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SCOTTISH PUBLIC PENSIONS AGENCY

Annual Report and Accounts 2017-18

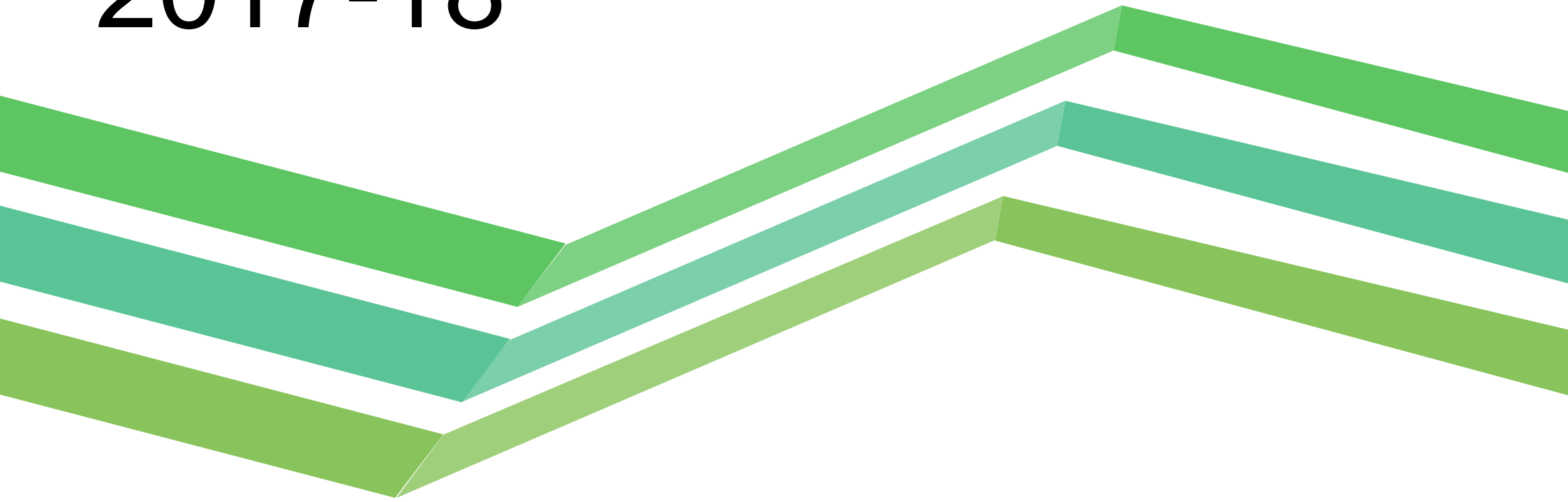


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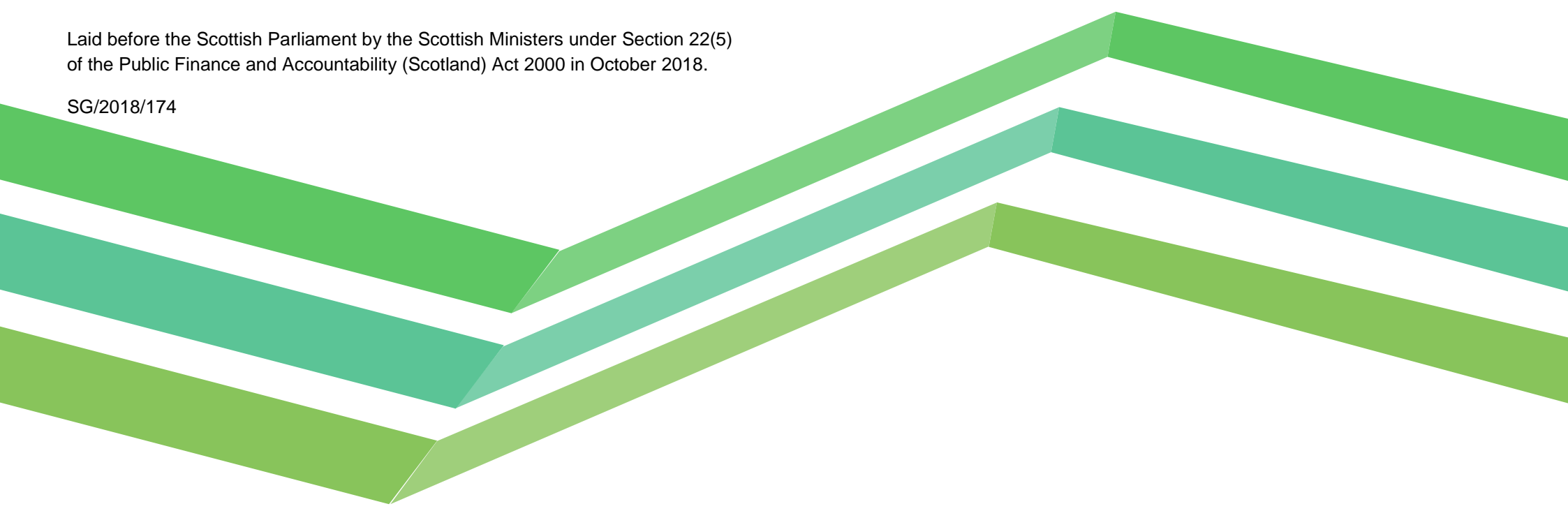
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Laid before the Scottish Parliament by the Scottish Ministers under Section 22(5) of the Public Finance and Accountability (Scotland) Act 2000 in October 2018.

SG/2018/174





Penelope Cooper
Chief Executive Officer

1.1 Statement by Chief Executive on performance in the period

I am very pleased to be writing this foreword for the first time as Chief Executive of SPPA, since joining the organisation in July 2017. I would like to thank our previous Interim Chief Executive, Chad Dawtry for his leadership of the business from April 2017 until my arrival and I wish him all the best in his future career within Scottish Government.

My goal here is to provide strategic direction to our senior leadership team, develop and promote our strategy and objectives and monitor operational performance and strategic direction. As an executive agency of Scottish Government, SPPA remains accountable to Scottish Ministers and we continue to deliver pension administration daily to over ½ million customers within a variety of the public sector workforce in Scotland.

This year has been challenging for the organisation, one that has been met head on by our dedicated staff who have as ever, driven forward with continual improvement of all our business processes. In particular, we can record successes in:

- Our Guaranteed Minimum Pension (GMP) Project being on track to complete
- Issuing even more Annual Benefit Statements (ABSs) than ever before
- Implementing a new Customer Contact Centre to improve response times
- Successful readiness planning for General Data Protection Regulation (GDPR)
- Increasing our People Survey engagement score
- Sports & Social Committee's excellent events in fundraising for local charities
- Celebrating our 15th Anniversary at Tweedbank with an event attended by local dignitaries.

Looking forward, 2018-19 will be a further year of transformation for SPPA as we continue to improve our business for the benefit of those customers that we serve. Our Agency now has a new Vision, which states: “We shall provide excellent customer service, combining skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland.” This Vision combines all of the essential elements on which we will work, and will guide everything that we do. It is both aspirational and realistic.

To support our new vision is our Mission Statement:

“To put the customers’ needs at the heart of our business planning and service delivery.”

Our Agency’s strategic aims of achieving excellence in service delivery, operations, people development and communications are critical to achieving our vision. The focus is simple: Our customers come first. And everything else that we do underpins this focus equally; to enable each of these aims to succeed.

To meet our end-customer needs we are thinking across the whole organisation and understanding how we are all linked with our end-customers. Across the business we are thinking end-to-end, understanding what the customer experiences and we will engage our customers more openly than ever before. This will ensure we truly understand what’s important so that we can focus our efforts on making those differences.

We are setting up customer panels, feedback mechanisms and proactively speaking direct to our customers on their experience of using SPPA as a service. We will also think beyond today to understand what customer’s future needs are, so that we can anticipate and exceed those expectations in order to become ‘best in class’.

By working together with our SPPA staff and customers from 2018-19 and beyond, this organisation can continue to grow successfully and will be a market leader in the pension administration field that we deliver services within.



Penelope Cooper
Chief Executive Officer

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. It operates out of freehold premises based at 7 Tweedside Park, Tweedbank, Scottish Borders. It moved to its present location in 2002 and employs circa 300 staff.

1.2.2 Agency's roles

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.

The principal roles of SPPA are:

- to administer, on behalf of the Scottish Ministers, 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 those who use the schemes, at an economic cost to the public purse
- to prepare in accordance with government 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 the Scottish Ministers
- to follow regulatory guidance and codes of practice issued by The UK Pensions Regulator in observance of its powers under the Pension Act 2004
- to advise the Scottish Ministers on public sector pensions policy generally
- to be a national centre of expertise for the administration of public pensions and the provision of policy advice.

