



SCOTTISH PUBLIC PENSIONS AGENCY

Annual Report and Accounts 2016-17

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The Performance Report

1.1 Statement by Chief Executive on performance in the period

2016-17 was another year of change, including in some of the key people involved in the Agency's governance. After nine years of highly valued service, the Agency's chair, Alex Smith, retired. He was replaced by experienced Non Executive Sheena Cowan on a temporary basis before Gillian Thompson was appointed as the Agency's new chair on 1 April 2017. Similarly, following a secondment to the core Scottish Government in September 2016, Chief Executive Ross Paterson left the Agency in March 2017. Director of Policy, Chad Dawtry, became Acting Chief Executive from September adding Interim Accountable Officer responsibilities in early March.

Against a backdrop of investment in transformational change under our 'One SPPA' programme, the Agency's overall performance was creditable. As well as meeting the vast majority of our business targets and key performance indicators, colleagues: successfully and timeously concluded the exercise to refund contributions to Scottish fire-fighters as a result of a change in long-term policy; managed an independent review of pension scheme governance; and retained Investors in People Gold status.

The year also brought a number of firsts. The Agency introduced a new electronic portal (EDM) to simplify the submission by employers of pension scheme data returns for their employees. This has been very well received by customers and Pension Boards. It was also the first time we had processed benefit statements and estimates using Career Average terms. In turn, this impacted on the first year of the new Annual Benefit Statement regime, which requires statements to be provided to 100% of active scheme members by 31 August each year. Despite significant effort, the Agency achieved 74% by the due date. In common with other pension scheme administrators across the UK, we have been in dialogue with Pension Boards, The Pensions Regulator and scheme employers to deliver improvements for the 2017 round. In all cases, where a scheme member did not receive their statement and sought one, the Agency ensured that estimates were provided, on request.

In summary, and as readers will see in the following pages, colleagues across the Agency have balanced the improvement and maintenance of routine business alongside more transformational change to continue to successfully serve over 565,000 new and existing customers of the Agency's policy and delivery functions.

1.2 Statement of purpose and activities of the Agency

1.2.1 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. The Agency was known as The Scottish Office Pensions Agency 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.

1.2.2 Agency purpose

SPPA is a national centre of expertise for the administration of, and provision of policy advice on, public service pensions in Scotland. Currently, SPPA administers the Pension Schemes for the NHS, Teachers, Police, Fire and a range of smaller schemes.

1.2.3 Agency vision

'To become the premier public sector pension services organisation in Scotland'.

1.2.4 Agency values

The Agency's core values are:

- Integrity
- Honesty
- Impartiality
- Objectivity.

1.2.5 Agency roles

The Agency's roles, as set out in the extant 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.

1.2.6 Agency stakeholders

The Agency focusses its efforts on delivering excellence in customer service. As a delivery arm of Scottish Government responsible for pension administration, its customers include scheme pensioners, current and deferred members and employing organisations in the public sector schemes for which responsibility rests with the Agency. Other parts of Scottish Government and Ministers regularly receive other services including business as usual policy input and specially commissioned projects. The Agency also demonstrates its commitment to its staff through its People Strategy and policies and its suppliers through its commitment to best procurement practice.

The Agency is aware of, and acts upon, the principles of Corporate Social Responsibility both in its dealings with its neighbours and to the environment. The manner in which the principles are applied are recorded in more detail in the Accountability Report.

1.2.7 Agency alignment with Scottish Government's Strategic Objectives and Outcomes

Through the Agency's work there is a direct contribution to strategic objective 1 of the Scottish Government - wealthier and fairer. There is also an indirect contribution to strategic objective 2 - healthier; and strategic objective 4 - smarter.

The Agency contributes directly to national outcome 15 of the Scottish Government ("our public services are high quality, continually improving, efficient and responsive to local people's needs"). Through the Agency's role in administering the Scottish NHS and Teachers' pension schemes, and the role that these schemes play in supporting workforce recruitment and retention within these sectors, there is also an indirect contribution to national outcome 3 ("we are better educated"); and national outcome 6 ("we live longer, healthier lives").

1.2.8 Agency alignment with Scottish Government's Business Strategy

The Agency's strategic intent incorporates proposals in Scotland's Economic Strategy 2015 to develop a 'One Scotland' approach based on four priorities: investing, innovation, inclusive growth and internationalisation. The Agency has developed its own 'One SPPA' change programme in which, inter alia, it seeks to address the national agenda of 'investing in our people and our infrastructure in a

sustainable way' and 'fostering a culture of innovation'. Our refreshed People Strategy identifies 'being a supportive and fair employer' which in turn supports the Economic Strategy's priorities.

1.2.9 Directorates' contribution towards achieving corporate aims and objectives

The current operating framework, including financial delegations, is established in the Agency's extant Framework Document. The Framework confirms that the primary purpose of the SPPA is to administer pensions in the public sector as an agency of the Scottish Government and is part of the ministerial portfolio for Finance and the Constitution.

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.

The Agency's key activity is to administer the pension, injury benefit and compensation schemes for the NHS Pension Scheme (Scotland) (NHSPSS), and for members of the Scottish Teachers Pension Scheme (STPS), Police Service of Scotland and Scottish Fire and Rescue Service. The Agency also provides a calculation service in respect of two smaller superannuation schemes; the Scottish Legal Aid Board Scheme and the Scottish Parliamentary Pension 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.

Each of the Agency's Directorates makes a unique and significant contribution towards the organisational aims and objectives. The Operations Directorate, in particular, has had a key role in providing data for reporting 'dashboards' and has established Pension Board-specific risk registers to better support their compliance-focussed information needs.

The Operations Directorate employs the majority of the Scottish Public Pension Agency workforce. The Directorate handles all pension events such as initial pension award, pensioner payments and transfer of pension rights to and from other schemes. The Directorate is the public face of SPPA dealing directly with more than half a million scheme members and beneficiaries and in excess of 1,100 employer organisations (numbers subject to additions, mergers and dissolution during the year).

The Agency's Policy Directorate advises on, prepares and maintains the regulations (Scottish Statutory Instruments) for Scotland's NHS, Teachers', Police, Fire-fighters' and Local Government pension schemes, which collectively cover over one million people. A key stakeholder in this area are Scottish Ministers to whom advice is provided on public service pension policy generally. When required, the Agency represents the Scottish Government at UK level in consideration of UK Government policy on public service pensions. Also when required, the Agency will determine final stage disputes under each of the regulations.

The Agency provides secretariat services to the Pension Boards for the four main schemes it administers, as well as technical policy advice and secretariat services to the related Scheme Advisory Boards. The Agency also attends meetings of Scotland's Local Government Pension Scheme (LGPS) Advisory Board on Scottish Ministers' behalf. While much policy work is outward facing, the Directorate's role as custodian of scheme regulations supports the achievement of the Agency's aims and objectives.

The Finance Directorate is responsible for budgeting, forecasting and financial management of the NHSPSS and STPS and the overall Agency. The Directorate also provides a range of financial services on behalf of police and fire-fighter employers. The Agency is funded to administer the NHSPSS and STPS schemes through bids to the HM Treasury for Annually Managed Expenditure ('AME'). Budgeted pension expenditure is offset by budgeted contribution income collected from employers.

The Agency's Annual Report and Accounts for 2015-16 was laid before Parliament on Friday 23 September 2016. A copy of [the accounts](#) can be found on the Agency's website under corporate publications.

The NHS Pension Scheme (Scotland) and Scottish Teachers' Pension Scheme Annual Report and Accounts for 2015-16 were laid before Parliament on Thursday, 11 November 2016. A copy of both sets of accounts can be found on the Agency's website under corporate publications. [NHSPSS](#) and [STPS](#).

Scottish Government funds the running cost and capital budgets of the Agency. The Finance Directorate is responsible for budgetary and financial management in the Agency that helps ensure its smooth running and value for money for the taxpayer. In this way, the Finance Directorate underpins the resource allocation and management process that supports Agency aims and objectives.

The Corporate Services Directorate provides vital IT support for all IT systems, including pensions administration, payroll and web services. It was also responsible for providing specialist procurement and contract management expertise which has proved invaluable as the Agency has begun the work to migrate to a new integrated pension administration/payroll system.

Corporate Services also has the lead role in delivering corporate communications and managing security issues. Compliance with security, in all its forms, is key to the Agency's ambitious agenda to put web services and a digital approach to 'straight through processing' at the heart of its business offering. Corporate Services looks to ensure legal and regulatory compliance and best practice in relation to data protection, information assurance, building and physical security.

In addition to the services above, Corporate Services also provides: all HR and corporate learning functions; facilities management services; and, mailroom services. The Payroll team processes payments of £2.9 billion to circa 200,000 pensioners.

Corporate Services has ownership of the Agency's People Strategy and this is updated and informed by evaluating the results of a continuous customer survey and Scottish Government's People Survey. A significant amount of analysis is undertaken by the Directorate to learn from the results of all surveys which in turn contributes to the Agency's agenda of continuous improvement.

1.3 Key risks and issues

1.3.1 Risks and uncertainties

The principal risks and uncertainties facing the Agency are contained within the Risk Register. The Register is regularly reviewed and updated by a newly formed Risk Governance Group comprised of deputy directors and specialist post holders within the Agency. The Group takes responsibility for preparing the Agency and Pension Board Risk Registers and seeking input from the Strategic Leadership Team (SLT) prior to sharing with the Audit and Risk Committee. Many of the changes in the Risk Register fall into the following categories:

- the risk universe based on 'PESTLE' type approach (political, economic, social, technological, legal and environmental)
- principal threats and opportunities facing the organisation at an operating level
- risks reported through other risk registers such as directorate, fraud and project risk registers.

Changes to the risk universe draw upon a wide pool of new information, but often relate to areas where the Agency has no direct control, such as UK legislation on reserved matters, which can present a number of changes to both threats and opportunities. Principal risks often relate to areas where the inherent risks are of such magnitude, such as the Agency's ambitious 'One SPPA' change programme, that they warrant inclusion and an analysis of the controls which can be introduced to mitigate the risk. Risks may be identified as part of the operational activities of each directorate, such as relationships with key suppliers, which again may be of such magnitude that should feature in the Agency Risk Register. The cause and effect of each threat and opportunity is identified and the

mitigating internal controls are considered alongside any further practicable actions. If mitigating controls and further actions are sufficient to reduce the risk assessment below the risk tolerance, the risk will be removed from the Register.

The Agency's approach to risk management was modified in 2016-17 following a wider thematic review conducted by the interim Head of Security. In addition to setting up a Risk Governance Group, a number of recommendations that emerged from the review are being taken forward by the Group over time to implement best practice and further embed risk management into the Agency.

The Agency's Corporate Risk Register was dominated by 3 key risk areas that were monitored and reported upon during the year and are summarised below.

- to successfully implement the integrated pension administration and payroll system without disruption to core business
- to assume responsibility for the 'Guaranteed Minimum Pension' scheme administration and management and do so according to agreed timescales and using accurate data
- to ensure compliance with The Pension Regulator's Code of Practice 14 and the needs of key stakeholders including The Pension Regulator, scheme Pension Boards, scheme employers and our customers.

1.3.2 Key issues

The Agency is aware that there are also a number of key issues to be addressed. A look at the Agency's risk universe and risks to its objectives for 2016-17 was carried out as part of 3-year corporate planning and annual business planning process. Some of the challenges facing each directorate are listed below.

Agency

To maintain high levels of business performance during a period of significant business change.

Policy

To address future changes in the pensions policy landscape by ensuring sufficient resilience is available in the Policy team.

Finance

To make the necessary changes to the Agency's baseline funding to reflect changes in the Agency's roles and responsibilities since the last full 3-year Scottish Spending Review in 2011.

Operations

To make further improvements to the quality of membership data to underpin pension scheme valuations, the Agency's change programme and the scope to provide more value added customer services.

Programme Management

To deliver a major IT project as part of a wider change programme and build a strong strategic relationship with the new pension platform supplier.

Corporate Services

Within the constraints of public sector pay and personnel policy and in adherence with current employment and safety legislation and in accordance with the Agency's People Strategy, to help the Agency ensure that the right people, with the right knowledge, skills and experience and behaviours are in the right place at the right time.

1.4 Performance summary

1.4.1 Key business targets

The key targets in the table below relate to NHS, Teachers', Fire-fighters and Police schemes combined. The Agency met 4 out of 6 of its key performance targets.

