended 31 March 2013

	Note	2012-13	2011-12
		£000	£000
Staff costs	2	6,991	6,578
Other admin costs	3	3,045	2,580
Depreciation	5,6	1,476	1,523
Property impairment	5	701	0
Total operating costs		**12,213**	**10,681**
Operating income	4	(181)	(274)
Net operating costs		**12,032**	**10,407**
Other comprehensive expenditure			
Net (gain)/loss on revaluation of property, plant & equipment	5	0	(9)
Total comprehensive expenditure for the year		**12,032**	**10,398**

The above results relate to continuing activities.

The notes on pages 45 to 55 form part of these financial statements.

Scottish Public Pensions Agency

Statement of financial position

as at 31 March 2013	Note	31Mar13 £000	31Mar12 £000
Non-current assets			
Tangible non-current assets	5	4,480	384
Intangible assets	6	3,948	5,056
Total non-current assets		**8,428**	**5,440**
Current assets			
Trade and other receivables	7	228	328
Total current assets		**228**	**328**
Total assets		**8,656**	**5,768**
Current liabilities – less than 1 year			
Trade and other payables	8	(639)	(336)
Provisions for liabilities & charges	9	(13)	(26)
Total current liabilities		**(652)**	**(362)**
Non-current assets less net current liabilities		**8,004**	**5,406**
Non-current liabilities – greater than 1 year			
Provisions for liabilities and charges	9	(11)	(134)
Total non-current liabilities		**(11)**	**(134)**
Net assets/(liabilities)		**7,993**	**5,272**
Taxpayers equity			
General fund		7,993	5,272
Revaluation reserve		0	0
Total taxpayers equity		**7,993**	**5,272**

The notes on pages 45 to 55 form part of these financial statements.

– Neville Mackay –

Neville Mackay
Chief Executive
15 August 2013

Scottish Public Pensions Agency

Statement of cash flows

for the year ended 31 March 2013		31Mar13	31Mar12
	Note	£000	£000
Cash flows from operating activities			
Net operating cost		(12,032)	(10,407)
Adjustments for non cash transactions			
Depreciation		1,476	1,523
Property impairment		701	0
Notional costs for services provided by Scottish Government	3.3	264	289
Movements in working capital			
(Increase)/decrease in trade and other receivables	7	100	(32)
Increase/(decrease) in trade and other payables		249	(198)
Movements in provisions	9	(136)	(27)
Net cash outflow from operating activities		**(9,378)**	**(8,852)**
Cash flows from investing activities			
Purchase of tangible non-current assets		(4,866)	(16)
Purchase of intangible assets		(245)	(190)
Net cash flow from investing activities		**(5,111)**	**(206)**
Cash flows from financing activities			
Net funding		**14,489**	**9,058**

The notes on pages 45 to 55 form part of these financial statements.

Scottish Public Pensions Agency

Statement of changes in taxpayers' equity

for the year ended 31 March 2013

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2012		**5,272**	**0**	**5,272**
Net gain/(loss) on revaluation of tangible non-current assets		0	0	**0**
Non cash charges – SG services	3.3	264	0	**264**
Transfers between reserves		0	0	**0**
Net operating cost for the year		(12,032)	0	**(12,032)**
Net funding		14,489	0	**14,489**
Balance at 31 March 2013		**7,993**	**0**	**7,993**

for the year ended 31 March 2012

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2011		**6,323**	**0**	**6,323**
Net gain/(loss) on revaluation of tangible non-current assets		0	9	**9**
Non cash charges – SG services	3.3	289	0	**289**
Transfers between reserves		9	(9)	**0**
Net operating cost for the year		(10,407)	0	**(10,407)**
Net funding		9,058	0	**9,058**
Balance at 31 March 2012		**5,272**	**0**	**5,272**

The notes on pages 45 to 55 form part of these financial statements.