1.2.3 The Agency's Vision

"We shall provide excellent customer service, combining skills and technology to maximise efficiency and deliver best value to taxpayers in Scotland."

1.2.4 Mission and Strategic Aims

To achieve its Vision, SPPA's mission is to put the customers' needs at the heart of its business planning and service delivery. Hence, SPPA's strategic aims are:

- Customer first – be focussed on our customers' journey at all times
- Service delivery – deliver best in class customer standards
- Operational excellence – deliver digital era business solutions to enhance the customer experience
- Developing our people – make SPPA the pension provider employer of choice trained in delivering what the customer needs.

The expression of the strategic aims above, in terms of business drivers and key tasks, is to be found in the SPPA's rolling Strategic Plan. This will also include the scope and scale of the planned tasks which will, as far as practicable, reflect the known funding position at the date of publication.

1.2.5 Objectives

SPPA's objectives are an articulation of its strategic aims set in the context of the 3 to 5-year corporate planning period. Annual staff objectives and performance management are based around the tasks to achieve the Agency's objectives which are articulated in the Annual Business Plan.

1.2.6 Values

Staff in SPPA seek, at all times, to uphold the core values of the Civil Service Code. By following the Code, staff will look at all times to apply an ethical approach to their work. This may involve identifying possible threats to core values and either avoiding possible conflicts or resolving existing conflicts in both a professional and ethical manner and in the context of observing the public interest.

1.2.7 Agency's 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 a commitment to staff through its People Strategy and policies and to suppliers through a 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.

1.2.8 Agency's 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").

1.2.9 Performance

The Agency's Framework Agreement Document was completely refreshed and received the approval of the Cabinet Secretary for Finance and the Constitution on 9 November 2017. The document can be accessed at

<http://www.sppa.gov.uk/Documents/Governance/Framework%20Document%20Main.pdf>

The Agency's Outcomes are agreed by the Scottish Ministers as part of the

corporate planning approval process. The current Corporate Plan covers the period 2016-17 to 2018-19. Key tasks and key performance indicators are set out annually in the Agency Business Plan and describe in more detail how the Agency's aims and objectives will be met. Key tasks and the key performance indicators used to support the Agency's Outcomes are monitored on a regular basis by the Strategic Leadership Team and Management Advisory Board. Performance against targets for the year is set out in this Annual Report.

1.3 Key risks and issues

1.3.1 Risks and uncertainties

The key risks and uncertainties facing the Agency are contained within the Corporate and Pension Board Risk Registers. These are informed by a number of sources including from project, fraud and directorate risk registers. The Corporate and Pension Board Registers are regularly reviewed and updated by the Agency's 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 and Pension Boards.

The risk universe is examined in a number of forums. Each meeting of the Audit and Risk Committee examines risk management as an agenda item and carries out 'horizon scanning' and 'deep dive' exercises. The exercises help ensure that the Committee look above and below 'the parapet' when examining sources of risk and the application of relevant internal controls. In March 2018 members of the Management Advisory Board spent a day devoted to strategic planning using a 'PESTLE' type approach (political, economic, social, technological, legal and environmental). The principal threats and opportunities facing the organisation at an operating level are considered more widely on a day-to-day basis and these are brought to meetings of the Risk Governance Group.

Changes to the risk universe draw upon a wide pool of new information, but may 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. Key risks more often relate to corporate objectives where the inherent risks are of such magnitude, such as the Agency's ambitious 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 they should feature in the 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 continued to evolve during the year in order to embed best practice at all levels. For instance, the Risk Governance Group which was set up in 2016-17 has since amended its terms of reference to widen its remit and include a non-executive member's presence at meetings. The Corporate Risk Register was dominated by 3 key risk areas which were monitored and reported upon during the year and are referenced below:

- successful implementation of integrated pension administration and payroll system and digital customer services with minimal disruption to core business

The threat to the PS Pensions contract signed in October 2015 materialised in February 2018 when an independent assurance review uncovered significant failures which were unresolvable and assessed the Project as status 'red', prompting the project to be closed.

- successful delivery of Annual Benefit Statements for four pension schemes to time and quality required

The threat to meeting the ABS deadline materialised on 31 August 2017 and as a result the Agency self-reported to the UK Pension Regulator as described in the Performance Review.

- successful delivery of the Target Operating Model (TOM) with minimal disruption to core business and providing a sound foundation for the achievement of the Agency's vision and meeting stakeholders' expectations

A key dependency to 'future proofing' the TOM were the benefits to be derived from adoption of an integrated pension administration and payroll system including 'straight through processing', 'customer self-service' and improved IT functionality and streamlined workflows. Delivery of the planned benefits have been rescheduled alongside revised supplier contract arrangements.

A further key risk affecting all outward facing public services is the threat of cyber-attack. The 'WannaCry' cyber-attack that affected NHS services in the week from 12 May to 19 May 2017 was the largest ever to affect the NHS. Fortunately SPPA was unaffected by the disruption caused, but there is a threat that such an attack on systems on which SPPA are reliant for information either internally or at the premises of a scheme employer has a direct impact on service delivery. In support of the Scottish Government's Public Sector Action Plan on Cyber Resilience, SPPA was one of 26 organisations to join a Public Sector Cyber Catalyst Scheme. Work of the Scheme has been focused on developing a Cyber Resilience Framework that starts with a common baseline of security standards. Measures will be designed to meet recognised standards such as those developed under ISO 27001 and the Public Services Network. A Security Policy Framework was also under development at the year end. Cyber security training was made available by the Agency for all Pension Board and Management Advisory Board members.

1.3.2 Key issues

The Agency is aware that there are also a number of key issues to be addressed. The strategic planning day which took place in March 2018 also used 'SWOT' analysis (strengths, weaknesses, opportunities and threats) to consider issues to take forward and address in the rolling Strategic Plan. Among the challenges facing the Agency include:

Agency

To seek new ways of adding value to the customer experience. Capturing the customer experience is an essential pre-requisite for the Agency's mission to succeed.

"To put the customers' needs at the heart of our business planning and service delivery."

Policy

To put the policy function in the best position possible to address future changes in the pension policy landscape and meet stakeholders' expectations.

Finance

To take every opportunity to obtain a sustainable funding stream sufficient to meet the recurring expenditure and service investment needs.

Customer Services

To make further improvements to the quality of membership data, in order to underpin the accuracy of pension scheme valuations and the Agency's change programme and to provide a sound basis for more 'value added' customer services.

Change Programme

To get closer to the customer and better understand the scope and scale of their expectations for the future and for digital services, in particular. To seek to embrace future innovation through a 'digital first' approach but with due regard to the diversity of our customer base and the ever present threat of cyber attack.

Human Resources

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.

IT

To make the improvements to the IT infrastructure and service functionality necessary in order to help make the Agency 'fitter for the future'.

Governance

To ensure appropriate levels of scrutiny are adopted and applied, commensurate with the needs of the business. To also optimise the governance arrangements already in place, in order to assist the work of the Accountable Officer.

1.4 Performance summary

1.4.1 Performance against key business targets

For 2017-18 the Agency built its Annual Business Plan around 34 key tasks which identified relevant performance metrics and targets. Table 1 summarises 6 key performance indicators which are reported upon annually and are core to the Agency's performance. They map to the Agency's strategic aims and include one additional metric in respect to 'developing our people', which is designed to link to the Agency's 'People Strategy'. Performance against the remaining performance metrics are reported upon quarterly to the Management Advisory Board. Once the key task is complete the relevant performance metric ceases to be reported.

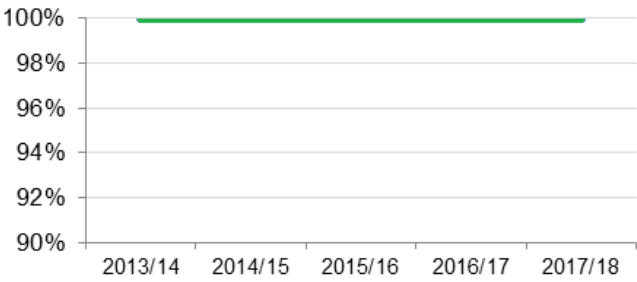
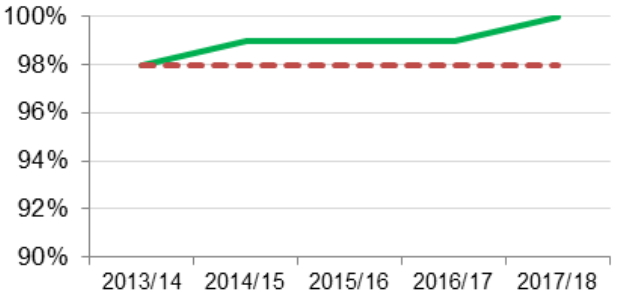
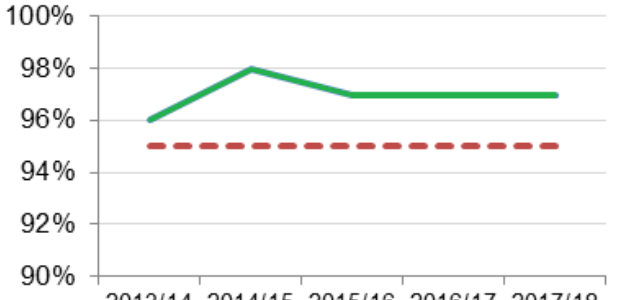
In addition to the Agency's key performance indicators, each directorate supports another set of performance indicators which are designed to maintain directorate service standards. Indicators are predominantly based upon levels of service previously agreed with customers, updated where appropriate, by new or revised