Table 1: Performance against Agency Key Business Targets for 2016-17 against 2015-16

Target definition	2016-17	2015-16
Pay 100% of all existing pensions on the due date	100%	100%
Pay 98% of new awards within one month of the due date	99%	99%
Ensure that a minimum of 95% of all new pension awards are correct at the point of authorisation	97%	97%
Ensure that up to date and accurate data is held for a minimum of 95% of active scheme members	92%*	93%
Ensure that accurate annual benefit statements are accessible for at least 98% of active scheme members for whom accurate data is held	n/a	87%
Ensure that accurate annual benefit statements are available to 100% of active scheme members by 31 August 2016	74%**	n/a
Collect 96% of contributions by value within the period prescribed by legislation	99%	99%

*This was the first year of processing annual returns for the new career average earnings schemes which introduced complexity and delays in loading data.

** The Agency previously issued annual benefit statements to members in November each year. The introduction of an earlier legislative timescale of August and the complexities of the new career average earnings schemes had an impact on meeting the target.

1.4.2 Performance against key business targets

As a sizeable delivery arm of Scottish Government, a large proportion of Agency's key performance indicators and associated targets are assigned to the Operations Directorate. The Agency measures customer service delivery performance against a set of 23 service standards, known as Key Performance Indicators (KPIs). Reviewed annually, revised targets were introduced that reflected legislative requirements for making estimates of service 'transfers-in' and 'transfers-out' and promptness of making pension 'awards' and issuing member benefit statements. One of the benefits derived from the changes to KPIs has been to better support the information requirements of statutory Pension Boards in carrying out their role.

A comprehensive performance measurement system is in place and was expanded to include Police and Fire pension scheme administration performance in 2016-17. Regular reporting of performance takes place at Management Board meetings and more detailed progress updates are shared with the Management Advisory Board and through 'dashboard' reporting at Pension Board meetings.

Of the 23 KPIs in Table 2 below, the Agency delivered, met or improved performance against 16 and met a further two with a slightly reduced performance.

One missed KPI related to the new requirement to issue annual benefit statements annually by 31 August. The SPPA made available 196,316 annual benefit statements by the deadline which represented 74% of the active membership. The Agency was not alone as a pension service provider in reporting itself to The Pension Regulator for not meeting its statutory obligation in this area.

In terms of complaints, over the year the Agency received 145 complaints about service which represents 2.74 (2015-16: 2.55) complaints per 10,000.

In terms of the pension administration services provided by the Agency to the Scottish Parliamentary Pensions Scheme and the Scottish Legal Aid Board scheme, all service levels were met.

Service level agreements were finalised for the Scottish Fire and Rescue Service Pensions Scheme in April 2016 and for the Police Scotland Pension Scheme in June 2016. Quarterly service review meetings have taken place between the Agency and the services to review their progress.

The annual target for Policy, Finance and Corporate Services Directorates is that each will deliver a minimum of 90% of their prescribed service standards. Each Directorate achieved their respective targets in 2016-17.

Finance Directorate's key performance indicator target is to collect 96% of NHS and Teachers scheme contributions by value within the period prescribed by legislation. This target was more than met with 99.46% of contributions by value collected within the period.

Corporate Services Directorate paid circa 200,000 pensioners over 4 pension schemes to a value of £2.9 billion annually by carrying out 720 pay runs. During 2016-17, all payments were made on time and to 100% accuracy. The payment of pensions creates an array of supporting administrative activities which are summarised in Table 3 below.

Table 2: Customer Service Delivery: KPI against targets for 2016-17 against 2015-16

ID.	KPI	Target	2016-17	2015-16
1	New retirement awards - timeliness	98%	99.98%	99.94%
2	New payments - accuracy	95%	96.93%	97.21%
3	Transfer in quote	100%	94.57%	90.09%
4	Transfer in actual	90%	92.42%	89.37%
5	Transfer out quote	100%	98.81%	88.81%
6	Transfer out actual	100%	99.49%	98.71%
7	Refunds	97%	97.31%	95.28%
8	Estimates	90%	89.12%	97.95%
9	Death in service	98%	99.36%	100.00%
10	Death in pension/retirement	98%	99.88%	99.83%
11	Existing pensions (changes)	98%	99.30%	99.08%
12	Divorce – cash equivalent transfer value	100%	100.00%	100.00%
13	Pension sharing on divorce	100%	100.00%	100.00%
14	Service level agreements for SOPS and SLAB schemes	100%	100.00%	100.00%
15	Complaints	98%	86.90%	88.72%
16	Internal dispute resolution stage 1	100%	98.60%	97.84%
17	Records maintenance - errors	95%	99.66%	94.50%
18	Records maintenance - up to date records	95%	92.03%	92.57%
19	Annual benefit statements	100%	81.10%	86.63%
20	Ministerial replies	100%	100.00%	50.00%
21	Official replies	100%	100.00%	100.00%
22	Red folders	100%	100.00%	100.00%
23	Annual allowance breach notifications	100%	84.27%	N/A

Table 3: General administrative activity in numbers

Area of performance	2016-17	2015-16
Scheme members in total	565,000	544,000
Pensioners in payment:		
• NHS and Teachers	175,000	168,000
• Police and Fire	22,500	22,000
Total number of pension payments	2.35m	2.32m
Total amount of pension paid	£2.9bn	£2.8bn
No. pensioner payrolls run	616	616
Total telephone calls/month	11,423	13,041
Incoming items of mail	92,000+	151,000+
Outgoing items of mail	800,000+	325,000+
SPPA website – unique homepage views	289,000	304,000
IT support calls raised	3,781	4,466
Data sharing agreements in place	1,118	1,153
Continuous customer survey responses (all schemes)	6,684	3,400
Dispute cases	197	69
Ministerial cases	49	47
Freedom of information requests	22	36

1.4.3 Financial position at the end of the year

The Agency operated within its budget allocation for 2016-17, and a summary of actual expenditure compared to budget is detailed in the table below.

Table 4: Comparison of budget and actual expenditure in 2016-17

	2016-17 Budget allocation £000	2016-17 Expenditure £000	2016-17 Underspend £000
Total comprehensive expenditure (Statement of comprehensive net expenditure)	18,205	17,552	
Less depreciation (Statement of comprehensive net expenditure)	(4,300)	(4,218)	
Less notional charges (note 3.3)		(259)	
Total comprehensive expenditure excluding depreciation and notional charges	13,905	13,075	830
Depreciation	4,300	4,218	82
Capital (note 5 and 6)	2,100	1,761	339
Total expenditure 2016-17	20,305	19,054	1,251

The main reason for the underspend in expenditure of £1,251k was the decision to retain initial central funding after the cut-off period for the year-end budget revision, in anticipation of progress being made on the pension administration and payroll IT project. However, a subsequent re-planning and re-phasing exercise carried out by the supplier had a major impact on project milestone payments and estimates of work in progress at the year end. After the initial exercise was completed, an additional planning phase was introduced which straddled the financial year end and which resulted in slippage of expenditure into the next financial year. The underspend also includes a gain on revaluation of property, plant and machinery of £136k. Demand-led income arising from pension sharing on divorce amounted to £213,000 in 2016-17 (2015-16: £215,000).

Further analysis of the financial results for the year to 31 March 2017 is detailed at paragraph 1.5.8 together with long term expenditure trends.

1.4.4 Governance and performance

The role of the respective governance boards and committees in enhancing business performance is given in more detail in paragraph 2.3.1. In essence, value is added by members of: the Audit and Risk Committee in scrutinising the system of internal control in operation; the Management Board in reviewing monthly pan-Agency progress reports; and, the Management Advisory Board in ensuring key business targets are set and met and sound financial management is demonstrated.

The Project Board for 'Project 2017' (refer to paragraph 1.5.6) is chaired by the Chief Executive and comprises all the relevant Agency's directors in key user representative and quality assurance roles, senior finance and IT representatives of Scottish Government and senior management from the supplier side. The Board's chief role has been to support the project's Senior Responsible Officer in closely monitoring progress of the project against key milestones. Rigorous scrutiny of governance around the project was also carried out by the Agency's Audit & Risk Committee and the Management Advisory Board, and the Agency's internal and external auditors have been kept fully informed.

1.4.5 Changes to audit arrangements

As part of the 5-yearly rotation of external auditors a new team from within Audit Scotland took over the audit of the Agency for a period to 2020-2021. The 2015-16 Agency and Schemes' accounts were the last to be completed by the previous team. Also Scottish Government's assigned internal auditor's team were also rotated on completion of the plan for the 2016-17 audit year. The Agency is most appreciative of the contribution made by both outgoing teams during a period of major change in the Agency.

1.5 Performance analysis

1.5.1 Guaranteed Minimum Pensions (GMP)

The introduction of the single-tier State Pension from 6 April 2016 and discontinuation of the State Second Pension, previously known as the State Earnings Related Pension Scheme (SERPS), heralded the end of 'contracted-out' defined benefit pension schemes, and necessitated pension schemes take over the responsibility of the maintenance of GMP values from HM Revenue & Customs (HMRC) from that date.

The GMP accrual period ran from 6 April 1978 to 5 April 1997. Any pension scheme member with service in a contracted-out pension scheme between those dates must have data examined to ensure the accuracy of the information held. The GMP amount is the minimum pension that an occupational pension scheme must provide for those members who were contracted out of SERPS between 6 April 1978 and 5 April 1997.

Work carried out over the period suggests that there are anomalies in data between records held by HMRC and those of pension schemes which will require work to reconcile and correct the differences arising by December 2018. In addition, HM Treasury (HMT) guidance also recommends that schemes should undertake the reconciliation of members' data relevant to the period after 5 April 1997 and up to 6 April 2016 representing the point where contracting-out ceased. The aim is to ensure the correct payment of the State Pension going forward.

From April 2016, SPPA took responsibility for ensuring the tracking and maintaining of GMP liabilities. The Department for Work and Pensions intends that all scheme members will have access to a Pension Statement via HMRC in December 2018. The Agency has invested resources into preparing for the work ahead and will be submitting a business case to Scottish Government to secure the resources required to carry out this exercise. The cost incurred in 2016-17 was £90,000.

1.5.2 Actuarial valuations

2016-17 was the second year of the Agency's four-year service level agreement with the Government Actuary's Department (GAD). As appointed scheme actuaries, GAD provide the necessary actuarial expertise for tasks such as the 2016 valuation exercise. As planned, the sums paid to GAD decreased from £1.544m in 2015-16 to £1.008m in 2016-17 ahead of the full 2016 valuation work in 2017-18.

The Agency's Policy function takes the Scottish Government lead on the quadrennial actuarial valuations of the four unfunded public pension schemes under its administration and for the triennial national 'cost cap' valuation of the locally administered LGPS funds. Much of the year required work by the Operations Directorate in providing scheme data vital to the valuation process carried out by GAD. By 31 March 2017, all valuation data had been submitted to GAD and a process for resolving outstanding queries was underway.

Expected to conclude in Spring 2018, the 2016 valuation outcomes will be compared to existing employer contribution cost caps for each scheme to set employer contribution rates payable from April 2019.

The framework and financial assumptions for valuations are set by HM Treasury, who also have the final say on demographic assumptions to be used. During 2017-18 the Policy function will work with the Scheme Advisory Boards on demographic assumptions to be used in the valuations. These will also be used in actuarial input to pension schemes' annual report and accounts prepared by the Agency.

LGPS funding valuations for each of the eleven fund authorities take place every three years (the most recent as at March 2014). Managed locally, the Agency has no involvement in them beyond maintaining the related scheme regulations. However, on Scottish Ministers' behalf our Policy Directorate is responsible for working with the LGPS Scheme Advisory Board to ensure completion of

the national triennial 'cost cap' valuation and provide related advice to Ministers. The Agency continues to work closely with GAD and the Scheme Advisory Board on the completion of the first ever national valuation of the LGPS in Scotland.

1.5.3 Firefighter refund of contributions

SPPA have largely concluded the firefighters' scheme refund exercise following an agreement between UK Government and Fire Brigades Union and backed by Scottish Ministers to settle a claim of age discrimination under the terms of the English Firefighters' Pension Scheme 1992. Consequently, eligible fire-fighters who retired after 1 December 2006 who had accrued 30 years of service became eligible for a refund of any employee contributions paid between the date that they reached maximum service and the day before they reached age 50. Where they reached maximum service before 1 December 2006, only contributions paid after that date and before age 50 were to be refunded. In Scotland, 358 fire-fighters were eligible and were duly paid by the Agency.