Scottish Public Pensions Agency

Notes to the accounts

For the year ended 31 March 2013

1 Statement of accounting policies

These financial statements have been prepared in accordance with the Government *Financial Reporting Manual (FReM)* issued by the Scottish Government. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

Impending application of newly issued/amended accounting standards not yet effective

A number of new accounting standards have been issued or amendments made to existing standards, but have not yet been applied in these financial statements. The standards that are considered relevant and the anticipated impact on the accounts are as follows:

- IAS 1 – Presentation of financial statements (Other Comprehensive Income)
  Mandatory for accounting periods commencing on or after 1 July 2012. The adoption of this standard may result in presentational changes to the accounts

- IAS19 – Post-employment benefits (pensions)
  Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard may result in presentational and disclosure changes to the accounts

- IFRS 9 – Financial Instruments
  Mandatory for accounting periods commencing on or after 1 January 2015. The adoption of this standard could change the classification and measurement of financial assets. The impact on the accounts has not been determined, and the full IFRS has not yet been issued

- IFRS 13 – Fair Value Measurement
  Mandatory for accounting periods commencing on or after 1 January 2013. The adoption of this standard could change the measurement techniques used when determining fair value. The impact on the accounts has not been determined.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment and intangible assets by reference to their current costs.

1.2 Property, plant and equipment

On 28 March 2013 the Agency bought the Tweedbank site it had occupied since 2002. Title to these freehold land and buildings shown in the accounts is held in the name of the Scottish Ministers.

The land and buildings at Tweedbank were valued by District Valuer Services (DVS) of the Valuation Office Agency in the capacity of External Valuers. For the subject report, valuations have been prepared by DVS as at 31 March 2013.

The valuations have been undertaken on the undernoted bases in accordance with IFRS standards, HM Treasury FReM and the RICS Valuation – Professional Standards March 2012, and also in accordance with SPPA instructions. A single inspection was carried out. The property is an 'in use' asset and its valuations have been provided on the basis of Fair Value interpreted as market value for existing use (Existing Use Value) or, where this could not be reliably assessed because there was insufficient market evidence for the asset, using the Depreciated Replacement Cost (DRC) method subject to the prospect and viability of the occupation and use. DVS provided two valuations on this basis, one using DRC which it recommends as appropriate for financial reporting purposes, and one using the Existing Use Value method as agreed with SPPA to help inform SPPA's decision making when exercising their financial reporting responsibilities.

The Valuation Report also includes an assessment on the basis of Market Value for comparison and information purposes, as required to be provided where a property has been valued using the DRC method.

The sources of information and assumptions made in producing the various valuations are set out in the Valuation Report which is not published in the Annual Report and Accounts.

A professional revaluation will be undertaken at five yearly intervals, and appropriate indices used to restate the values in the intervening years.

Depreciated historic cost has been used as a proxy for the fair value of furniture and fittings and plant and machinery. All of the assets in these categories have low values and short useful economic lives, which realistically reflect the life of the asset and a depreciation charge, which provides a realistic reflection of consumption. ICT systems are stated at historical cost. The minimum level for capitalisation of a property, plant and equipment asset is £1,000.

1.3 Depreciation

Depreciation is provided on tangible non-current 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:

Land & buildings	- 20 to 50 years
Leasehold improvements	- 10 to 25 years
Furniture and fittings	- 10 years
Plant and machinery	- 5 to 10 years
ICT systems	- 3 to 7 years

The useful economic life of individual assets is reviewed annually and the asset life adjusted accordingly. During 2012-13 specific assets within Furniture and Fittings and Software Licences were re-lifed in line with their expected useful lives.

1.4 Intangible assets

Assets have been recognised as intangible non-current assets as per IAS 38.

Purchased computer software is capitalised as an intangible asset where expenditure of £1,000 or more is incurred. All purchased software licences with a term greater than one year are capitalised as intangible assets. Software and software licences are amortised over the shorter of the term of the licence and the useful economic life. Software is amortised over 36 months. The exception is capital expenditure on the Pension Change Project which is amortised over 84 months.

Development expenditure is the capitalised costs of IT systems being developed but not yet brought into use.

1.5 Financial instruments

All Financial Assets held by the Scottish Public Pensions Agency have been classified as trade and other receivables and prepayments measured at amortised cost, using the effective interest method.