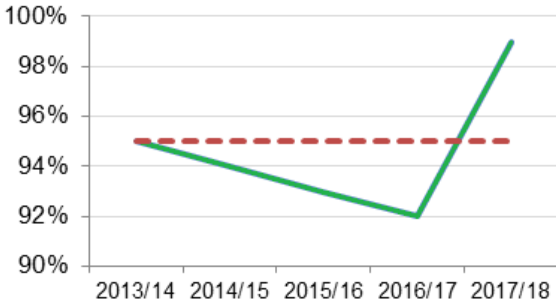
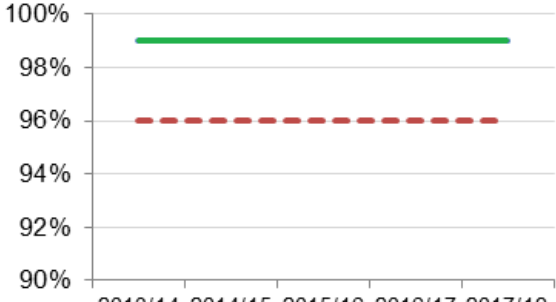
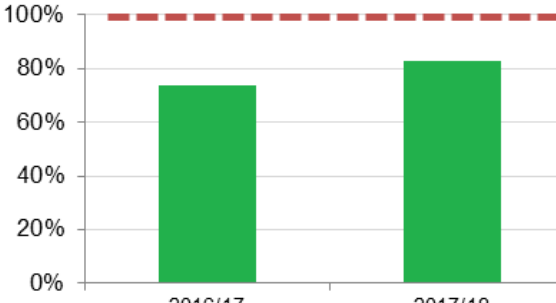
standards incorporated into customer service level agreements.

The Agency carries out a regular assurance mapping exercise which is reported to the Audit and Risk Committee. Over the last 5 years, key performance targets have been directly linked to relevant key risks in the Risk Register and reported to the Audit and Risk Committee. Evidence is provided of actions taken to address risks affecting performance and to provide the necessary assurance to members. Assurance is provided through a variety of internal means (e.g. consideration by governance bodies) and from a number of external sources (e.g. external independent reviews).

The key targets in Table 1 below describe performance against the four strategic aims in the SPPA's vision. These figures relate to NHS, Teachers', Fire-fighters and Police schemes combined. The Agency met 6 out of 7 of its key performance targets.

Table 1: Performance against Agency Key Business Targets

Strategic aim	Key Performance Target	Performance in 2017-18	Trend 2013-14 to 2017-18
Service delivery 'deliver best in class customer standards'	Pay 100% of all existing pensions on the due date	100%	 <p>A line chart with a vertical axis from 90% to 100% and a horizontal axis from 2013/14 to 2017/18. A solid green line is plotted at the 100% level for all five years.</p>
	Pay 98% of new awards within one month of the due date	100%	 <p>A line chart with a vertical axis from 90% to 100% and a horizontal axis from 2013/14 to 2017/18. A solid green line starts at approximately 98% in 2013/14, rises to 99% in 2014/15, stays at 99% in 2015/16 and 2016/17, and reaches 100% in 2017/18. A horizontal dashed red line is drawn at the 98% level.</p>
	Ensure that a minimum of 95% of all new pension awards are correct at the point of authorisation	97%	 <p>A line chart with a vertical axis from 90% to 100% and a horizontal axis from 2013/14 to 2017/18. A solid green line starts at approximately 96% in 2013/14, rises to 98% in 2014/15, falls to 97% in 2015/16, and remains at 97% in 2016/17 and 2017/18. A horizontal dashed red line is drawn at the 95% level.</p>

Strategic aim	Key Performance Target	Performance in 2017-18	Trend 2013-14 to 2017-18
Operational excellence 'deliver digital era business solutions to enhance the customer experience'	Ensure that up to date and accurate data is held for a minimum of 95% of active scheme members	99%	
	Collect 96% of contributions by value within the period prescribed by legislation	99%	
Customer first be focussed on our customers' journey at all times'	Ensure that accurate annual benefit statements are available to 100% of active scheme members by 31 August 2017	83%	

Strategic Aim	Key Performance targets
<p>Developing our people</p> <p>‘make SPPA the pension provider employer of choice trained in delivering what the customer needs’</p>	<p>The SPPA retained ‘Gold’ Investors in People accreditation in January 2017 against the 5th generation framework.</p> <p>The ‘SPPA People Plan 2018 – Learning Journeys’ introduced in January 2018 covers four main areas of people development:</p> <ul style="list-style-type: none"> • Customer services / administration skills • People management • Capability and leadership • Building a diverse and inclusive culture

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, 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.

Detailed progress updates and regular reporting of performance takes place at Management Advisory Board and Pension Board meetings. A ‘dashboard’ approach to performance reporting is a well established part of the agenda at the latter’s meetings.

Across the 4 schemes, 23 KPIs were measured and the Agency met 17 (NHS), 18 (Teachers) and 19 (Fire-fighters and Police) indicators. As has proved to be the case in previous years, there are some indicators where the Agency does not have unfettered control over the whole of the prescribed process. Hence, it did not prove possible to meet the 100% target for quotes provided to members for the ‘transfer values in’ and ‘transfer values out’ of pension schemes and in resolving 100% complaints within the prescribed number of days. However, in terms of complaints, over the year the Agency received a decreased lodging of complaints of 92 (2016-

17: 145) about service which represented a decreased number of 1.67 (2016-17: 2.74) complaints per 10,000 customers.

One missed KPI common to all schemes administered related to the requirement to issue accurate annual benefit statements annually by 31 August. Missing or inaccurate data for active members and system functionality issues had an impact on meeting the target. The SPPA made available 220,073 (2016-17: 196,316) annual benefit statements by the deadline which represented 83% (2016-17: 74%) of the active membership. Although an improvement over the previous year, 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. The process of continuous improvement undertaken that began with ‘ABS Max’ during the year and continues into 2018-19 is described at 1.5.3.

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 have been in operation between the Agency and the Scottish Fire and Rescue Service Pensions Scheme and Police Scotland Pension Scheme since 2016. Service review meetings have taken place between the Agency and the respective services to review progress over the ensuing period on at least quarterly basis.

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 or exceeded their respective targets in 2017-18.

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% of contributions by value collected within the period.

Scottish Government has an national target for the prompt payment of 100% of undisputed invoices within 10 working days of their receipt which SPPA met during the year.

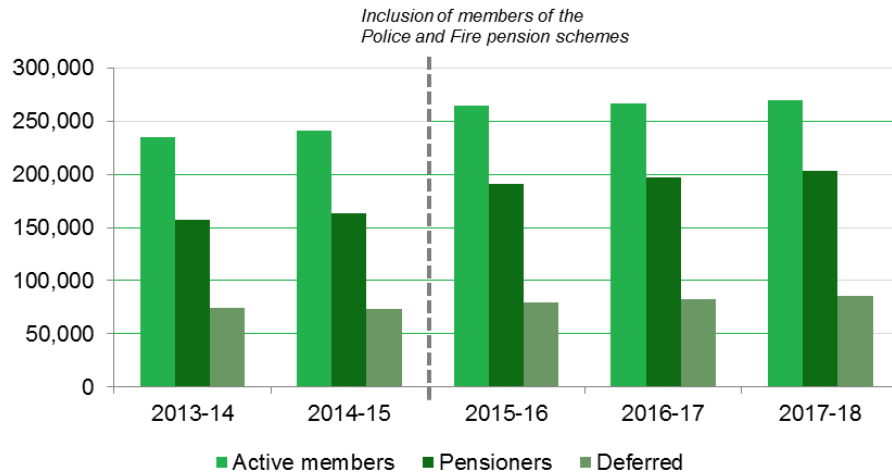
1.4.2 Organisational activity

Organisational activity in numbers

In the last four years, there has been a 15% increase in the number of members active in the schemes administered by the SPPA, and a 30% increase in the number of pensioners in those schemes, with 560,000 members in total either currently active, deferred or receiving a pension.