1.5.4 Procurement

A key event in 2016-17 was the completion of the Agency's 3-year Procurement Strategy for the period 2017-2020. The stated procurement vision is to:

'provide a managed procurement service to support value for money in its purchasing decisions, while supporting financial sustainability and meeting all statutory obligations, having regard to UK and EU procurement regulations, the Equalities Act 2010 and environmental legislation'.

In the financial year 2015-16 contract spend was £6.9m, the bulk of which related to IT capital or computer maintenance services. Call off contracts awarded by SPPA via the collaborative national frameworks during 2015-16 had a combined value of £0.36m per annum and delivered savings of £0.06m. Collaborative call-off contracts in the 3-year period 2016-17 to 2018-19 are expected to deliver value for money savings of £0.2m against a total spend of £1.1m. Following a contract consolidation exercise, a new Facilities Management contract commenced in April 2016 which should contribute a large proportion of future recurring savings.

The change in postal services supplier was completed at the end of December 2016. Unit cost under the new contract is less than the contract it replaced and cost savings of circa 10% have already been secured. The overall cost of postal services is dependent on unit cost and volume. The volume changes over the last few years have been reflective of the requirement to communicate the many changes in pension-related legislation and policy to members of schemes. The full financial effect is ameliorated by increasing the numbers of members receiving communication electronically and by accessing personal data on-line. The cost of postal services fell from £412,000 in 2015-16 to £241,000 in 2016-17 but the full year effect of unit price savings will not be felt until 2017-18.

The Agency has a requirement for a Medical Advisory Service to support the administration of the NHS and Teachers' pension schemes and in determining the Local Government Pension Scheme Internal Disputes Resolution Procedure (IDRP) stage two appeals. The bulk of the work arises from applications for ill-health retirement under the NHS and the Teachers' pension schemes and requires an opinion to be formed either on the applicant's capacity to efficiently carry out the duties of their employment, or engage in regular employment depending on the applicable Regulations. The number of applications for ill-health retirement has averaged about 688 per annum in the last three years up to 31 March 2016. The number of applications for NHS Injury Benefit scheme has diminished following closure for applications resulting from injuries or illness occurring after 31 March 2013. IDRP1 appeal cases for Ill-Health for the NHS and Teachers' Pension Schemes and Injury Benefits for the NHS averaged 62 cases in the last three years up to 31 March 2016, and IDRP2 averaged 17 cases. The cost of these services is also dependent on unit price and volume. The cost of medical services rose to £84,000 in 2016-17 from £76,000 in 2015-16 but the full year effect of unit cost savings will not be felt until 2017-18. The new supplier contract is due to take effect from 1 April 2017.

1.5.5 Review of governance arrangements post public sector pension reform

The Agency day-to-day role is that of Scheme Manager for Scotland's NHS, Teachers', Police and Firefighters' pension schemes, as delegated by Scottish Ministers and, as set out in the Public Service Pensions Act 2013 (PSP Act).

The new governance arrangements in support of the four pension schemes were introduced by the Agency in conformance with the PSP Act from 1 April 2015. This role involved providing a range of policy advice and administrative services to support the work of Pension Boards for all four pension schemes which are all nationally managed and unfunded. Work was also carried out to support the Scheme Advisory Board for the Local Government Pension Scheme. Scottish Ministers signalled their intention at the start of the implementation process to initiate a review of governance arrangements within two years of their establishment which coincided with the 2016-17 reporting year.

The areas covered in the review included:

- mechanisms in place to support the statutory Pension Boards which assist the Scheme Manager in securing compliance with regulatory requirements
- mechanisms in place to support Scheme Advisory Boards which, at the request of the Responsible Authority, provide advice to it
- secretariat services to and attending the Pension Boards
- participation in the tri-partite Scheme Advisory Boards for the Police, Fire-fighters NHS and Teachers' pension schemes
- representation by Scottish Government as observers at the bi-partite LGPS Scheme Advisory Board.

Experienced independent consultants (KPMG) were commissioned to undertake the review between September 2016 and January 2017. The resultant report was broadly positive in its reporting of the governance arrangements, with specific recommendations tending to focus on improvement rather than any need for major change. The intention is that the report be published in the Scottish Parliament Information Centre after the year end.

1.5.6 Project 2017

Work on 'Project 17' (an integrated pension and payroll platform and associated digital solutions) began in earnest when the consolidated IT contract was awarded to Capita Plc (Employee Benefits) in October 2015. The need to review supplier arrangements in 2015 was brought about by the expiry of the main supplier contract for the Altair pension system in 2017. Altair linked in with two other systems that were close to their natural contract end date. To ensure best value for money and provide a foundation for the future, the Agency put the contract out to tender in order to receive bids for one consolidated system.

Challenges arose during 2016-17 in implementing the new core pension and administration system. Work specified by the Agency in its invitation to tender needed to be designed, configured and tested in the pension software product but reached the point where the original go-live date proved unattainable and contingency arrangements were enacted. Chief amongst the actions taken was the need for the Agency to extend the life of contracts with its original suppliers to ensure safe delivery of pension payments to its members. Also, recognising the risk to project deliverables, the Agency took action mid-way through the project implementation phase to commission an independent IT 'healthcheck' carried out by the Scottish Government's Office of the Chief Information Officer in order to better understand how to facilitate a positive project outcome.

One of the key recommendations from the 'healthcheck' review in October 2016 was that the supplier should address a range of issues to ensure the delivery of its product to the required specification and quality and minimise further delay in implementation. The Agency has worked with the supplier to help develop a mutually acceptable and well defined project re-plan. In order to validate the revised project planning assumptions, the supplier agreed to carry out a short, reduced scope delivery

exercise to help inform both the re-plan and the revised go-live target. The exercise was ongoing at the end of the year.

1.5.7 Electronic Data Management online system launched

A web based portal for small and medium sized NHS and teachers employers to submit their data online was successfully launched in April 2016. The system applies a primary validation tool in assessing the quality of data before it can be submitted to SPPA which creates operational efficiencies in the data loading process. To assist in the transition to the new system, the SPPA proactively engaged with scheme employers offering assistance and advice on submissions and was very positively received.

1.5.8 Financial resources 2016-17 and expenditure trends

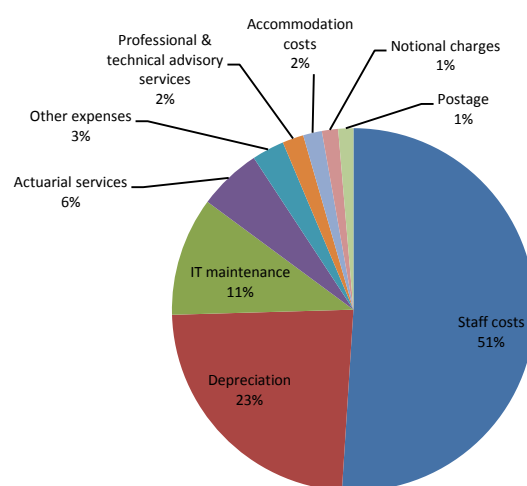
Table 5: Headline figures

	2016-17 £000		2016-17 £000
Income	(233)	Total assets	24,451
Expenditure	17,921	Total liabilities	(8,811)
Net expenditure	17,688	Net assets	15,640

Chart 1: % split of annual expenditure by type

Income of £233k (2015-16: £238k) is self-generated from work associated with pension sharing on divorce and from the provision of pension calculation services to third parties.

Expenditure has increased by £1,318k from £16,603k in 2015-16 to £17,921k in 2016-17 due largely to higher staff costs and depreciation offset by reduced actuarial charges.



total operating expenditure £17,921k

Table 6: Comparison of expenditure over 5-year period

	2016-17 £000	2015-16 £000	2014-15 £000	2013-14 £000	2012-13 £000
Staff costs	9,142	8,261	7,740	6,983	6,991
Depreciation	4,218	3,271	2,095	1,606	1,476
IT maintenance	1,896	1,789	1,236	985	721
Actuarial services	1,008	1,544	1,454	1,415	667
Other expenses	518	497	447	440	428
Professional & technical advisory services	339	86	33	4	0
Accommodation costs*	300	290	320	281	813
Notional charges	259	290	255	268	264
Postage	241	412	224	112	152
Pension reform communication	0	163	188	0	0
Property impairment*	0	0	0	0	701
Expenditure	17,921	16,603	13,992	12,094	12,213
Expenditure relating to revaluations	(136)	(55)	(42)	(113)	0
Total expenditure	17,785	16,548	13,950	11,981	12,213

*SPPA purchased property at Tweedbank in March 2013 which was previously rented.

Staff costs of £9,142k for 2016-17 have increased by £881k since last year due to: the payment from 6 April 2016 of standard employer's national insurance contributions following the abolition of the lower contracted-out rate; additional staff numbers to meet operational requirements of the business transformation programme; pay scale progression; and the annual pay increase.

Depreciation of property, plant and equipment and information technology was £4,218k for 2016-17, an increase of £947k year on year. The rise includes a full year's depreciation of systems to support the scheme administration of Scottish Police and Fire-fighters' pensions, and the functionality for 2015 Pension Reform. In addition, all assets associated with the existing pension administration and

payroll platforms and web based services were re-lived to ensure assets were fully depreciated before the new system goes live.

Professional & technical advisory services have risen by £253k to £339k for 2016-17. Costs were incurred to support a number of projects including the renewal of the medical services contract, a review of the Agency's security arrangements, Guaranteed Minimum Pension responsibilities, and a review of pension scheme governance arrangements.

Actuarial services totalled £1,008k in 2016-17 which was £536k lower than the previous year. Costs are dependent on the valuation cycle for the pension liabilities of the NHS and Teachers' schemes and pension legislation changes such as the 2015 Pension Reform.

Postage costs at £241k have fallen by £171k year on year mainly due to a one off cost in 2015-16 to communicate significant changes surrounding the rules on contracting-out to members.

Notional charges cover services provided by the Scottish Government of £112k, and Audit Scotland's audit fee of £147k. These costs are met from the central Scottish Government's budget.

Table 7: Comparison of assets and liabilities over a 5-year period

	2016-17	2015-16	2014-15	2013-14	2012-13
	£000	£000	£000	£000	£000
Property, plant and equipment*	4,928	5,014	4,680	4,560	4,480
Computer software and licenses	3,059	5,296	6,173	4,096	3,948
Trade and other receivables**	16,464	8,173	7,427	256	228
Total assets	24,451	18,483	18,280	8,912	8,656
Trade and other payables**	8,811	7,696	7,444	2,545	663
Total liabilities	8,811	7,696	7,444	2,545	663
Net assets	15,640	10,787	10,836	6,367	7,993

*Land and buildings at Tweedbank were purchased in March 2013.

**Other receivables and payables from 2014-15 included balances relating to the payment of pensions on behalf of the Scottish Police and Fire-fighters' pensions.

Total assets increased by £5,968k to £24,451k at 31 March 2017, and comprised:

- **Property, plant and equipment** of £4,928k, which included £4,304k of freehold land and buildings
- **Computer software and licenses** of £3,059k, a fall of £2,237k from last year. Purchases of some £1,674k relating to the delivery of the new integrated pension administration platform and license fees were offset by depreciation charges of £3,911k
- **Trade and other receivables** of £16,464k, which is an increase of £8,291k from 2015-16, includes balances of £15,265k relating to Scottish Police and Fire-fighters pensions. Pensions due to be paid to pensioners on Saturday, 1 April 2017 were paid on Friday, 31 March 2017 to ensure receipt by the due date.

Total liabilities increased to £8,811k from £7,696k in 2015-16, and comprised trade and other payables. The balance at 31 March 2017 included £7,637k relating to the administration of Scottish Police and Fire-fighters' pensions.

Further information on the Agency's income, expenditure, assets and liabilities can be found in the Financial statements.

1.5.9 Benchmarking

The results of the 2016 CEM benchmarking survey confirm, once again, the Agency's status as a low-cost provider of pension administration services. The cost per member in 2016 was £25.14, and this was below the peer average of £27.14. Administration cost per member was £16.06, which was £2.46 below the peer average of £18.52. Governance costs were £2.83 per member and below the peer average of £5.04 per member. It is noted that, in general, the cost of pension scheme governance is increasing over time as governance expectations change.