As the cash requirements of the Scottish Public Pensions Agency are met through the Scottish Government, Financial Instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirement; the Agency is therefore exposed to little credit, liquidity or market risk.

1.6 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). Liability for payment of future benefits is a charge on the PCSPS. Separate scheme statements are published for the PCSPS as a whole.

1.7 Value added tax

The Agency receives funding from the Scottish Government Finance and Sustainable Growth 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 Government, which is responsible for recovering VAT from HM Revenue and Customs on behalf of the Agency.

1.8 Leases

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

1.9 Short term employee benefits

A liability and an expense is recognised for holiday days, holiday pay, non-consolidated performance related pay and other short-term benefits when the employees render service that increases their entitlement to these benefits. As a result an accrual has been made for holidays earned but not taken.

2 Staff numbers and costs

	31Mar13	31Mar12
Administration costs	£000	£000
Wages and salaries	5,303	5,114
Social security costs	348	336
Other pension costs	926	890
Early departure costs	414	238
Agency staff costs	0	0
Total administration staff costs	6,991	6,578

Average number of whole-time equivalent persons employed	31Mar13	31Mar12
Senior management	5	5
Other permanent staff	233	233
Agency staff	0	0
	238	238

The Principal 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. The scheme actuary valued the scheme as at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

For 2012-13, employers' contributions of £925,616 were payable to the PCSPS (2011-12 £889,972) at rates in the range of 16.7 to 25.8 per cent (2011-12 16.7 to 25.8 per cent) of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2012-13 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions are age-related and range from 3.0% to 12.5% of pensionable pay. Employers also match employee contributions up to 3.0% of pensionable pay. Contributions paid by the Agency in 2012-13 were £nil (2011-12 £nil).

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.

2.1 Reporting of Civil Service and other compensation schemes – exit packages

2012-13 (2011-12)

	Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
1	Less than £10,000	0 (0)	1 (0)	1 (0)
2	£10,000 to £25,000	0 (0)	5 (4)	5 (4)
3	£25,000 to £50,000	0 (0)	5 (3)	5 (3)
4	£50,000 to £100,000	0 (0)	2 (1)	2 (1)
5	£100,000 to £200,000	0 (0)	0 (0)	0 (0)
6	Over £200,000	0 (0)	0 (0)	0 (0)
	Total number of exit packages	**0 (0)**	**13 (8)**	**13 (8)**
	Total resource cost	**£0 (£0)**	**£414K (£238K)**	

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme made under the Superannuation Act 1972. Exit costs are accounted for in the year that departure is agreed. The costs of enhanced future payments arising from early retirements agreed during 2012-13 were paid in full at 31 March 2013. The additional costs of early retirement agreed by the Agency are met by the Agency and not by the Civil Service Pension Scheme (PCSPS). Ill-health retirement costs are met by the PCSPS and are not included in the table.

3 Other administration costs

3.1 General administration expenses	31Mar13 £000	31Mar12 £000
Actuarial services	667	332
Compensation payments	2	5
Medical services	98	111
Travel and subsistence	47	44
Printing and copying	5	13
Telephone charges	14	17
Training	125	80
Stationery	23	14
Office machinery	4	1
IT maintenance	721	632
Financial & legal services	14	11
Postage costs	152	114
Call centre costs	0	0
Recruitment & advertising	8	16
Other minor running costs	88	89
	1,968	1,479

3.2 Accommodation and support services

Rent payable under operating lease	504	554
Rates	118	112
Maintenance	89	57
Other accommodation costs	102	89
	813	812

3.3 Notional charges

Services provided by the Scottish Government	108	127
Audit fee	156	162
	264	289
Other administration costs total	**3,045**	**2,580**

4 Income

	31Mar13 £000	31Mar12 £000
Pension sharing on divorce	(135)	(126)
Other income	(46)	(148)
	(181)	**(274)**

The information is provided for fees and charges purposes, not for IFRS 8 purposes.