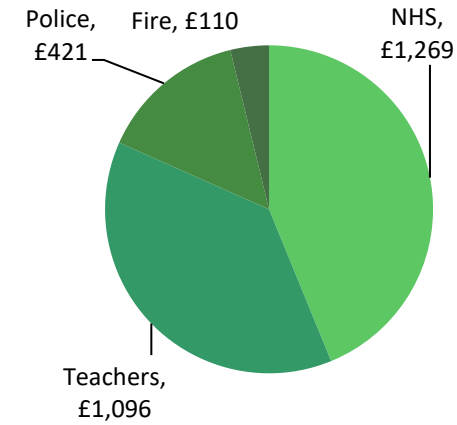
Chart 1:

**Scheme members and pensioners:
total for all schemes administered by SPPA**



Corporate Services Directorate paid more than 200,000 pensioners over 4 pension schemes to a value of £2.9 billion annually by carrying out 720 pay runs. During 2017-18, all payments were made on time.

Chart 2: Pension paid (millions) by Scheme



There were more than 300,000 unique SPPA homepage views in 2017-18, while the number of telephone calls reduced to 10,810 per month.

Chart 3: SPPA Website – Unique home page views

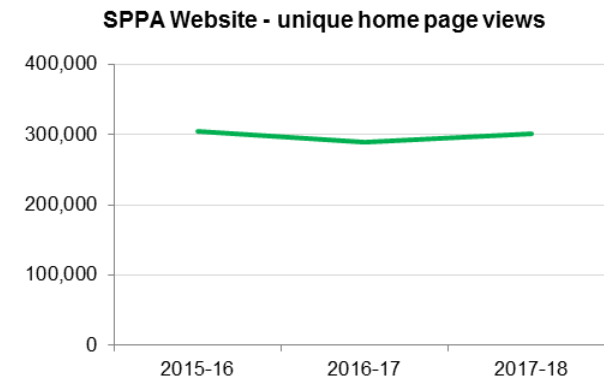
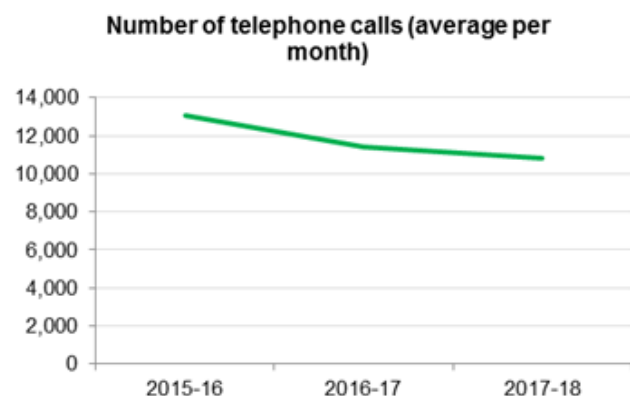


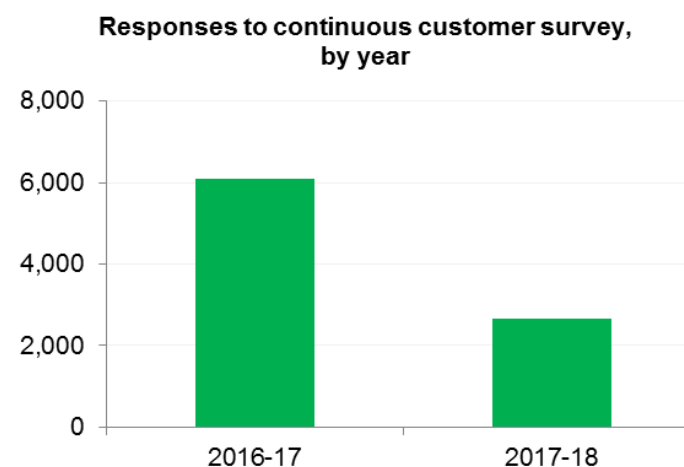
Chart 4: Number of telephone calls (average per month)



For 2015-16, the annual customer survey ran from October 2015 to November 2015. The number of participants was 2,867 and was based on the Agency inviting members who had used services in the previous 12 months to complete a survey. A continuous survey replaced the annual survey in August 2016. The number of participants who completed the on-line continuous survey to end of March 2017 was 6,094 and typically it would follow a major pension event such as the issue of Annual Benefit Statements or a more routine event such as a pre-retirement query. Given that the continuous survey took place for the first time in 2016-17, there is a high likelihood that the spike in numbers completing the survey is attributable to the initial uptake. The year 2017-18 was the first full year of the continuous survey and the number of participants fell to 2,645.

In 2017-18, 78% of members who responded reported being extremely satisfied or quite satisfied with the SPPA overall. Work will be carried out in 2018-19 to use the feedback received from the survey to inform the continuous improvement agenda.

Chart 5: Responses to continuous customer survey, by year



1.4.3 Financial position at the end of the year

The Agency operated within its budget allocation for 2017-18 except for an overspend on the depreciation budget of £0.252 million. A summary of actual expenditure compared to budget is detailed in the table below:

Table 2: Comparison of budget and actual expenditure in 2017-18

	2017-18 Budget allocation	2017-18 Expenditure	2017-18 Underspend/ (Overspend)
	£000	£000	£000
Total comprehensive expenditure (Statement of comprehensive net expenditure)		17,739	
Less depreciation (Statement of comprehensive net expenditure)		(837)*	
Less write-off of intangible non-current assets (Statement of comprehensive net expenditure)		(1,621)*	
Add net gain on revaluation of property, plant and machinery (Statement of comprehensive net expenditure)		306*	
Less notional charges (Financial statements' note 3.3)		(286)	
Total comprehensive expenditure excluding depreciation and notional charges	16,525	15,301	1,224
Depreciation	1,900	2,152*	(252)
Capital (Financial statements' note 6 and 7)	2,000	628	1,372
Total expenditure 2017-18	20,425	18,081	2,344

The main reason for the overall underspend in expenditure of £2.344 million 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 PS Pensions Project. However, a decision was subsequently taken to close the Project in February 2018, which resulted in an underspend on revenue and capital expenditure. The overspend on depreciation includes the write-off of assets

previously capitalised in relation to the project of £1.621 million offset by the gain on the revaluation of the property at Tweedbank of £0.306 million.

Demand-led income arising from work on, for example, pension sharing on divorce amounted to £214,000 in 2017-18 (2016-17: £233,000).

Further analysis of the financial results for the year to 31 March 2018 is detailed at paragraph 1.5.10 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. The role of the Management Advisory Board was clarified in the Scottish Government's publication 'On Board – A Guide for members of Management Advisory Boards' [March 2017]. The Agency's Audit and Risk Committee is guided by the Scottish Government's Audit Committee Handbook [2008] and most recently (post year-end) its 'Audit and Assurance Committee Handbook' [April 2018]. The terms of reference for each of these bodies is revised annually and any changes necessary are incorporated and published on the Agency's website. In essence, value is added by members of the Audit and Risk Committee in providing the Management Advisory Board and the Accountable Officer with their assurance needs by reviewing the system of risk, internal control and governance in operation. The Management Advisory Board assists the Accountable Officer by constructively challenging the Agency's strategic direction and reviewing the Agency performance against targets throughout the year.

The Agency's approach to performance reporting will change in 2018-19 to reflect changes contained in a new 5-year rolling Strategic Plan. The Plan's strategic objectives will generate a set of key performance indicators more reflective of: the Agency's strategic aims and objectives; customer service reviews; and, more holistic approach to tasks based on a revised target operating model. An assessment of the risks and uncertainties affecting performance are referred to in section 2.3.6.

1.4.5 Audit arrangements

The appointed external auditor is Stephen Boyle, Audit Director in Audit Scotland who has been assigned this audit to 2020-21. Scottish Government's assigned

internal auditor's team were rotated and 2017-18 marked the first year of the new team. The Agency is most appreciative of the contribution made by both 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 Guaranteed Minimum Pension (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 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.

From April 2016, SPPA took responsibility for ensuring the tracking and maintaining of GMP liabilities. Additional funding was received from Scottish Government to carry out the reconciliation exercise. A contract with Aquila Heywood was signed in September 2017 in which the Agency assigned the task matching data held on the different computer systems. Under the contract, data queries are raised with HMRC for the Agency's four pension schemes and reconciled with data held. Circa 2 million records require potential investigation and as the reconciliation process continues into 2018-19 revised GMPs and pensions (over/under payments) will be calculated and each member's record updated.

1.5.2 Actuarial valuations

Pension scheme valuations for the four unfunded schemes (NHS, Teachers, Police and Fire-fighters) are undertaken every 4 years. The purpose of the Valuations is to set revised employer contribution rates, in order to ensure that the benefits to members under the schemes remain affordable over the long term. In

addition any movement in the so-called employer 'cost cap' must be factored into the sustainability equation. The employer 'cost cap' is the mechanism used to control the funding cost. Where the 'cost cap' moves by more than 2%, corrective action is required. Application of the cost cap is symmetrical in which a breach that results in members' benefits being reduced or improved, depends on the direction of the breach.