The 'member service' score i.e. quality was 62 (2015: 61). Although the Agency scored well for digital services and setting up pensions there were improvements that could have been made in the use of social media and the time taken to produce annual statements.

1.5.10 Best Value initiatives

The Accountable Officer is ultimately accountable to Parliament for the propriety and regularity in the use of public finances and for achieving Best Value from the use of the funds. The use of 'review and option appraisal' is one of the key characteristics of the Best Value agenda and this is being used in preparing the Agency's change programme.

New pension scheme governance arrangements were put in place in 2015 and the results of the independent review are reported elsewhere in the Annual Report. The terms of reference for the Agency's main board and committees are to be reviewed in the light of the Scottish Government's 'On Board: A guide for members of Management Advisory Boards' publication issued March 2017. <http://www.gov.scot/Publications/2017/03/4970>

The Customer Service Review started in 2015 and has informed much of the Agency's subsequent business planning. Working more closely with all SPPA stakeholders and putting customers at the heart of new products and services features strongly in the Agency's digital vision and innovations in service delivery. The Agency has also prepared a draft Employer Charter for sharing with Pension Boards and to issue to over 1,100 employers. A communications sub-group of the Police Pension Board was set up during the year to improve the dialogue between the Agency and its stakeholders on key or new areas of business, such as, in relation to providing an informative annual benefit statement to members in accordance with legislation and agreed timescales. Other key events in the calendar, in which accurate communication will be subject to future scrutiny, is in relation to the members' annual pension increase and the employers' annual return, which includes information on members joining and leaving the pension scheme.

In order to help ensure that the Agency's approach to its Project 17 was robust, an in-depth IT 'healthcheck' was commissioned to be carried out independently by the Scottish Government's Office of the Chief Information Officer. The assurance provided contributed towards the Agency's drive to secure best value in major project delivery.

The Agency's approach to sustainability, equality and corporate social responsibility are described in the Director's report.

1.6 Business development and corporate planning

Agency's People Strategy

The Agency's 2016-2019 People Strategy was developed to support the Agency's Strategic Plan and the Scottish Government 'SG2020' focus which is about becoming the organisation 'we need to be and want to be for the future'.

Agency's Business Strategy

Historically, the Agency's 3-year Corporate Plan ran over the period covered by the 3-year Scottish Spending Review. The 3-year Corporate Plan commencing in 2016-17 was prepared in anticipation of the completion of Project 17 in 2016-17. Following the decision to re-plan and re-phase Project 17 the decision was also taken to roll forward the 3-year Corporate Plan 2016-17 to 2018-19 and to amend it to reflect new implementation timescales.

The 3-year Corporate Plan reflects the Agency's intention that Project 17 will create a foundation on which to build: process improvement through new workflows; structural change reflected in a new Target Operating Model; and, service delivery improvement through a new digital approach and made possible by redesigning services. The functionality of the modern digital platform on offer forms the basis for greater productivity, more efficient service delivery and enhanced value for money savings.

The approach to optimise the functionality of the new pension platform will continue as a major theme throughout the Plan period in line with the vision of the Agency becoming the 'premier pension services organisation in Scotland across the public sector'.



Penelope Cooper
Chief Executive
25 July 2017

The Accountability Report

Corporate Governance Report

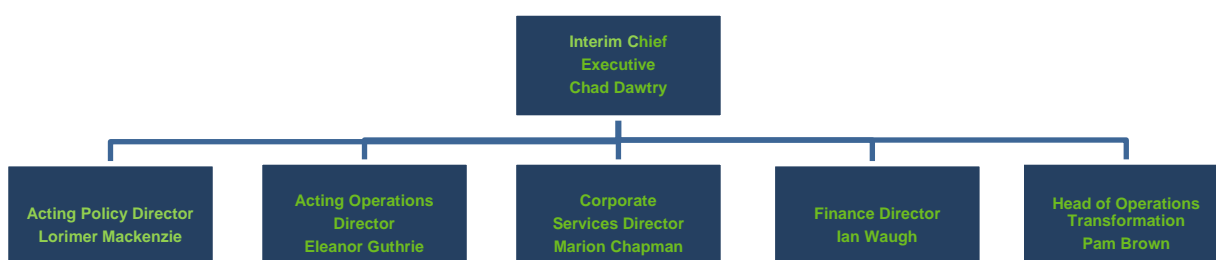
2.1 Directors' Report

2.1.1 Funding

The Agency is part of the Finance and Constitution Portfolio of the Scottish Government. The Agency is funded through the Scottish Government's Programme Budget which is overseen by the Portfolio Accountable Officer, Alyson Stafford.

2.1.2 Directors and management structure

Day to day management is overseen by the individual executive directors and through the Strategic Leadership Team collectively. As at 31 March 2017, the Agency's Strategic Leadership Team comprised:



The directors and senior management of the Agency who served during the year were:

Ross Paterson	Chief Executive and Accountable Officer to 19 March 2017 Seconded to Scottish Government from 7 September 2016 to 8 January 2017
Chad Dawtry	Policy Director to 16 May 2016 Deputy Chief Executive and Policy Director from 17 May 2016 to 6 September 2016 Acting Chief Executive from 7 September 2016 to 8 January 2017 Interim Chief Executive and Accountable Officer from 20 March 2017
Lorimer Mackenzie	Acting Policy Director from 7 September 2016
Pamela Brown	Operations Director to 31 August 2016 Head of Operations Transformation from 1 September 2016
Eleanor Guthrie	Acting Operations Director from 1 September 2016
Marion Chapman	Corporate Services Director
Ian Waugh	Finance Director
Susan Gray	Business Change Programme Director to 31 July 2016
Alex Smith	Non-executive Director to 23 January 2017 Non-executive Chair to 7 September 2016 Audit & Risk Committee Chair to 14 September 2016
Sheena Cowan	Non-executive Director Acting Non-executive Chair from 8 September 2016 to 31 March 2017
Gillian Thompson	Non-executive Director from 1 September 2016 Non-executive Chair from 1 April 2017
Stuart Smith	Non-executive Director from 15 September 2016 Acting Audit & Risk Committee Chair from 15 September 2016, and Audit & Risk Committee Chair from 1 April 2017
Alistair Brown	Non-executive Director nominated by the Director General Finance, Scottish Government to 14 February 2017

Eleanor Emberson	Non-executive Director nominated by the Director General Finance, Scottish Government from 15 February 2017
Liz Holmes	Co-opted member of Audit and Risk Committee from 11 April 2016

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

On 3 July 2017, Penelope Cooper was appointed Chief Executive and Accountable Officer of the Agency.

2.1.3 Personal data related incidents

Through consultation with Office of Protective Security (i.e. the body to whom data breaches are reported), the Agency established that only details of 'serious' breaches (i.e. those that will cause harm or reputational damage) need to be submitted. This is outlined within the Memorandum of Understanding between the Agency and Scottish Ministers. There were no incidents that met the criteria in the Memorandum for reporting to the Office of Protective Security.

2.1.4 People Strategy

The refreshed People Strategy completed in 2016-17 contains a 'nine-point plan' which is regularly reviewed, and progress against an action plan is published on the Agency's intranet site.

The Strategy is underpinned by the Civil Service values of integrity, honesty, impartiality and objectivity and is led by the following five key themes:

- being a supportive and fair employer
- supporting and influencing leaders and managers
- supporting staff and customer engagement
- supporting and encouraging achievement
- supporting and influencing organisational change.

These themes run in parallel with a nine-point plan for 2016-19. The nine points are:

- increase leadership visibility
- increase team working
- increase leadership and management effectiveness
- develop personal growth
- promote culture well-being/health
- give back to society
- promote a fair deal for staff
- make SPPA somewhere you want to join/stay
- embed a workforce planning methodology.

2.1.5 Human Resource (HR) policies and culture

The HR role within the Corporate Services Directorate adheres to Scottish Government policies and current employment law. Over the last year the HR Team has held a series of awareness sessions for managers and staff covering attendance management, performance management and flexible working. The team also holds regular staff drop-in sessions and has supported managers through the Scottish Government's recruitment policy.

The Agency supports a wide range of family-friendly policies such as flexible working (including alternative working patterns), parental leave, paternity leave, special leave, career break opportunities, and childcare vouchers. These policies help attract high quality external applicants and create interest from the local workforce.

The Agency encourages staff to participate in both the business planning process and objective setting, and recognises the importance of 'monthly conversations' between managers and team members giving individuals an opportunity to discuss performance, well-being, and training and development needs.

2.1.6 SPPA People Survey

As an Agency of the Scottish Government, staff are invited to participate in the annual civil service People Survey. Over the last three years, during a period of significant change, there have been some challenging results and this trend continued in 2016-17 when 263 people completed the Survey. 'Core Skills' events were held off-site in preparation for the launch of the refreshed People Strategy and conducting the 2016 Survey. As a result of the findings from an analysis of the Survey results and the feedback from the Core Skills events, the Strategic Leadership Team have taken forward key recommendations to improve staff engagement and morale.

People Network

A People Network was introduced comprising volunteers from each directorate, staff grade and the local union with the main objective to create a well-informed workforce with a clear understanding of the Agency's strategic objectives, policies and guidance.

Equality and diversity

In-house courses were run for staff during the year which was supplemented by an independent assessment of behaviours and culture relating to adherence to principles of equality and diversity.

Leadership

An independent review of leadership and development took place. Actions arising from the review commenced with a skills gap analysis of band B3 manager grade and above which will help to develop the Agency's Learning and Development Strategy for 2017-19 and corporate training plan for the year ahead.

Introduction of new band A4 staff

As a direct result of the 2015 People Survey the Agency approved the recruitment of the band A4 administrative grade. This was a significant change in the structure and culture of the Agency, and in August 2016, following an initial workforce planning exercise that spanned five months, the Agency completed the recruitment of 21 new posts into the Operations Directorate.

The focus of attention in 2017-18 will be to continue to address the 'leadership and management' issues raised in the 2016 Survey and the workload issues that will arise as part of the 'One SPPA' change agenda and Project 17. The structure of the Corporate Services Directorate will be changed to become more reflective of the need to help deliver greater staff engagement and facilitate greater learning and development. The new approach will be supported by the Head of People Services and a clear separation of HR Manager and Learning and Development Manager roles.

2.1.7 Investors in People (IiP)

In January 2017 the Agency was successful once again in retaining its 'Gold' IiP accreditation against the 5th generation framework, a level first achieved in 2012. This was an excellent achievement and one that came after a long period of significant change in the Agency.

The findings from the IiP report reinforced the need to implement the People Strategy action plan and the People Survey analysis and recommendations. The focus in 2017 has been in recognising the skills of our people and creating the right development opportunities which will also support the needs of the business. Establishing a consistent approach to succession planning to support future growth plans is also in progress.

2.1.8 Youth employment

The Agency has been able to support the ambitious Modern Apprenticeship Programme (MAP) targets set by the Scottish Government. Four modern apprentice staff were recruited in 2016-17 and a further eight originally recruited in 2015-16 were successful in gaining permanent posts. The Programme has been a very positive and successful addition to the Agency's recruitment process and will be supported through 2017-18 with further recruitment opportunities.

Local school career fairs and career days have been attended to promote the Agency and the Scottish Government and support continues to be given to student placements, work experience and pupil placements on an on-going basis.

2.1.9 Health and safety

The Agency continues to provide a safe and healthy working environment for all staff. In order to maintain this standard, the Facilities Team are currently working towards attaining the National General Certificate in Occupational Health & Safety. The qualification covers the main legal requirements for health and safety in the UK, identification and control of workplace hazards, and the practical application of this knowledge. Training for staff has also included attendance at first aid refresher courses which provides accreditation for a three year period.

The Scottish Government's Health and Safety Management Systems and procedures are applied, and to ensure this, the Agency:

- has a Health and Safety Committee
- works in partnership with Trade Union representatives to address any safety issues
- encourages a pro-active safety culture
- has a number of Health and Safety Liaison officers
- completes inspections and workplace assessments
- holds annual reviews of risk assessments which are reported to the Management Advisory Board
- completes quarterly workplace assessments
- completes weekly fire alarm testing and quarterly fire prevention inspections
- implements all legislative requirements.

As a result of these procedures, reportable incidents are low with two minor cases reported in 2016-17 requiring first aid (2015-16: five cases).