5 Property, plant and equipment

For the year ended 31 March 2013	Land	Buildings	Information Technology	Equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2012	0	465	423	188	509	1,585
Additions	400	4,411	7	18	36	4,872
Disposals	0	0	(147)	0	0	(147)
Impairments		(944)				(944)
Revaluations	0	0	0	0	0	0
At 31 March 2013	**400**	**3,932**	**283**	**206**	**545**	**5,366**
Depreciation						
At 1 April 2012	0	223	357	145	476	1,201
Charged in year	0	20	37	15	3	75
Disposals	0	0	(147)	0	0	(147)
Impairments		(243)				(243)
Revaluations	0	0	0	0	0	0
At 31 March 2013	**0**	**0**	**247**	**160**	**479**	**886**
NBV at 31 March 2013	**400**	**3,932**	**36**	**46**	**66**	**4,480**
NBV at 31 March 2012	0	242	66	43	33	384

For the year ended 31 March 2012	Land	Buildings	Information Technology	Equipment	Furniture & Fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2011	0	448	763	265	509	1,985
Additions	0	0	12	4	0	16
Disposals	0	0	(352)	(81)	0	(433)
Revaluations	0	17	0	0	0	17
At 31 March 2012	**0**	**465**	**423**	**188**	**509**	**1,585**
Depreciation						
At 1 April 2011	0	191	668	203	434	1,496
Charged in year	0	24	41	23	42	130
Disposals	0	0	(352)	(81)	0	(433)
Revaluations	0	8	0	0	0	8
At 31 March 2012	**0**	**223**	**357**	**145**	**476**	**1,201**
NBV at 31 March 2012	**0**	**242**	**66**	**43**	**33**	**384**
NBV at 31 March 2011	0	257	95	62	75	489

6 Intangible assets

For the year ended 31 March 2013	Software Licences £000	IT Software £000	Intangible AUC* £000	Total £000
Cost or valuation				
At 1 April 2012	395	9,671	64	10,130
Additions	5	210	78	293
Disposals	(8)	(2)	0	(10)
Transfers	0	64	(64)	0
Revaluations	0	0	0	0
At 31 March 2013	**392**	**9,943**	**78**	**10,413**
Depreciation				
At 1 April 2012	198	4,876	0	5,074
Charged in year	68	1,333	0	1,401
Disposals	(8)	(2)	0	(10)
Revaluations	0	0	0	0
At 31 March 2013	**258**	**6,207**	**0**	**6,465**
NBV at 31 March 2013	**134**	**3,736**	**78**	**3,948**
NBV at 31 March 2012	**197**	**4,795**	**64**	**5,056**

For the year ended 31 March 2012	Software Licences £000	IT Software £000	Intangible AUC* £000	Total £000
Cost or valuation				
At 1 April 2011	442	9,580	0	10,022
Additions	23	103	64	190
Disposals	(70)	(12)	0	(82)
Transfers	0	0	0	0
Revaluations	0	0	0	0
At 31 March 2012	**395**	**9,671**	**64**	**10,130**
Depreciation				
At 1 April 2011	187	3,576	0	3,763
Charged in year	81	1,312	0	1,393
Disposals	(70)	(12)	0	(82)
Revaluations	0	0	0	0
At 31 March 2012	**198**	**4,876**	**0**	**5,074**
NBV at 31 March 2012	**197**	**4,795**	**64**	**5,056**
NBV at 31 March 2011	**255**	**6,004**	**0**	**6,259**

* Assets under construction

7 Trade receivables and other current assets

	31Mar13	31Mar12
	£000	£000
Amounts falling due within one year		
Trade receivables	17	33
Prepayments and accrued income	211	295
Total receivable within one year	**228**	**328**

8 Trade payables and other current liabilities

	31Mar13	31Mar12
	£000	£000
Amounts falling due within one year		
Trade payables	31	3
Other payables	224	196
Accruals and deferred income	384	137
Total due within one year	**639**	**336**

9 Provisions for liabilities and charges

	Early Departure Costs	Rent Free Period	Total
	£000	£000	£000
Balance as at 1 April 2012	**54**	**106**	**160**
Provided in the year	2	0	2
Provisions not required written back	(16)	0	(16)
Provisions utilised in year	(16)	(106)	(122)
Borrowing costs (unwinding of discount)	0	0	0
Balance as at 31 March 2013	**24**	**0**	**24**