The timing, process and assumptions used for the Valuation are set out in HM Treasury Directions and the 2016 Valuation for each scheme is due to be finalised post year end. This will set the employer contribution rates for the period 1 April 2019 to 31 March 2023. It is necessary to set employee contributions that deliver an annual yield pre-determined by HM Treasury which is factored into the valuation process.

It should be noted that HM Treasury set the valuation "financial" assumptions e.g. the discount rate and Scottish Ministers set the 'scheme related' assumptions which reflect the scheme's statistical experience e.g. pensioner mortality. There are 8 scheme related assumptions and the Government Actuary's Department (GAD) advises on each. Before being finalised the scheme specific assumptions are discussed with each Scheme Advisory Board (SAB) which is set up to advise Scottish Ministers on scheme specific policy issues. During 2017-18 the Policy Directorate provided valuation training for each of the SABs and reached agreement on all scheme specific assumptions.

The training included an awareness session on the operation of the employer 'cost cap' and the actions that could be taken in the event of a breach. When the outcome of the initial valuation calculations are known for each scheme, Policy Directorate will engage with SABs to agree the outcomes and advise Scottish Ministers of any appropriate action required.

It should also be noted that the Local Government Pension Scheme (LGPS) currently works to a triennial valuation programme with the next valuation due based on data as at 31 March 2017.

1.5.3 Annual Benefit Statements (ABS)

The Agency provides ABSs to active members across the 10 schemes for which it has administrative responsibility. The overall result in 2017 was to issue 82.7% of ABS by the due date. The 'ABS Max' project was established thereafter to improve

upon the compliance figure and work collaboratively with employers to improve data quality and ensure sustainable benefits in terms of complete, accurate and timely future data submission for the preparation of statements. The Agency is reliant on employers for up to date data.

Although the Agency had to report itself to the UK Pensions Regulator (TPR) for failure to issue 100% of ABSs to members by 31 August, the latter has since recognised the Agency's work in helping to drive up standards, through its positive engagement and development of best practice in the timely production of statements. Across schemes, there were some high levels of compliance with 95.96% of police ABSs issued by the due date but in relation to the Scottish Teachers' Pension Scheme the comparative figure was 73.6%. 'ABS Max' was an initiative designed to address the underlying data issues preventing higher rates of compliance. It is characterised by the establishment of close working relationships with employers either through site visits or over the telephone. The Agency's initiative was communicated with TPR and a regular and constructive dialogue was established over the year on progress being made in completing the 2017 campaign.

Project planning began early in 2018 for the next year's campaign. The availability of new pension software functionality and improved electronic exchange of data validations will form further elements of the continuous improvement process. Lessons learned from site visits have been incorporated into communication bulletins to employers which were made available on a dedicated area on the Agency's website homepage. Staff in the ABS team have been assigned a portfolio of employers to maintain on-going support throughout the 2018 campaign which may also include on-site visits.

It is envisaged that the investment in bringing the member records up to date, coupled with the communications to avoid any reoccurrence in incomplete, inaccurate or delayed data will contribute to a successful 2018 campaign.

1.5.4 Integrated Pension Administration and Payroll System

The PS Pensions Project was set up in October 2015 by the Agency working with a new supplier to provide the main delivery mechanism for improvements to on-line customer services and back office workflows and offering greater process automation, system integration and digital offerings. The Project closed in February 2018 requiring the write-off of assets totalling £1,621k (refer to Financial

Statements' note 4 for further details). The Agency continued to use existing pension administration and payroll software contracts from existing suppliers and began negotiations with them to incorporate many benefits planned under the original Project into a contract variation. The software functionality in current systems continues to allow pension and payroll services to operate normally and are not due to terminate until 2020.

The contract status at the year end with the supplier of the PS Pensions Project software was under discussion, although the Agency envisages no contingent liability will arise at its conclusion. Looking ahead, the Agency has examined its other procurement options to allow full service provision to continue beyond 2020. Options were being appraised at the year end that, if successful, would not only allow a continuation of 'business as usual' pension services but also offer the prospect of securing some of the key benefits that had been expected from the original project.

1.5.5 Governance arrangements

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 put into place in the Agency following the pension reform legislation. Specific recommendations tending to focus on improvement rather than any need for major change were taken forward in 2017-18 in consultation with Chairs and Vice Chairs of Pension Boards. It was accepted that Boards have an assurance role and should offer constructive challenge to SPPA akin to that demonstrated by non-executive members appointed by the Agency to the Management Advisory Board. Points to emerge from discussions included ensuring that the UK Pensions Regulator's expectations on accountability and performance are reflected in the Pension Boards' regular business. It was a widely held belief that greater openness and insights into the running of the schemes would allow Pension Board members to offer greater support. Greater coordination across Boards would facilitate learning and cooperation, including the sharing of best practice.

A temporary Head of Governance appointment was made in November 2017. The post brings together and supports governance across SPPA, including the Management Advisory Board and all four Pension Boards. Work continues to review and update SPPA governance processes and procedures including:

- recruitment and induction of two additional non-executive members for the Management Advisory Board
- renewal of pension board members' tenure as required
- recruitment process for replacement Pension Board Chairs and Vice Chairs commenced
- strategic planning workshop held
- draft rolling Strategic Plan prepared
- review of compliance with the UK Pension Regulator's Code of Practice
- audit of Pension Board governance arrangements
- Strategic Leadership Team processes and procedures developed.

1.5.6 Customer Contact Team (CCT)

The first phase of the CCT project went live on 15 January 2018 with a team of 9 staff to handle calls, e-mails and web enquiries from active and deferred Scottish Teachers' Pension Scheme members. The initial phase proved the concept and allowed assumptions to be tested around the number of staff required to deal with expected call volumes and the level of training required to successfully handle 80% of enquiries. Success will be measured against an interim set of KPIs as follows: 90% of calls answered within 30 seconds and 80% of calls resolved in first contact. Quality of the customer experience will be measured from customer surveying software.

From the period 15 January to 31 March 2018, 94% of calls were answered in 30 seconds and 86% provided first-call resolution. Also, from the customer survey results, 94% of customers were satisfied or very satisfied with the way their call was handled. Other successes include handling the surge in enquiries generated by the Annual Pensions Increase (API) and the increase in productivity of 15% of the Teacher Awards team who now receive fewer direct enquiries than in the corresponding period last year.

Movement into future phases involves taking enquiries from NHS Scotland, Police and Fire-fighter Pension Scheme members, increasing the staff complement and handling an increasing number of customer enquiries at first point of contact for all schemes.

1.5.7 Internal Dispute Resolution Process (IDRP)

The Agency has a legal obligation under Section 50 of the 1995 Pensions Act to

provide a dispute resolution procedure for members of an occupational pension scheme. Appeals from members can be determined for each of the devolved pension schemes (NHS, Teachers, Police, Fire-fighters and Local Government). The current IDRP process incorporates two stages, but preparations have been put into place for the Policy Directorate to take full responsibility with effect from 1 May 2018. At the same time there will be a move to a one-stage process for all schemes except for Local Government.

The Policy Directorate continues to provide advice and guidance to both the customer service team and local government administrators both through lessons learned arising from IDRP outcomes and direct requests.

1.5.8 British Transport Police (BTP) Pension Transfer

The Scotland Act 2016 provides for the transfer of powers so that the policing of railway assets in Scotland are a devolved matter. The transfer of those responsibilities, which includes the pensions of the BTP officers and staff transferring to Police Scotland, is being managed by a joint programme board with representation from interested parties. The Policy Directorate is responsible for advice on pension issues and is proposing a pension solution that delivers the Scottish Ministers' aim of 'no detriment' guarantee on pensions.

BTP operates funded pension schemes outside of the legislation covering public service schemes and a transfer of powers is complex especially where a 'no detriment' guarantee is required. Policy Directorate undertook research and analysis on a number of options and following close liaison with Scottish and UK Government colleagues, Government Actuary's Department and BTP actuaries, set out 3 options for consideration by the Programme Board. The option agreed by the Board involves setting up segregated sections of the BTP schemes for the transferring officers and staff and following the agreement of Scottish Ministers was proposed to the Trustee of the BTP schemes. The Trustee has agreed for the proposal to be developed further and collaborative work continues both in assessing and managing the financial risks and providing the necessary assurances for the transferring officers and staff and the police authorities.

1.5.9 General Data Protection Regulation (GDPR)

GDPR was approved by the EU Parliament on 14 April 2016 and replaces the current Data Protection Act. It is designed to harmonise data privacy laws across

Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy. GDPR introduces tougher fines for non-compliance and breaches, and gives individuals greater rights to challenge organisations on the information they hold. It takes effect on 25 May 2018, at which point, non-compliant organisations may face penalties from the Information Commissioner's Office.