2.1.10 Employee relations – working in partnership

The Agency recognises the importance of good industrial relations and is committed to effective employee communications. This is reinforced with the introduction of monthly staff briefing sessions called 'Starbursts' delivered by members of the SLT and the 'Ask SLT/Chief Executive Officer' quarterly sessions. The Agency has also recently reviewed and re-issued the SPPA 'Open Door' policy. In addition, staff notices are issued, and a staff newsletter 'Insights' published.

The Agency's HR team and local Trade Union members have worked closely on Agency-wide initiatives such as the introduction of the A4 staff grade and continue to hold monthly meetings to discuss issues or staff concerns. The half-yearly 'Partnership' meetings also provides the means for representatives of staff and management to discuss matters of concern or mutual interest and is based on a Partnership Agreement.

2.1.11 Equality and diversity

The Agency is an equal opportunities employer and follows the Scottish Government's commitment to treat everyone with dignity and respect. The Agency is also committed to meeting its public sector duties under the Equality Act 2010.

Policies are in place to guard against discrimination, and as an Agency of the Scottish Government, the [Race Equality Framework for Scotland 2016-2030](#) is adhered to with on-going development of in-house structures and systems to ensure that equality is an integral part of thinking and behaviour. The Scottish Government's [Equality Outcomes and Mainstreaming Report 2017](#) includes information provided by the Agency.

Where the Agency has introduced a new or revised policy, an Equality Impact Assessment is prepared and published as a Scottish Government publication, and can be referenced at [Equality Impact Assessment Search](#).

The Agency continues to support alternative working and 83 members of staff (2015-16: 75) currently work part-time with a further 10 full-time staff working contracted alternative working patterns.

2.1.12 Human rights

Non-discrimination is a cross-cutting principle in international human rights law. The principle is present in all the major human rights treaties and provides the central theme of some international human rights conventions such as the International Convention on the Elimination of All Forms of Racial Discrimination and the Convention on the Elimination of All Forms of Discrimination against Women.

The principle applies to everyone in relation to all human rights and freedoms and is enshrined in Scottish Government's employment policies. They prohibit discrimination on the basis of a list of non-exhaustive categories such as sex, race and ethnic origin, religion and belief, disability, age and sexual orientation. The principle of non-discrimination is complemented by the principle of equality, as stated in Article 1 of the Universal Declaration of Human Rights.

2.1.13 Corporate social responsibility (CSR)

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.

Through its policies, the Agency seeks to make a difference across a range of areas that encompass corporate social responsibility. Also staff make, and will continue to make, a contribution to communities not just in the Scottish Borders but across Scotland. The sense of responsibility towards the community (socially, economically and environmentally) in which we operate contributes to the Scottish Government's National Performance Framework.

Some of the areas where CSR policies have made a difference are expanded and summarised below.

Environmental

- looking to widen the scope of materials recycled at the Tweedbank office
- encouraging the use of the new Scottish Borders Railway, cycling and car share arrangements
- encouraging the use of virtual meetings either through tele-conferencing or video-conferencing.

Social and Philanthropic

- facilitating more volunteering in the community
- provision of multi-media sites in the building to promote information sharing on a range of work and social subjects from a range of in-house and external information sources
- encouraging fundraising events held for annually nominated charities
- supporting 'healthy working lives' classes and activity groups.

Economic

- fifth year of recruiting new employees under the Scottish Government's Modern Apprentice Programme
- contributing to further cost reduction initiatives incorporating the principles set out in the Agency's new Procurement Strategy
- building an on-line police pension calculator to provide scheme members with the information and tools needed to make more informed decisions about retirement and therefore help optimise their income stream in retirement.

Legal and Regulatory

- prioritising funding for the Disability Discrimination Act 1995 compliant estate
- building disability needs into new pension service software design
- prioritising customer centred approaches to enable compliance with the UK Pension Regulator guidance.

Ethical

- building an ethical approach into Agency policy and practices such as debt recovery and bad debts write-offs
- considering the wider interests of stakeholders in decision making including the use of Impact Assessments
- facilitating greater use of flexible working arrangements for staff in response to changes in shortened local school opening times on Fridays.

The Agency continues to support health and wellbeing policies for staff and the 'Healthy Working Lives' initiative and maintain its 'gold' accreditation. The initiative encompasses:

- health awareness information using a dedicated intranet page and staff information stand
- smoking cessation advice
- a link through the Scottish Government to a Health and Wellbeing Programme and Employee Assistance Service
- on-site influenza vaccination
- facilitation of a running group, yoga classes and social events.

2.1.14 Sustainable environment

The Agency is conscious that it has a part to play in meeting the Scottish Government's environmental targets as well as contributing to the wider social and economic sustainability agenda. The Agency is committed to improving environmental performance as part of the wider commitment to sustainable development. The Agency recognises that it has a legal and ethical responsibility to protect and enhance the environment and is working towards sustainable practices in the use and disposal of materials, energy, and transport and landscape management.

Where there are opportunities to build sustainability into planning this will continue. A commitment to sustainability is built into SPPA business cases, the Procurement Strategy and 'Invitations to Tender'.

In terms of the contract for the PS Pension software system with Capita Employee Benefits, which is a part of Capita Plc, the company undertook to reduce consumption of materials and harmful emissions as part of the goods and services it procured and provided. Capita also run a national apprenticeship programme that benefits 1,000 young people per annum and is aimed at developing their skills and knowledge and secure a nationally recognised qualification. The Capita apprenticeship scheme is in addition to the Agency's modern apprentice programme which commenced in 2012.

The Agency runs the Scottish Government's EASEbuy e-procurement system that carries out a three-way matching of orders, goods received and invoices for day-to-day business procurement needs.

The Agency looks to streamline contracts when they fall due as it did when a number of existing facilities management contracts were consolidated into a new contract with Sodexo UK.

The Scottish Borders Railway's opening in September 2015 has transformed the transportation landscape for the local population and staff at the Agency and has opened up the possibility of door-to-door rail travel from the Tweedbank office to Scottish Government offices in Edinburgh in little over an hour. This option has reduced the call on the travel and subsistence allowance in addition to reducing greenhouse gases by migrating from car to train. The Tweedbank to Edinburgh service also provides a feeder system to further pan-Scotland transport connections.

The Agency also benefits from the use of teleconferencing, videoconferencing, 'clickshare' technology for document access and sharing. 'Wi-Fi' for staff and visitors linked into the Scottish Government's 'Scots' network is available to visitors to the Agency now attending Pension Board meetings, in addition to other governance meetings. The use of technology in these areas obviates the need to carry much, if not all, of the papers normally associated with attending meetings.

The office building at Tweedbank 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.

The Agency has 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. Efforts to improve environmental performance, increase energy efficiency, and, where possible, minimise its use of resources continues. The Agency sets environmental targets in carbon emissions, gas and electricity usage, water consumption and waste recycling. The targets for carbon emissions, electricity, and water were met in 2016-17. Further information about the Agency's performance during the year can be found on the SPPA website.

2.1.15 Risk management strategy

Risk Management is a key element in the Agency's governance arrangements. The Agency uses the Scottish Public Finance Manual as the basis of risk management policy setting and also uses the approach laid out in the Scottish Government publication 'Our Approach to Risk Management': November 2013 for managing risk across the Agency.

The Agency has a Corporate Risk Register, which is reviewed quarterly by the Strategic Leadership Team. The Corporate Risk Register is underpinned by work carried out by the Risk Governance Group which was set up in October 2016 and has since been charged with ensuring the Strategy is delivered and risk management is embedded into the Agency.

The Management Advisory Board provides high-level governance and strategic oversight of the Agency and is supported by an effective Audit and Risk Committee, which examines the changes to the Corporate Risk Register on a quarterly basis and takes into account the risk emanating from the environment.

2.1.16 Counter Fraud

For the 2016-17 'National Fraud Initiative' (NFI), the Agency uploaded data for 172,000 NHSPSS and STPS pensioners and 74,000 deferred members in October 2016. The returned data matches from the NFI Team to participating bodies were received at the end of January 2017. Data analysis has since taken place to identify the response required in error cases relating to mortality, re-employment, and changes in deferred members circumstances. In a number of cases requiring further action, work has been carried out to recover overpaid pensions. Information provided by the matches was also used to update deferred members' records. There were no cases, however, of fraud or conspiracy to defraud that required police investigation.

2.1.17 Auditors

The accounts are audited by Audit Scotland. The notional fees are reported in the Financial statements 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 Directorate; the scope of work of Internal Audit is determined following discussion with management and is subject to approval by the Audit and Risk Committee.

2.1.18 Date accounts authorised for issue

The Accountable Officer authorised these financial statements for issue on 25 July 2017.

2.1.19 Accounts direction

The 2016-17 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.

2.2 Statement of Accountable Officer'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 59 of these financial statements, detailing the resources required, held or disposed of during the year and the use of resources by the Agency during the year.

The accounts are prepared on an accruals basis and must give a true and fair view of the Agency's state of affairs at the year-end; and of its 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.

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.

I confirm, as the Accountable Officer, that the annual report and accounts as a whole is fair, balanced and understandable. I take personal responsibility for the annual report and accounts and the judgements required for determining that it is fair, balanced and understandable.

2.3 Governance statement

2.3.1 Governance framework

Agency's Framework Document

In terms of governance, the Agency is responsible for putting into place sound governance arrangements to provide accountability and direction so as to positively influence behaviour and cultures. The principal source of reference for the Agency governance is the 'Framework Document' agreed with Scottish Ministers that describes and sets out the:

- responsibilities of the SPPA and Scottish Ministers
- relationship between the SPPA and the Scottish Ministers
- Agency's objectives & performance measures
- management & resources framework within which the SPPA operates.

Management Advisory Board

This follows the model set out in the Scottish Government's publication 'On Board: A Guide for Members of Management Advisory Boards'. It is designed to include non-executive members who act in an advisory capacity to the SPPA's Accountable Officer (Chief Executive) and are, therefore, neither personally or collectively accountable for the Agency's performance. Having considered 'On Board' and to better describe its purpose, the Agency took the decision before the year end to rename the Corporate Board as the Management Advisory Board.

The Management Advisory Board over the last year has benefited from an experienced cohort of four non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'. The Agency's five Executive Directors and the Chairs of Scotland's NHS, Teachers', Police & Firefighters' Pension Boards are also invited to attend meetings of the Management Advisory Board.

During the year, the Management Advisory Board was scheduled to meet twice but has also met outwith the regular cycle to consider strategic issues. The Board's work has included:

- considering the content of Agency's Annual Business Plan and the content of a three-year Corporate Plan 2016-2017 to 2018-19
- receiving reports from the Chief Executive on the Agency's progress in meeting plan targets and reports on key performance indicators
- receiving reports from the Audit and Risk Committee
- receiving updates on: budgetary issues and internal financial management from the Director of Finance; relevant matters of pension policy from the Director of Policy; and progress in achieving the Agency's 'One SPPA' programme including 'Project 17' (described below) from the Programme Director
- considering strategy documents including a new People Strategy and associated 9-point Plan, Communications Plan and Learning and Development Plan considering the Agency's draft Annual Report and Accounts and drafts for the NHS Scotland and Scottish Teachers' Pension Schemes
- considering the risk environment including threats to the long-term ability of the Agency to meet its objectives.

Pension and Scheme Advisory Boards

SPPA takes the day-to-day role of Scheme Manager as set out in the Public Service Pensions Act 2013 (the PSP Act) for Scotland's NHS, Teachers', Police and Firefighters' pension schemes, as delegated by Scottish Ministers. It should be noted, though, that from a financial perspective for the Police and Firefighters' schemes, 'administration' includes the provision of financial services but not budget or financial management. The Agency's policy function also acts as the key policy adviser

and custodian of scheme regulations for the four schemes administered nationally by the Agency (as above) and for the locally managed LGPS.

The PSP Act introduced wide-ranging reform of the design and governance of public service pensions from 1 April 2015, including the schemes for which the Agency acts as policy lead. SPPA oversees the governance framework put in place under the PSP Act, in particular:

- supporting Scotland's statutory NHS, Teachers', Police and Firefighters' Pension Boards which assist the Scheme Manager of those schemes in securing compliance with regulatory requirements
- supporting Scheme Advisory Boards of those four and Scotland's Local Government pension scheme which, at the request of the Responsible Authority, and together with the Agency's policy function, provide advice to it
- providing secretariat services to and attending the NHS, Teachers', Police and Firefighters' Pension Boards
- participating in and providing general and technical pensions policy advice to the tri-partite Scheme Advisory Boards for the Police, Fire-fighters' (which SPPA officials have hitherto chaired on behalf of the Scottish Government), NHS and Teachers' Scheme Advisory Boards
- representing the Scottish Government as observers on and providing general and technical pensions policy advice to the bi-partite LGPS Scheme Advisory Board.