Analysis of expected timing of discounted flows

	Early Departure Costs	Rent Free Period	Total
	£000	£000	£000
Not later than one year	13	0	13
Later than one year and not later than five years	11	0	11
Later than five years	0	0	0
Balance at 31 March 2013	**24**	**0**	**24**

Rent free period

The Agency was given a 6-month rent-free period, by the landlord, when it relocated to Tweedbank. This was released against future rent expenditure throughout the period of the lease. On the purchase of the Tweedbank site, the balance of the provision was fully released against rent paid in the year to 31 March 2013.

Early retirement costs

The Agency brought the payment of NHS pensions in-house in February 2007. Under the terms of the contract with the previous provider (Paymaster (1836) Ltd), the Agency is bound to abide by TUPE (Transfer of Undertakings Regulations) legislation. The Agency is required to meet the additional employment costs arising from the transfer of this work from Paymaster (1836) Ltd to SPPA. The Agency meets the additional costs of benefits beyond the normal pension benefits in respect of Paymaster (1836) Ltd employees who retired early, by paying the required amounts annually to the retired employees over the period between early departure and normal retirement date. The Agency provided for this cost in full, when the early retirement programme became binding on the Agency, by establishing a provision for the estimated payments.

10 Capital commitments

Contracted capital commitments at 31 March 2013 not otherwise included in these accounts:

	31Mar13 £000	31Mar12 £000
Intangible Assets	**63**	**7**

11 Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods. The Agency purchased the land and buildings at Tweedbank, which it had previously leased, in March 2013.

Obligations under operating leases comprise	31Mar13 £000	31Mar12 £000
Land and Buildings		
Not later than one year	0	598
Later than one year and not later than five years	0	2,544
Later than five years	0	292
Office Equipment		
Not later than one year	13	16
Later than one year and not later than five years	11	34
Later than five years	0	0
	24	**3,484**

12 Related-party transactions

The Scottish Public Pensions Agency is a Scottish Government agency, 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 Government.

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.

13 Intra government balances

	Trade Receivables amounts falling due within one Year £000	Trade Payables amounts falling due within one Year £000
Balances with other central government bodies	17	469
Balances with Local Authorities	0	38
Balances with bodies external to government	211	132
At 31 March 2013	**228**	**639**
Balances with other central government bodies	14	261
Balances with Local Authorities	14	0
Balances with bodies external to government	300	75
At 31 March 2012	328	336

(Trade Payables includes accrued employee benefits).

14 Events subsequent to the date of the statement of financial position

There has been one event since the date of the Statement of Financial Position which necessitated revision of the figures in the financial statements. This was in relation to the valuation placed upon the land and buildings at 7 Tweedside Park following the purchase of the freehold outright on 28 March 2013 for consideration of £4.8 million. The sum was paid to the administrators of a US based company seeking to liquidate the company assets and which had acted as the Agency's landlord since first moving to the new premises in 2002. Following the year end date and before the date of issue of the accounts, a review took place of alternative and more appropriate valuation methods and bases for the property. In order to ensure that the accounts presented a true and fair view as at 31 March 2013, advice was sought from the District Valuer in the Valuation Office Agency. In accordance with the 2012/13 Government Financial Reporting Manual and the District Valuer's revised valuation, a figure for land and buildings of £4.3 million has been included in the Agency's Statement of Financial Position at Depreciated Replacement Cost. There have been no other events which necessitated revision of the figures in the financial statements, or notes thereto, including contingent assets and liabilities.

SCOTTISH PUBLIC PENSIONS AGENCY

DIRECTION BY THE SCOTTISH MINISTERS
in accordance with section 19(4) of the Public Finance and Accountability (Scotland) Act 2000

1. 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 (FReM) which is in force for the year for which the statement of accounts are prepared.

2. 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.

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

Alyson Stafford

Signed by the authority of the Scottish Ministers

17 January 2006