Preparations for GDPR coming into effect took place during the year. Guidance from the Information Commissioner's Office and work carried out by the Agency's Head of Security has helped to ensure that the necessary steps have been taken to be compliant with the revised data protection laws. A cross cutting review into GDPR preparedness was undertaken by the SG Internal Audit Directorate in December 2017. The report concluded:

"...SPPA are aware of the changes required by GDPR. This is reflected in that there are no major areas of improvement highlighted in this Management Letter although we make three recommendations in Annex B. Where changes are required, our review work indicated that consideration is contained within SPPA's GDPR Workplan."

The three recommendations which are covered in the Agency's workplan relate to the development of the workflow, reviewing contracts and establishing Data Sharing Agreements with all employers. All recommendations remain on target for completion before GDPR is enforced by 25 May 2018.

Personal data sharing is documented within Data Sharing Agreements (DSA) agreed with stakeholders. The site visits undertaken as part of the Annual Benefit Statement ('ABS Max') exercise have been used to address some of the outstanding agreements. Letters to employers were prepared to explain the effect of the legislative changes on the Agreements.

High compliance rates are achieved for staff taking mandatory training in 'data protection' and 'responsible for information' e-learning. As at the year end 98% of staff had completed the Data Protection e-learning (discounting staff on long term leave).

1.5.10 Financial resources 2017-18 and expenditure trends

Table 3: Headline figures

	2017-18 £000		2017-18 £000
Income	(214)	Total assets	25,399
Expenditure	18,259	Total liabilities	(8,127)
Net expenditure	18,045	Net assets	17,272

Income of £0.214 million (2016-17: £0.233 million) 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 £0.338 million (2%) from £17.921 million in 2016-17 to £18.259 million in 2017-18.

Chart 6: % split of annual expenditure by type
Total operating expenditure £18,259K

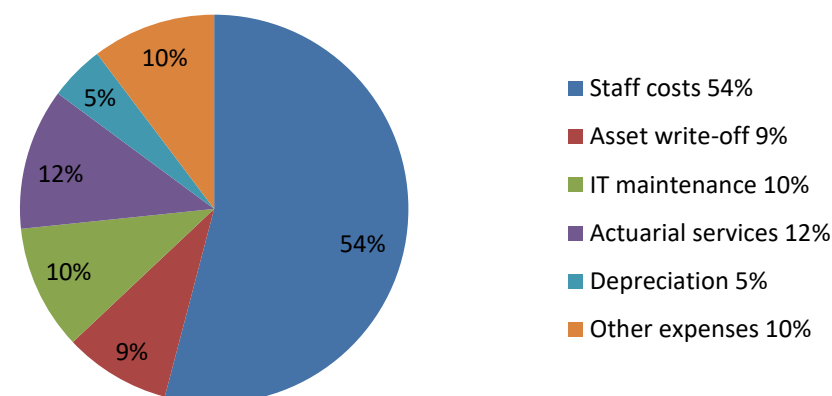


Table 4: Comparison of expenditure over 5-year period

	2017-18	2016-17	2015-16	2014-15	2013-14
	£000	£000	£000	£000	£000
Staff costs	9,877	9,142	8,261	7,740	6,983
Actuarial services	2,148	1,008	1,544	1,454	1,415
IT maintenance	1,897	1,896	1,789	1,236	985
Write-off of intangible non-current assets	1,621	0	0	0	0
Depreciation	837	4,218	3,271	2,095	1,606
Other expenses	523	518	497	447	440
Accommodation costs	370	300	290	320	281
Reform of guaranteed minimum pensions	322	0	0	0	0
Notional charges	286	259	290	255	268
Postage	215	241	412	224	112
Professional & technical advisory services	163	339	86	33	4
Pension reform communication	0	0	163	188	0
Expenditure	18,259	17,921	16,603	13,992	12,094
Expenditure relating to revaluations	(306)	(136)	(55)	(42)	(113)
Total expenditure	17,953	17,785	16,548	13,950	11,981

Staff costs of £9.877 million for 2017-18 have increased by £0.735 million since last year due to pay scale progression, the annual pay increase, and that in contrast to last year there was no capitalisation of staff costs for the PS Pensions Project. Further detail is available at 2.5.1 and 2.5.2.

Actuarial services totalled £2.148 million in 2017-18 which was £1.140 million higher than the previous year. Costs are dependent on the valuation cycle for the pension liabilities of the NHS, Teachers', Fire Fighters', Police and Local Government schemes, and pension legislation changes. The costs for 2017-18 included work on 2016 pension scheme valuations.

Write-off of assets totalled £1.621 million in 2017-18 which related to the decision to discontinue the PS Pensions Project in February 2018.

Depreciation of property, plant and equipment and information technology was £0.837 million for 2017-18, which was £3.381 million lower than the prior year. All assets associated with existing pension administration and payroll systems as at 31 March 2017 were fully depreciated in 2016-17 in anticipation of the introduction of a new integrated system.

Professional & technical advisory services have fallen by £0.176 million to £0.163 million for 2017-18. Costs were incurred to support a number of projects including a review of information technology resilience, an Agency wide communications review, and also on procurement and legal support.

Notional charges cover services provided by the Scottish Government of £0.137 million, and Audit Scotland's audit fee of £0.149 million. These costs are met from the central Scottish Government's budget.

Revaluation gain of £0.306 million has arisen from the property at Tweedbank being revalued as at 31 March 2018 by the District Valuer. The last valuation was carried out as at March 2013.

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

	2017-18	2016-17	2015-16	2014-15	2013-14
	£000	£000	£000	£000	£000
Property, plant and equipment	5,030	4,928	5,014	4,680	4,560
Computer software and licenses	1,060	3,059	5,296	6,173	4,096
Trade and other receivables*	19,309	16,464	8,173	7,427	256
Total assets	25,399	24,451	18,483	18,280	8,912
Trade and other payables	(8,127)	(8,811)	(7,696)	(7,444)	(2,545)
Total liabilities	(8,127)	(8,811)	(7,696)	(7,444)	(2,545)
Net assets	17,272	15,640	10,787	10,836	6,367

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

Total assets increased by £0.948 million to £25.399 million at 31 March 2018, and comprised:

- **Property, plant and equipment** of £5.030 million, which included £4.585 million of freehold land and buildings
- **Computer software and licenses** of £1.060 million, a fall of £1.999 million from last year. Certain assets required to be written off as the contract to develop a new integrated pension administration platform was discontinued during 2017-18
- **Trade and other receivables** of £19.309 million, which is an increase of £2.845 million from 2016-17, includes balances of £18.028 million relating to Scottish Police and Fire-fighters' pensions. Year end balances are higher year on year due to the level and timing of lump sum payments

Total liabilities decreased to £8.127 million from £8.811 million in 2016-17, and comprised trade and other payables. The balance at 31 March 2018 included £7.284 million 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.

1.5.11 Benchmarking

The 2017 CEM Benchmarking report (1 April 2016 to 31 March 2017) allows SPPA to:

- understand how service delivery compares with UK best practice
- develop performance goals
- drive performance improvements
- understand how costs compare
- communicate performance to stakeholders.

The Agency is compared with its UK peer groups and allows performance to be gauged against best practice. Previous benchmarking reports have included two peer groups: one for UK and one for worldwide. However the 2017 report only focused on a peer group for the UK, of which there were 9 contributing members. It should be noted also that this is the first year that fire-fighter and police scheme data have been included in the report comparisons.

The 2017 total cost per member was £29.67 (2016: £25.14) with the peer average being £28.39 (2016: £27.14). The total cost was £1.28 above (2016: £2.00 below) the peer average.

The 'member service' score was 57 (2016: 62) against a peer average of 63 (2016:64). Service is defined from the member's perspective. Higher service means more channels, faster turnaround times, more availability, more choice, better content and higher quality.

Higher service is not necessarily, however, cost effective. For example, the ability to answer the telephone 24 hours a day is higher service, but not necessarily cost effective. Although the Agency scored well for digital services and setting up pensions, improvements could have been made in the use of social media and the time taken to produce annual statements. In terms of call waiting times, the work carried out to set up a customer contact centre for all 4 schemes should see improvements in the service scores in future years.

1.5.12 Best Value initiatives

Accountability for the propriety and regularity in the use of public finances and for achieving Best Value from the use of the funds lies with the Accountable Officer. The use of 'review and option appraisal' is one of the key characteristics of the Best Value agenda and is being used in formulating the Agency's change programme.

A new version of the Agency's Framework Agreement document was signed off by Scottish Ministers on 9 November 2017. Best value featured in its preparation with: an updated summary of business support services and how they are delivered to the Agency; updated scheme of financial delegation; and, a new non-executive member handbook. These documents and the updated Terms of Reference for the Agency's governance bodies informed by the Scottish Government's 'On Board: A guide for members of Management Advisory Boards' publication examine how value is added to the Agency in terms of its governance arrangements.