The Agency has no role, beyond the development and maintenance of related scheme regulations, in the administrative management of the eleven Pension Boards which assist the eleven scheme managers for the LGPS in Scotland.

In line with a Scottish Government commitment made during the 2015 reforms, the Agency commissioned independent consultants to review the effectiveness of the operation of the scheme governance arrangements introduced under the PSP Act. Recommendations approved by Scottish Ministers will be taken forward in conjunction with all five scheme advisory boards and fifteen pension boards as part of the Agency's 2017-18 work programme.

Strategic Leadership Team and Management Board

Strategic Leadership Team (SLT) meetings are held fortnightly and have included one meeting at the end of each month designated as a Management Board (MB). The Team comprises the Chief Executive and Directors of Corporate Services, Finance, Operations and Policy, in addition to the Head of Operational Transformation and Programme Director. During the year it also included the Deputy Chief Executive. These meetings focus on key, short-term deliverables and actions.

Monthly MB meetings also include some non-executive directors. An overall Agency Progress Report is tabled covering operational, financial, business support, programme and policy updates and any cross-cutting issues. As an attendee of weekly and quarterly assurance meetings of Scottish Government's Finance Directorate leadership team, the Chief Executive also relays Scottish Administration-wide and strategic issues. MB meetings typically have a planning horizon of, at least, the next quarter.

Audit and Risk Committee

The Management Advisory Board is supported by an Audit and Risk Committee which comprises three non-executive members of the Board and has met formally five times over the year. The Committee's work has included:

- reviewing the Agency's risks and risk management processes to provide assurance to the Accountable Officer and Management Advisory Board
- directing the work of Internal Audit, receiving progress updates and an annual assurance statement
- receiving reports from Internal Audit on the progress and conclusions of its work
- reviewing Audit Scotland's annual audit plan and reports

- receiving reports from the Agency's management on: fraud; security breaches; losses; internal controls; and, finance policies
- receiving reports on counter fraud and corruption, security, health and safety and, if applicable, bribery and whistle-blowing
- reviewing the Agency's budget and out-turn position alongside financial performance against key metrics
- reviewing the Agency's Annual Report and Accounts and STPS and NHSPSS Annual Report and Accounts and receiving an Annual Report from Audit Scotland
- reviewing a new version of the Corporate Risk Register (in October 2016) incorporating changes based on recommendations proposed by the interim Head of Security (an external consultant operating on a short-term commission)
- reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate).

Project 17 Board

The Agency has a formal project board for 'Project 17' - a project to replace existing pension administration and payroll systems with an integrated multi-scheme pension administration and pensioner payroll digital solution, including web-based member and employer services. The Board is chaired by the Chief Executive who operates as Senior Responsible Officer for the project and currently comprises relevant senior SPPA management in specific project roles (Senior User, etc.), representatives of the strategic supplier (Capita Employee Benefits), the Agency's 'Fraser Figure' and the Scottish Government Chief Information Officer. Non-executive directors have attended some meetings, in an observational capacity. The main objective of the Board is to ensure the successful implementation of the new system (PSPensions) without disruption to existing services, as soon as practicable, taking into account the need for service and process redesign. Summary progress reports are also considered by the Management Advisory Board and Audit and Risk Committee on any major risk, governance and control issue.

2.3.2 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.

2.3.3 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 customers and other stakeholders, and being fully accountable for its actions. The Agency complies with the guidance contained in the SPFM and guidance note 2 of "On Board: A Guide for Members of Management Advisory Boards" published by Scottish Government.

2.3.4 Performance during the year

Data assurance

An undertaking to report 'serious' breaches to the Scottish Government's Office of Protective Security is outlined within a Memorandum of Understanding and agreed with Scottish Ministers. During the reporting period, the Agency further improved its processes concerning personal data breach

management. The Agency records and reports any breach to the Audit and Risk Committee even if escalation to the Scottish Government is not warranted under the Memorandum.

During 2016-17, three security breaches were reported, though each was assessed as 'minor'. In total, details of nine 'minor' breaches were recorded by the Head of Security. Eight of the breaches were attributable to human error and one as a result of a mechanical error with an enveloping machine. To address training issues, the Agency has mandatory training in the following areas:

- face to face induction for all new members of staff on data protection
- on line Data Protection Act learning modules
- on-line 'Responsible for information – general user' training.

The interim Head of Security undertook a full review of all aspects of SPPA security, including: cyber security, physical (building) security, information assurance, records management and risk management and recommendations were taken forward by members of the Agency's SLT.

Information assurance

Staff are reminded through the SPPA Information Management Strategy that it is their responsibility to know where information is held, how to retrieve it and to understand what can be shared. The Agency provides staff with appropriate training and guidance to enforce compliance with standards in the protection of information assets to enable the organisation to function more effectively, safely and securely.

The Agency's Information Assurance Framework documents evidence the actions, procedures and policies undertaken by the Agency to meet the standards and best practice guidelines set out by the HMG Security Policy Framework. This forms part of SPPA's strategic approach to Information Assurance. The annual assessment carried out demonstrated, once again, that improvements had been made over the previous year.

An independent analysis of information assurance and records management was undertaken by the interim Head of Security. As part of the scope of the reviews, assurances were provided on disaster recovery and business continuity procedures (as tested in October 2016); information and data management back-up protocols, staff awareness and training and information management and strategy.

External Audit

The governance and transparency in operation and the effectiveness of the risk and control framework is informed by comments made by Audit Scotland in letters to management and other reports shared with members of the Audit & Risk Committee including the Annual Audit Report to Members and the Auditor General for Scotland.

In the Annual Audit Report issued on 17 October 2016 it was reported that 'overall we concluded that SPPA had appropriate governance arrangements in place' and the 'system of internal control operated effectively during 2015-16'. The Annual Audit Report for 2016-17 will be issued after the financial year end (expected reporting date, September 2017). It should be noted that Audit Scotland place reliance where practicable on the work performed by Internal Audit.

Internal Audit

The Agency directs the work of Internal Audit, informed by the Agency's Risk Registers, it's Assurance Map and by an audit needs assessment undertaken by the audit team. 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 2016-17, Internal Audit finalised or is in the process of finalising reviews of:

- implications of the GAD v Milne case and Guaranteed Minimum Pensions calculations on the Agency's business (substantial assurance)
- bank receipts and collection process (reasonable assurance)
- contract management arrangements for the integrated pension administration and payroll system (ongoing)
- customer satisfaction and culture (ongoing)
- follow-up reviews on previous audits.

Internal Audit have provided the Accountable Officer with a Reasonable Assurance opinion for 2016-17 on the risk management, internal control and standards of governance applied across the Agency.

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 internal controls include financial delegations and policies include those on counter fraud and corruption, bribery and whistleblowing, which are approved by the SLT and reviewed by the Audit and Risk Committee. Policies are reviewed and refreshed at pre-determined intervals. Any reportable breaches of health and safety would also be reported to the Audit and Risk Committee with a view to reviewing the efficacy of internal controls.

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 is generally tested annually and the most recent test took place on 21 October 2016. Key findings are fed back to the SLT and changes are made to the Plan in the light of lessons learned.

Pension liabilities

The Agency relies on the work of experts. This includes taking advice from the Government Actuary's Department on matters including, but not limited to, the annual assessment of the value of pension liabilities.

2.3.5 Corporate governance changes

The Agency received a report from the interim Head of Security which made a valuable contribution to the operation of risk management in the Agency. The Agency has previously relied upon a comprehensive set of risk registers at directorate and agency level which were reviewed quarterly by the SLT. From October 2016, the Agency set up a Risk Governance Group to look in more detail at Agency-wide risks prior to consideration by the SLT thereby improving on the bottom-up and top-down approach.

The position of Head of Security was filled on a permanent basis from August 2016. The main areas of responsibility for the post include:

- data protection (including implementing general data protection regulations)
- data security
- records management
- information assurance
- protective security (physical and personnel security)
- business continuity.

Governance arrangements for Project 17 were strengthened by the involvement of a skilled, independent specialist team commissioned through the Scottish Government's Office of the Chief Information Officer. That team carried out an in-depth assurance 'health check' of the project in October and November 2016. The review findings were shared with the strategic supplier, which participated fully in the health check, and its recommendations formed the basis of a further strengthening of project controls and project management arrangements in the Agency.

During the year, there were a number of executive and non-executive personnel changes (see paragraph 2.1.2 Directors and management structure). These included temporary changes in Chief Executive responsibilities and further development of non-executive roles

The gender balance of non-executive members on the Board at 31 March 2017 was 75:25 female to male and the balance of executive directors was 50:50.

Both the Board and the Audit and Risk Committee carried out a self-assessment of their effectiveness in 2016-17 using criteria set by the Scottish Government. Both were deemed to be effective in carrying out their functions. Also the Audit and Risk Committee provided a full account of its activities to the Management Advisory Board.

Corporate governance arrangements are considered to comply with generally accepted best practice principles and relevant guidance.

2.3.6 The Agency's risk management arrangements and risk profile

The Agency maintains a Corporate Risk Register that covers all areas of activity, in compliance with the guidance contained in the SPFM. In addition, in line with expectations set out in guidance by The Pensions Regulator, risk registers are in place for each of the four pension schemes that the Agency administers. Risks in relation to significant projects, including Project 17 and the Agency's four directorates are reviewed by a Risk Governance Group set up during the year to ensure that adequate attention is being paid to identifying and managing risk. The identification of risks and associated controls have emerged from audit reviews, business planning sessions, away-days, regular team meetings and Risk Governance Group meetings. Similarly, the Agency's management team and non-executive directors consider changes to the strategic landscape which might generate risks for assessment and possible inclusion in the Corporate Risk Register. The Agency's top three 'red' risks for 2016-17 were:

- successful implementation of integrated pension admin and payroll system via Project 17 without disruption to core business (refer to paragraph 1.5.6 for further information)
- timely delivery of all GMP pension scheme administration and management responsibilities by December 2018 (refer to paragraph 1.5.1 for further information)
- compliance with TPR Code of Practice 14 and meeting the expectations of all key stakeholders, including the Pensions Regulator (the significance of producing members' annual benefit statements as part of performance targets and in compliance with agreed deadlines is amplified in paragraph 1.4.1)

Risk management arrangements are considered to comply with generally accepted best practice principles and relevant guidance.

2.3.7 Best value

The Accountable Officer has a duty to secure Best Value in the services the Agency provides. Best Value principles are embedded in the Agency's planning, governance and business decision arrangements. For instance, staff fully participate in the business planning process and output from events is compiled and communicated to staff through formal and informal communication channels.

The Agency uses a range of mechanisms to obtain feedback from its customers and stakeholders. Input from Pension Boards, customer insights across schemes, desk-top research and data routinely

gathered on customer service from surveys and comments and complaint supports a user-centred approach. Ultimately, as a replacement for annual customer satisfaction surveys, the SPPA introduced a continuous customer satisfaction survey to gather and act on real-time feedback on services and service levels provided. Though take-up rates remain an issue, this information is utilised by directorates to look at opportunities to improve service delivery.

For a number of years the Agency has taken part in an independent, international benchmarking programme. Operated by CEM benchmarking on a commercial basis, this compares the Agency's quality and costs of service across a range of activities common to comparable pensions administration organisations in the UK and wider afield. The results of the 2016 CEM benchmarking survey are provided at paragraph 1.5.9.

The Agency continues to participate in the 'Investors in People' accreditation programme and retained 'Gold' status, first achieved in 2012, in 2016-17.

In October 2016, the Agency participated in a UK Government-led annual staff survey for civil servants which identified a staff engagement level of 54%, the same as for the previous year. In response to the results, the Agency carried out a number of initiatives to improve leadership and management skills, including around behaviours. It established a People Network comprising representatives from a range of grades, directorates and from the trade union colleagues, which continues to provide an excellent sounding board on and a source of new ideas to improve staff engagement.

2.3.8 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, the Chief Executive 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 Strategy and Operations in respect of the Scottish Government's human resources and payroll systems that are shared with the Agency.

Remuneration and staff report

2.4 Remuneration report

2.4.1 Remuneration policy

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 <http://civilservicecommission.independent.gov.uk/>.

2.4.2 Remuneration disclosure

2.4.2.1 Non-Executive Directors

The non-executive directors are not salaried, but received the following in fees and expenses in connection with their duties:

	2016-17	2015-16
	£000	£000
Alistair Brown	0-5	n/a
Sheena Cowan	0-5	0-5
Eleanor Emberson	0-5	n/a
Alex Smith (to January 2017)	0-5	0-5
Stuart Smith (from September 2016)	0-5	n/a
Alyson Stafford	n/a	0-5
Gillian Thompson (from September 2016)	5-10	n/a

2.4.2.2 Strategic Leadership Team

The following sections provide details of the remuneration and pension entitlements of the Strategic Leadership Team of the Agency.

Remuneration (audited information)

Name and Title	2016-17			2015-16		
	Salary	Pension benefits	Total	Salary	Pension benefits	Total
	£000	£000	£000	£000	£000	£000
Ross Paterson Chief Executive FTE 0.92 (to 19 March 2017)	75-80 (part year salary, 75-80 full year equivalent)	30	105-110	65-70 (part year salary, 75-80 full year equivalent)	26	90-95
Chad Dawtry Interim Chief Executive (refer to 2.1.2 for positions held during 2016-17)	65-70	29	95-100	65-70	25	90-95
Nicolette Harrison Interim Chief Executive (to 26 June 2015)	n/a	n/a	n/a	15-20 (part year salary, 75-80 full year equivalent)	12	30-35
Pamela Brown Head of Operations Transformation (refer to 2.1.2 for positions held during 2016-17)	65-70	3	70-75	65-70	24	90-95
Ian Waugh Director of Finance	60-65	38	95-100	55-60	28	85-90
Marion Chapman Director of Corporate Services	60-65	33	90-95	55-60	32	85-90
Susan Gray Director of Business Change Programme FTE 0.95 (to 31 July 2016)	15-20 (part year salary, 50-55 full year equivalent)	7	20-25	50-55	21	70-75

Eleanor Guthrie Acting Director of Operations (from 1 September 2016)	35-40 (part year salary, 65-70 full year equivalent)	17	55-60	n/a	n/a	n/a
Lorimer Mackenzie Acting Director of Policy (from 7 September 2016)	40-45 (part year salary, 70-75 full year equivalent)	12	50-55	n/a	n/a	n/a

No director received any bonus payments or benefits in kind during the year ended 31 March 2017.

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.

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 2016-17 was £75k-£80k (2015-16: £75k-£80k). This was 4.0 times (2015-16: 4.0) the median remuneration of the workforce, which was £19,582 (2015-16: £19,182). Staff remuneration across SPPA ranged from £5k-£10k (reflecting part-time working patterns) to £75k-£80k (2015-16: £5k-£10k to £75k-£80k).

2.4.2.3 Compensation on early retirement or loss of office

SPPA made no compensation payments to any of the Strategic Leadership Team during 2016-17.

2.4.2.4 Pension benefits (audited information)

Name and title	Real increase/ (decrease) in pension and lump sum at pension age	Total accrued pension at pension age as at 31 March 17 and related lump sum	CETV at 31 March 17	CETV at 31 March 16*	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000
Ross Paterson Chief Executive FTE 0.92 (to 19 March 2017)	0-2.5 and 0- 2.5 lump sum	0-5 and 0-5 lump sum	42	19	17

Chad Dawtry Interim Chief Executive (refer to 2.1.2 for positions held during 2016-17)	0-2.5 and 2.5-5 lump sum	15-20 plus 50-55 lump sum	361	318	26
Pamela Brown Head of Operations Transformation (refer to 2.1.2 for positions held during 2016-17)	0-2.5 and 0- 2.5 lump sum	30-35 plus 95-100 lump sum	678	646	2
Ian Waugh Director of Finance	0-2.5 and 2.5-5 lump sum	15-20 plus 50-55 lump sum	416	360	39
Marion Chapman Director of Corporate Services	0-2.5 and 2.5-5 lump sum	20-25 plus 60-65 lump sum	434	386	29
Susan Gray Director of Business Change Programme FTE 0.95 (to 31 July 2016)	0-2.5 and 0- 2.5 lump sum	5-10 plus 0- 5 lump sum	68	65	2
Eleanor Guthrie Acting Director of Operations (from 1 September 2016)	0-2.5 and 0- 2.5 lump sum	10-15 plus 0-5 lump sum	175	157	10
Lorimer Mackenzie Acting Director of Policy (from 7 September 2016)	0-2.5 and 0- 2.5 lump sum	35-40 plus 0-5 lump sum	670	635	11

*The figure may be different from the closing figure in last year's accounts. This is due to the cash equivalent transfer value (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.

2.4.2.5 Civil Service Pension Scheme

Background

The following information has not been subject to audit.

Pension benefits are provided through the Civil Service pension arrangements. From 1 April 2015 a new pension scheme for civil servants was introduced – the Civil Servants and Others Pension Scheme or **alpha**, which provides benefits on a career average basis with a normal pension age equal to the member's State Pension Age (or 65 if higher). From that date all newly appointed civil servants and the majority of those already in service joined **alpha**. Prior to that date, civil servants participated in the Principal Civil Service Pension Scheme (PCSPS). The PCSPS has four sections: three providing benefits on a final salary basis (**classic**, **premium** or **classic plus**) with a normal pension age of 60; and one providing benefits on a whole career basis (**nuvos**) with a normal pension age of 65.

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**, **nuvos** and **alpha** are increased annually in line with Pensions Increase legislation. Existing members of the PCSPS who were within 10 years of their normal pension age on 1 April 2012 remained in the PCSPS after 1 April 2015. Those who were between 10 years and 13 years and 5 months from their normal pension age on 1 April 2012 will switch into **alpha** sometime between 1 June 2015 and 1 February 2022. All members who switch to **alpha** have their PCSPS benefits 'banked', with those with earlier benefits in one of the final salary sections of the PCSPS having those benefits based on their final salary when they leave **alpha**. The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes. Members joining 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 3% and 8.05% of pensionable earnings for members of **classic** (and members of **alpha** who were members of **classic** immediately before joining **alpha**) and between 4.6% and 8.05% for members of **premium**, **classic plus**, **nuvos** and all other members of **alpha**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **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. Benefits in **alpha** build up in a similar way to **nuvos**, except that the accrual rate is 2.32%. In all cases members may opt to give up (commute) pension for a 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 8% and 14.75% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of 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 0.5% 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**, 65 for members of **nuvos**, and the higher of 65 or State Pension Age for members of **alpha**. The pension figures quoted for officials show pension earned in PCSPS or **alpha** – as appropriate. Where the official has benefits in both the PCSPS and **alpha** the figure quoted is the combined value of their benefits in the two schemes, but note that part of that pension may be payable from different ages.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensionscheme.org.uk

Cash equivalent transfer values

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. 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 2008 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 as a result of salary changes and service. 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.

2.5 Staff report

2.5.1 Staff numbers, costs and pensions (subject to audit)

	2016-17	2015-16
	£000	£000
Administration costs		
Wages and salaries	6,780	6,485
Social security costs	587	415
Other pension costs	1,297	1,290
Agency staff costs	478	71
Total administration staff costs	9,142	8,261

Average number of full time equivalent persons employed	2016-17			2015-16		
	Female	Male	Total	Female	Male	Total
Senior civil servant	0	1	1	0	1	1
Senior management	3	2	5	3	2	5
Other permanent staff	135	127	262	136	111	247
Fixed term appointments	13	5	18	12	12	24
Agency staff	2	3	5	0	1	1
	153	138	291	151	127	278
Included in the numbers above						
Number of staff on capital projects			14			4

The PCSPS and **alpha** are unfunded multi-employer defined benefit schemes. 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 2012. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (<http://www.civilservicepensionscheme.org.uk>).

For 2016-17, employers' contributions of £1,287k were payable to the PCSPS/**alpha** (2015-16: £1,286k) at one of four rates in the range 20% to 24.5% (2015-16: 20% to 24.5%) of pensionable pay, based on salary bands. The Scheme Actuary reviews employer contributions usually every 4 years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2016-17 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

As stated at paragraph 2.4.2.5 above, employees can opt to open a partnership pension account, or a stakeholder pension with an employer contribution. Contributions paid by the Agency in 2016-17 were £10k (2015-16: £4k).

2.5.2 Staffing

Staff turnover for 2016-17 was 5% equating to 15 FTE members of staff (2015-16: 6% equating to 18 FTEs). Included within staff turnover were eight members of staff who left the Agency to join other Scottish Government departments.

2.5.3 Employee recruitment

Recruitment and promotion campaigns undertaken by the Agency were carried out on the basis of fair and open competition, selection on merit and in accordance with Scottish Government guidance. The Agency recruited 19 members of staff during the year on fixed term appointments.

2.5.4 Sickness absence management

The Agency's HR team monitors attendance management and supports managers in applying the Scottish Government attendance management policy which included holding staff awareness sessions during 2016-17. The total average working days lost was 8.9 per member of staff (2015-16: 9.1).

2.5.5 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.

2.5.6 Reporting of Civil Service and other compensation schemes – exit packages (subject to audit)

There were no exit packages agreed in 2016-17 for severance, early retirement or redundancy.

2.6 Parliamentary accountability report

2.6.1 Losses and special payments

There were no material losses or special payments incurred in the year to 31 March 2017.

2.6.2 Fees and charges

Information on fees and charges raised during the year are provided at note 4 to the Financial statements.

2.6.3 Remote contingent liabilities

There were no remote contingent liabilities to report as at 31 March 2017.

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke at the end.

Penelope Cooper
Chief Executive
25 July 2017

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

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 120 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.

Report on the audit of the financial statements

Opinion on financial statements

I have audited the financial statements in the annual report and accounts of Scottish Public Pensions Agency for the year ended 31 March 2017 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 Flows, the Statement of Changes in Taxpayers' Equity and notes to the accounts, including a summary of significant accounting policies. 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 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In my opinion the accompanying 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 2017 and of its net expenditure 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 2016/17 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.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on regularity of expenditure and income

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.

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. I am responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been 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 Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.



Stephen Boyle CPFA
Assistant Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

28 July 2017

Scottish Public Pensions Agency
Financial statements 2016-17

Scottish Public Pensions Agency

Statement of comprehensive net expenditure

for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Staff costs	2	9,142	8,261
Other admin costs	3	4,561	5,071
Depreciation	5,6	4,218	3,271
Total operating costs		17,921	16,603
Operating income	4	(233)	(238)
Net operating costs		17,688	16,365
Other comprehensive expenditure			
Net (gain)/loss on revaluation of property, plant & equipment	5	(136)	(55)
Total comprehensive expenditure for the year		17,552	16,310

The above results relate to continuing activities.

The notes on pages 51 to 58 form part of these financial statements.

Scottish Public Pensions Agency

Statement of financial position

as at 31 March 2017

	Note	2016-17 £000	2015-16 £000
Non-current assets			
Tangible non-current assets	5	4,928	5,014
Intangible assets	6	3,059	5,296
Total non-current assets		7,987	10,310
Current assets			
Trade and other receivables	7.1	16,464	8,173
Total current assets		16,464	8,173
Total assets		24,451	18,483
Current liabilities			
Trade and other payables	8.1	(8,795)	(7,675)
Total current liabilities		(8,795)	(7,675)
Total assets less current liabilities		15,656	10,808
Non-current liabilities			
Trade and other payables	8.3	(16)	(21)
Total non-current liabilities		(16)	(21)
Net assets/(liabilities)		15,640	10,787
Taxpayers equity and other reserves			
General fund		15,295	10,577
Revaluation reserve		345	210
Total taxpayers equity		15,640	10,787

The notes on pages 51 to 58 form part of these financial statements.