Progress made on implementing the recommendation of an independent review of governance arrangements following pension reforms of 2015 are reported upon at 1.5.5.

The Customer Service Review (the 'Review') conducted in 2015 and which has informed much of the Agency's subsequent business planning has resulted in closer working relationships with the Agency's stakeholders. Putting customers at the heart of new products and services features strongly in the Agency's digital vision, service innovation and commitment to excellence in service standards.

An example of raising service standards is the work carried out to introduce an Employer's Charter. The Charter was drafted and circulated for agreement in 2017 and will be rolled out during 2018-19. The Charter mirrors the 'customer's journey' in the Review and clearly defines the respective roles and obligations of the Agency and employers along a timeline in: providing accurate information and data; maintaining comprehensive and up to date member records; communicating relevant information; providing relevant quotes; making regular returns; processing payments and refunds timeously; and, complying with statutory requirements.

An example of service innovation was the creation of on-line pension calculators which were put into place to allow members access to estimates of the future pension benefits. Versions were made available for the police in May 2017, fire-fighters in August 2017 and the teachers' and NHS members' modellers were launched just after the year end in April 2018. Statistics on the user experience and the results of customer satisfaction surveys will be used to inform future improvements. Feedback on enhancing web services from previous surveys was used to further develop 'MyPension online' including compatibility with IOS operating systems and on mobile devices.

In order to obtain an independent and objective view of the progress of the Agency's PS Pension Project, technical assurance reviews were commissioned and carried out by the Scottish Government's Office of the Chief Information Officer. Based on the Review Team's final assessment a revised course of action was taken to secure the best value possible in developing the Agency's pension software system over the longer term.

Closure of the PS Pensions project placed greater emphasis on reviewing current business working practices. One initial area of focus was a review of daily processing of workload and the targeting of non-system related backlogs. The customer service improvement process is being supported by the Scottish Government's Leading Improvement Team and governance arrangements have been put into place to support the process. Four specific areas have been identified for improvement: Change Management, Learning & Development, Communications and Continuous Improvement. Progress on these areas will be reported upon in future Annual Reports.

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

1.6.1 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'.

1.6.2 Agency's Business Strategy

Historically, the Agency's current 3-year Corporate Plan ran over the period covered by the 3-year Scottish Spending Review. The Agency took the decision to prepare a 5-year rolling Strategic Plan commencing in 2018-19 to reflect new implementation timescales for its change management programme.

1.6.3 Agency's Communication Strategy

An independent communications specialist conducted a review of the Agency's internal and external communications during the year. The review produced a revised Communication Strategy and a number of actions which will be implemented over 2018-19.

Penelope Cooper
Chief Executive
23 July 2018

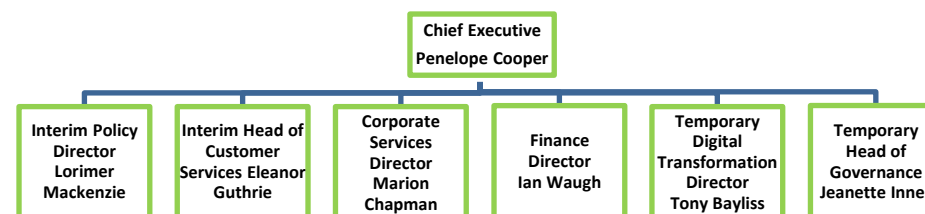
2.1 Directors' Report

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 Scottish Government's Chief Financial Officer, Gordon Wales.

2.1.2 Directors and management structure

Day to day management is overseen by the Strategic Leadership Team, which at 31 March 2018 comprised:



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

Penelope Cooper	Chief Executive and Accountable Officer from 3 July 2017
Chad Dawtry	Interim Chief Executive and Accountable Officer to 2 July 2017 Deputy Chief Executive from 3 July 2017 to 25 August 2017
Lorimer Mackenzie	Interim Policy Director
Pamela Brown	Head of Operations Transformation to 12 February 2018
Eleanor Guthrie	Interim Head of Customer Services
Marion Chapman	Corporate Services Director

Ian Waugh	Finance Director
Tony Bayliss	Temporary Digital Transformation Director from 1 April 2017
Jeanette Innes	Temporary Head of Governance from 27 November 2017
Gillian Thompson	Non-executive Director, and Non-executive Chair
Stuart Smith	Non-executive Director, and Audit & Risk Committee Chair
Sheena Cowan	Non-executive Director
Liz Holmes	Non-executive Director from 1 April 2017
Ian Forbes	Non-executive Director from 1 February 2018
Jane Malcolm	Non-executive Director from 1 February 2018
Eleanor Ryan (formerly Emberson)	Non-executive Director nominated by the Director General Exchequer, Scottish Government to 25 July 2017
Gordon Wales	Non-executive Director nominated by the Director General Exchequer, Scottish Government from 26 July 2017

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

The posts listed above, of a temporary or interim nature, awaited the outcome of an organisational review that commenced in 2017-18 and is due to be concluded in 2018-19.

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 SPPA People Strategy aligns closely with the Scottish Government 2020 plan

(SG2020) which aims to be Open, Responsive and Capable. Our 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.

Our People Strategy action plan is reviewed quarterly and reported on at the Management Advisory Board.

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. The HR Team hold regular awareness sessions for managers and staff covering attendance management, performance management and flexible working. This ensures that all staff are working consistently within these SG HR policies and that all our people are treated fairly and with respect. 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 a number of alternative working patterns e.g. term time working), parental leave, paternity leave, special leave, career break opportunities, and childcare vouchers. These policies help attract high quality external applicants, retain expertise 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. The Agency continued to face some challenging results and this is a similar trend to the Scottish Government. In our 2017 survey, 268 people responded, equivalent to an 86% response rate. Based on the findings of the People Survey, and in preparation for a period of significant change, mandatory Managing Change training has been completed by managers and Change and Me training by administrators.

2.1.7 People Network

Our People Network has the main objective to support a well-informed workforce with a clear understanding of the Agency's strategic objectives, policies and guidance. The network comprises of staff from all grades and directorates, and one of the main roles is to ensure a consistent and clear cascade of information across all our teams.

2.1.8 Equality and diversity

In-house courses continued for staff during the year. All those involved on interview panels must complete 'unconscious bias' training in advance to ensure a fair, transparent and consistent approach to all recruitment. All our new starts attended Diversity training within their induction programme and others were regularly offered the opportunity for a refresher course throughout the year.

2.1.9 Investors in People (IiP)

The SPPA has retained 'Gold' IiP accreditation against the 5th generation framework, a level first achieved in 2012. The framework has changed considerably in the last 12 months and preparations are underway for assessment under the new guidance.

2.1.10 Youth employment

The Agency celebrated the Year of Young People by holding an event for Modern Apprentices, past and present, and which was attended by the Cabinet Secretary for Finance and the Constitution. The Agency continues to support the Modern

Apprenticeship Programme and recognises how valuable it is for the future of the Scottish Borders and wider Scotland. Eleven modern apprentice staff were recruited in 2017-18 and a further nine originally recruited in 2016-17 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 2018-19 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. The Agency has also been working closely with the Developing the Young Workforce (Scottish Borders) team and will continue to support young people as they move towards a career.

2.1.11 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 have attained 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. Two additional staff members, who provide support to the Facilities Team, have undertaken and passed the Institution of Occupational Safety & Health (IOSH) *Managing Safely* course. Furthermore, four staff members have attended a first aid refresher course 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 2017-18 requiring first aid (2016-17: two cases).

2.1.12 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 regular ‘Ask SLT’ sessions which provide staff with regular briefings on developments and a forum to discuss issues. The SPPA ‘Open Door’ policy, HR drop in sessions and Stress workshops reinforce our commitment to staff and their health and well-being.

The Agency’s HR team and local Trade Union members hold monthly meetings to discuss issues and 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 local Partnership Agreement.

2.1.13 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.

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 92 members of staff (2016-17: 83) currently work part-time with a further 10 full-time staff working contracted alternative working patterns.

2.1.14 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.

2.1.15 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 encompasses CSR. 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.

The Agency recognises its Corporate Parenting duties under the Children and Young People (Scotland) Act 2014. It recognises the principles and duties on which improvements can be made for ‘looked after’ children or care leavers in order to uphold their rights and secure their wellbeing. Opportunities are taken to ensure that all our people are aware of these principles and duties and will work together so that we listen to the needs, fears and wishes of looked after children or care leavers, whether directly or indirectly, affected by the policies of the Agency.

The Agency is committed to supporting children and young people who have experience of care to develop into successful learners, confident individuals, responsible citizens and effective contributors.