Penelope Cooper
Chief Executive
25 July 2017

Scottish Public Pensions Agency

Statement of cash flows

for the year ended 31 March 2017

	Note	2016-17 £000	2015-16 £000
Cash flows from operating activities			
Net operating cost		(17,688)	(16,365)
Adjustments for non cash transactions			
Depreciation	5,6	4,218	3,271
Notional costs for services provided	3.3	259	290
Movements in working capital			
(Increase)/decrease in trade and other receivables		(8,291)	(746)
Increase/(decrease) in trade and other payables		1,840	884
Net cash outflow from operating activities		(19,662)	(12,666)
Cash flows from investing activities			
Purchase of tangible non-current assets		(282)	(337)
Purchase of intangible assets		(2,198)	(2,968)
Net cash outflow from investing activities		(2,480)	(3,305)
Cash flows from financing activities			
Capital element of finance lease payments		(5)	0
Net funding - Agency		16,884	16,259
Net funding - pension payments on behalf of Scottish police and fire services		5,263	(288)
Total net financing		22,142	15,971
Increase/(decrease) in cash and cash equivalents		0	0

The notes on pages 51 to 58 form part of these financial statements.

Scottish Public Pensions Agency

Statement of changes in taxpayers' equity

for the year ended 31 March 2017

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2016		10,577	210	10,787
Net gain/(loss) on revaluation of tangible non-current assets	5	0	135	135
Non cash charges - SG services	3.3	112	0	112
Non cash charges - Auditors remuneration	3.3	147	0	147
Net operating cost for the year		(17,688)	0	(17,688)
Net funding		22,147	0	22,147
Balance at 31 March 2017		15,295	345	15,640

for the year ended 31 March 2016

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2015		10,681	155	10,836
Net gain/(loss) on revaluation of tangible non-current assets	5	0	55	55
Non cash charges - SG services	3.3	133	0	133
Non cash charges - Auditors remuneration	3.3	157	0	157
Net operating cost for the year		(16,365)	0	(16,365)
Net funding		15,971	0	15,971
Balance at 31 March 2016		10,577	210	10,787

The notes on pages 51 to 58 form part of these financial statements.

Scottish Public Pensions Agency

Notes to the accounts

For the year ended 31 March 2017

1. Statement of accounting policies

These financial statements have been prepared in accordance with the Government *Financial Reporting Manual (FReM)* issued by the Financial Reporting Advisory Board (FRAB). 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 do not come in to force until future accounting periods and therefore are not yet applied to these financial statements. All new standards issued and amendments made to existing standards are reviewed by the Financial Reporting and Advisory Board (FRAB) for subsequent inclusion in the FReM in force for the year in which the changes become applicable. The standards that are considered relevant to the Agency and the anticipated impact on the accounts are as follows:

IFRS 16 – Leases

This standard was issued in January 2016 and is effective from 1 January 2019 subject to EU endorsement. The adoption of this standard will eliminate the operating lease category for the majority of leases. Instead, assets and liabilities will be recognised on a 'right of use' basis. The impact on the accounts is still to be determined.

1.1 Accounting convention

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

1.2 Property, plant and equipment

The land and buildings at Tweedbank were valued as at 31 March 2013 by the District Valuer Services of the Valuation Office Agency in the capacity of External Valuers using the Depreciated Replacement Cost method. The valuation was undertaken in accordance with IFRS standards, HM Treasury FReM, and the RICS Valuation – Professional Standards March 2012. A professional revaluation of the property will be undertaken at five yearly intervals, and appropriate indices used to restate the values in the intervening years. During intervening years, any minor additions have been reported at depreciated historic cost as a proxy for fair value.

Depreciated historic cost has been used as a proxy for the fair value of furniture and fittings, equipment, and information technology systems. All of the assets in these categories have short useful economic lives which realistically reflect the life of the asset and a depreciation charge, which provides a realistic reflection of consumption. The minimum level for capitalisation of property, plant and equipment is £1,000. Equipment assets are re-valued on the basis of indices at 31 March.

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 their valuation evenly over expected useful lives as follows:

Buildings	- 35 years (as per valuation)
Furniture and fittings	- 5 to 20 years
Equipment	- 5 to 10 years
Information technology	- 3 to 10 years

The useful economic life of individual assets is reviewed annually and the asset life adjusted accordingly.

Land is considered to have an indefinite life and is not depreciated.

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 1 to 10 years.

The useful economic life of individual assets is reviewed annually and the asset life adjusted accordingly.

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. 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 paragraph 2.5.1 of the Staff report). 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

Where output tax is charged or input VAT is recoverable, the amounts of operating costs, purchase cost of fixed assets and operating income are stated net of VAT. 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

As directed by the FReM, IAS 17 Leases and SIC15 Operating Leases apply. Where substantially all the risks and rewards of ownership of a leased property are borne by the entity, it is recorded as a non-current asset and a corresponding payable recorded in respect of the debt due to the lessor, with the interest element of the finance lease payment charged to the operating cost statement. Leases other than finance leases are treated as operating leases, and rentals payable in respect of operating

leases will be charged to the operating cost statement on a straight line basis over the term of the lease.

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.

1.10 Police & Fire services

SPPA has statutory responsibility to act as Pension Scheme Manager on behalf of Scottish Ministers and has responsibility for processing pension payments for the police and fire fighters' pension schemes under a service level agreement with PSoS and SFRS. Under its Agency status SPPA has access to and utilises Scottish Government designated bank accounts in order to carry out its functions, including that assigned in its 'Framework Agreement', for administering fire and police pensions.

Under current funding arrangements, police and fire pensions paid to members require to be reimbursed to SPPA by PSoS and SFRS. Amounts made to HMRC by SPPA relating to police and fire pensions obligations follow similar reimbursement arrangements. The account balances due at the year-end are included in SPPA's Statement of Financial Position. The temporary funding of these balances is included in the Statement of Cash Flows.

PSoS and SFRS account for pensions expenditure and the related funding from the Scottish Government in their financial statements and is, therefore, not included in SPPA's financial statements. Scottish Ministers determine the scope of SPPA's responsibilities in administering the police and fire fighters' schemes and these accounting arrangements have been agreed with them.

1.11 Going concern

The Agency receives its funding from the Scottish Government and its annual operating budget is approved and published each year, as part of the Scottish Government's budget, by the Scottish Parliament. Funding requirements have been agreed with the Scottish Government that give the Management Advisory Board reasonable expectation that the Agency will have adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in the preparation of the annual report and accounts.

2. Staff numbers, costs and pensions

Information is detailed in the Accountability Report paragraph 2.5.1.

3. Other administration costs

3.1 General administration expenses

	2016-17 £000	2015-16 £000
IT maintenance	1,896	1,789
Actuarial services	1,008	1,544
Professional & technical advisory services	339	86
Postage costs	241	412
Other minor running costs	148	164
Medical services	84	76
Training	84	70
Subscriptions	84	75
Travel and subsistence	44	55
Pension scheme sanction charges	32	43
Compensation payments	26	2
Pension levy	16	12
Communication – pension reform	0	163
	<u>4,002</u>	<u>4,491</u>

3.2 Accommodation and support services

Rates	129	125
Maintenance	17	38
Other accommodation costs	154	127
	<u>300</u>	<u>290</u>

3.3 Notional charges

Services provided by the Scottish Government	112	133
Audit fee	147	157
	<u>259</u>	<u>290</u>

Other administration costs total

	<u>4,561</u>	<u>5,071</u>
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4. Income

	2016-17 £000	2015-16 £000
Pension sharing on divorce – charges to courts and solicitors	213	215
Pension calculation services for third parties	12	12
Other income	8	11
	<u>233</u>	<u>238</u>

The analysis of income generated in the year is provided for fees and charges purposes, not for IFRS 8 purposes.

5. Property, plant & equipment

For the year ended 31 March 2017	Land	Buildings	Information technology	Equipment	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2016	420	4,225	696	239	748	6,328
Additions	0	0	54	14	17	85
Disposals	0	0	(118)	(2)	(22)	(142)
Revaluations	14	137	0	0	0	151
At 31 March 2017	434	4,362	632	251	743	6,422
Depreciation						
At 1 April 2016	0	356	311	125	522	1,314
Charged in year	0	121	118	19	49	307
Disposals	0	0	(118)	(2)	(22)	(142)
Revaluations	0	15	0	0	0	15
At 31 March 2017	0	492	311	142	549	1,494
NBV at 31 March 2017	434	3,870	321	109	194	4,928
NBV at 31 March 2016	420	3,869	385	114	226	5,014

Equipment includes assets held under finance leases with a net book value of £21k (2015-16: £26k).

For the year ended 31 March 2016	Land	Buildings	Information technology	Equipment	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2015	415	4,123	461	219	677	5,895
Additions	0	64	291	96	55	506
Disposals	0	0	(75)	(57)	0	(132)
Transfers	0	(16)	19	(19)	16	0
Revaluations	5	54	0	0	0	59
At 31 March 2016	420	4,225	696	239	748	6,328
Depreciation						
At 1 April 2015	0	232	296	189	498	1,215
Charged in year	0	120	75	8	24	227
Disposals	0	0	(75)	(57)	0	(132)
Transfers	0	0	15	(15)	0	0
Revaluations	0	4	0	0	0	4
At 31 March 2016	0	356	311	125	522	1,314
NBV at 31 March 2016	420	3,869	385	114	226	5,014
NBV at 31 March 2015	415	3,891	165	30	179	4,680

6. Intangible assets

For the year ended
31 March 2017

	Software licences £000	IT software £000	Assets under development £000	Total £000
Cost or valuation				
At 1 April 2016	1,303	16,350	515	18,168
Additions	834	47	793	1,674
Disposals	(368)	(9,639)	0	(10,007)
At 31 March 2017	1,769	6,758	1,308	9,835
Depreciation				
At 1 April 2016	423	12,449	0	12,872
Charged in year	99	3,812	0	3,911
Disposals	(368)	(9,639)	0	(10,007)
At 31 March 2017	154	6,622	0	6,776
NBV at 31 March 2017	1,615	136	1,308	3,059
NBV at 31 March 2016	880	3,901	515	5,296

For the year ended 31
March 2016

	Software licences £000	IT software £000	Assets under development £000	Total £000
Cost or valuation				
At 1 April 2015	417	13,253	2,331	16,001
Additions	886	766	515	2,167
Transfers	0	2,331	(2,331)	0
At 31 March 2016	1,303	16,350	515	18,168
Depreciation				
At 1 April 2015	386	9,442	0	9,828
Charged in year	37	3,007	0	3,044
At 31 March 2016	423	12,449	0	12,872
NBV at 31 March 2016	880	3,901	515	5,296
NBV at 31 March 2015	31	3,811	2,331	6,173

7. Trade receivables and other current assets

	2016-17	2015-16
	£000	£000
7.1 Amounts falling due within one year		
Trade receivables	19	21
Prepayments and accrued income	1,172	169
Cash in transit	8	41
Other receivables*	15,265	7,942
Total receivable within one year	16,464	8,173
7.2 Intra-government balances		
Balance with bodies external to government	16,464	8,173

*Other receivables relate to the payment of pensions on behalf of Scottish police and fire services.

8. Trade payables and other current liabilities

	2016-17	2015-16
	£000	£000
8.1 Amounts falling due within one year		
Trade payables	270	991
Accruals and deferred income	883	1,068
Taxation and social security*	7,637	5,501
Other payables	0	110
Finance lease	5	5
Total due within one year	8,795	7,675
8.2 Intra-government balances		
Balances with other central government bodies**	489	378
Balances with local authorities	0	1
Balances with bodies external to government	8,306	7,296
	8,795	7,675
8.3 Amounts falling due after more than one year		
Finance lease	16	21
Total due after one year	16	21
8.4 Intra-government balances		
Balances with bodies external to government	16	21
	16	21

*Taxation and social security liabilities relate to the payment of pensions on behalf of Scottish police and fire services.

**Includes accrued employee benefits.

9. Capital commitments

Capital commitments at 31 March 2017 not otherwise included in these accounts.

	2016-17 £000	2015-16 £000
Contracted for at 31 March	1,586	1,743

10. Commitments under leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

10.1 Obligations under operating leases comprise

	2016-17 £000	2015-16 £000
Office Equipment		
Not later than one year	11	11
Later than one year and not later than five years	4	14
	15	25

10.2 Obligations under finance leases comprise

Office Equipment		
Not later than one year	6	6
Later than one year and not later than five years	17	22
Less interest element	(2)	(2)
	21	26

11. Related-party transactions

The SPPA is a Scottish Government agency, which is therefore regarded as a related party. During the year the SPPA 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 SPPA.

12. Contingent liabilities

There were no contingent liabilities as at 31 March 2017.

13. Important events occurring after the year end

No material event has occurred after the year end which had a bearing on the accounts.



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.**

Signed by the authority of the Scottish Ministers

17 January 2006