Some of the other 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

- sixth year of recruiting new employees under the Scottish Government's Modern Apprenticeship 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.

2.1.16 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 the Agency's business cases, procurement strategy and 'invitations to tender'. Typically contracts have been signed with suppliers that commit to reducing the consumption of materials and

harmful emissions as part of the goods and services procured and provided. Further commitment to run an apprenticeship programme aimed at developing skills and knowledge and which complements the Agency's modern apprentice programme is encouraged.

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 one new provider contract.

The Scottish Borders Railway's opened in September 2015 has transformed the transportation landscape for the local population and staff at the Agency. It has opened up the possibility of door-to-door rail travel from the Tweedbank office to Scottish Government offices in Edinburgh in a little over one 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, and '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 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 is committed to waste recycling. The targets for carbon emissions and electricity were met in 2017-18. Further information about the Agency's performance during the year can be found on the SPPA website.

2.1.17 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.

2.1.18 Counter fraud

The Agency continues to participate in the biennial National Fraud Initiative (NFI) facilitated by Audit Scotland and in a biannual mortality screening exercise. The last NFI exercise was conducted in October 2016 and many of the overpayment cases were still being pursued in 2017-18. Mortality screening data was submitted in June and November 2017 and matching data was received back 2-3 months later. Thereafter a raft of data analysis is required to identify the appropriate response required in cases relating to reemployment, mortality and deferral. Following initial analysis appropriate action was taken, such as, the suspension of a pension, the imposition of an earning limits or the updating of pension and payroll record.

The NFI exercise also assists in updating member records. Dates of death, status

change, and record notations all assist in improving data quality, with the added benefit of making the quadrennial scheme valuations more accurate.

2.1.19 Auditors

The accounts are audited by Stephen Boyle of 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.

2.1.20 Date accounts authorised for issue

The Accountable Officer authorised these financial statements for issue on 23 July 2018.

2.1.21 Accounts direction

The 2017-18 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 61 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

One of the Agency's principal tasks for the year was to completely refresh the Agency's Framework Document in terms of its content and presentation. The Framework represents an agreement between the Agency and Scottish Ministers and is a necessary precursor towards updating the Agency's medium term Corporate Plan which supports the Agency's vision in many more practical ways. The Cabinet Secretary for Finance and the Constitution signed-off the new Framework Document on 9 November 2017.

In terms of governance, the Agency is responsible for putting into place sound governance arrangements to provide accountability to Scottish Ministers and organisational direction so as to positively influence behaviour and cultures. As the principal source of reference for governance the 'Framework Document' 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.

Agency's Corporate Plan

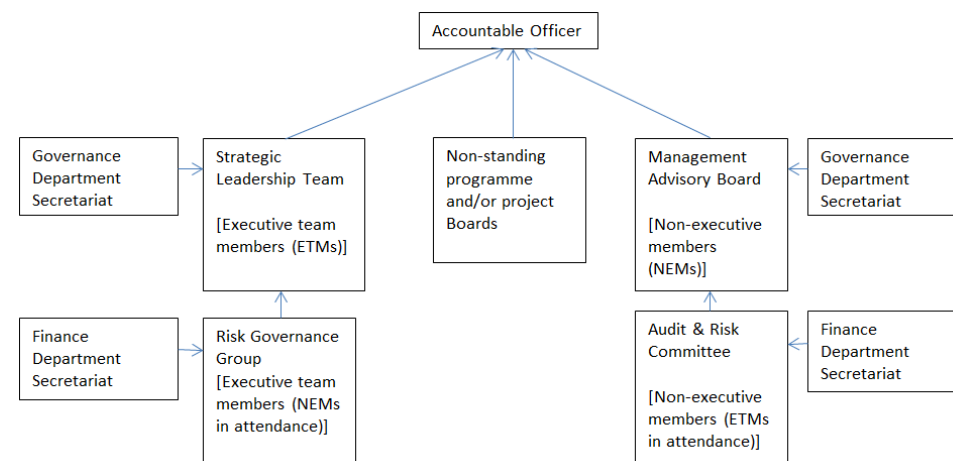
The Agency's published vision is 'to provide excellent customer service, combining skills and technology, to maximise efficiency and deliver best value to taxpayers in

Scotland'. The Corporate Plan was last updated in 2015-16 before the new vision and strategic aims were agreed. Hence, the Agency's early priority in 2018-19 is to complete a revised corporate plan but as it will be spread over a longer 5-year period to rename it the Strategic Plan. The aim will be to maintain it on a rolling basis in order to best reflect any significant changes in central government funding and in line with best practice in business planning.

Agency's Primary Governance Bodies Designed to 'Assist' the Accountable Officer

A schematic of the bodies assisting the Accountable Officer in the governance of the Agency is provided below. A schematic for pension scheme governance is provided on the Agency's website at:

<http://www.sppa.gov.uk/Documents/Governance/2%20Governance%20Schematic.pdf>



Management Advisory Board

The advisory nature of the Board is one that is set out in the Scottish Government's publication 'On Board: A Guide for Members of Management Advisory Boards'. Non-executive members are appointed to act in an advisory

capacity to the SPPA's Accountable Officer and Chief Executive and are, therefore, neither personally or collectively accountable for the Agency's performance. Having reviewed the operation of the previously established Corporate Board and in seeking to remodel itself on the 'On-Board' model, the Agency carried out a self-assessment exercise that highlighted a number of recommendations designed to strengthen its purpose and delivery.

Over the year the Board has benefited from an experienced cohort of four non-executive members, together with a representative from Scottish Government - the Agency's 'Fraser figure'. In early 2018 the Board was further strengthened by the appointment of two new non-executive members with experience in a background of regulatory oversight and in the field of risk management. The Agency's 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 'as observers when appropriate' in accordance with the 2017 review of governance arrangements carried out by independent consultants.

During the year, the Management Advisory Board met on four scheduled occasions and on three further dates, 11 and 25 September 2017 and 7 February 2018, to consider extraordinary business. The Board also met out-with the regular cycle of meetings to consider strategic issues at a Planning Day on 28 March 2018.

The Board's work has included:

- considering the content of the Agency's Annual Business Plan
- receiving reports from the Chief Executive on the Agency's progress in achieving key performance indicators and meeting targets featuring in the Agency's Business Plan
- receiving reports on the work of the Audit and Risk Committee and contributing towards the risks assessed in the Agency's Risk Register
- considering the Agency's draft Annual Report and Accounts and drafts for the NHS Scotland and Scottish Teachers' Pension Schemes
- receiving quarterly updates on: budgetary issues and internal financial management from the Director of Finance; relevant matters of pension policy from the Director of Policy; updating members on communication, IT, procurement and HR issues from the Director of Corporate Services;

receiving progress reports on key projects, such as, Annual Benefit Statements and Guaranteed Minimum Pensions from the Head of Customer Services: and, progress towards implementing an integrated pension and payroll platform from the Director of Digital Transformation

- considering the Agency's refreshed Framework Document including new Terms of Reference for governance bodies and supporting documentation e.g. Members' Handbook
- considering reports designed to capture staff views, such as, the annual People Survey and to make comparisons with other delivery bodies' performance such as through 'CEM benchmarking'
- carrying out and reporting upon horizon scanning conducted between meetings.

Strategic Leadership Team

Strategic Leadership Team (SLT) meetings, chaired by the Chief Executive, are held at least monthly with senior staff representation from Policy, Corporate Services, Finance, Customer Services and the programme/project team. Meetings are designed to focus on key, short-term deliverables and actions based around people, process, performance and customers.

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 meets formally four times over the year except where there is extraordinary business to conduct. The ARC also met on two further occasions on 11 September 2017 and 7 February 2018 to discuss matters related to the PS Pensions Project. The work of the Audit Committee is also guided by the guidance in the Scottish Government's 'On Board' [2017] publication and its 'Audit Committee Handbook' [2008].

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
- reviewing 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 national reports
- receiving reports from the Agency's management on: governance; counter fraud initiatives; security breaches; health and safety reportable incidents; internal controls; and, finance policies e.g. whistleblowing
- 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
- receiving an Interim Management Letter and Annual Audit Report including ISA 260 report from Audit Scotland
- receiving a quarterly Risk Management and Governance minute from the Director of Finance containing inter alia:
 - latest versions of the Corporate Risk Register incorporating changes made by the Risk Governance Group and Strategic Leadership Team
 - latest 'Assurance Map' linking Key Outcomes to Key Risks and to levels of assurance from internal, external and independent third party sources
 - independent third party reports where applicable e.g. IT resilience
 - 'deep dives' on key risks to the Agency's business from respective parts of the Agency
 - Committee performance self-assessment
- reviewing and tracking all recommendations emerging from reports produced by external audit (Audit Scotland) and internal audit (Scottish Government Internal Audit Directorate)
- horizon scanning to inform future committee business.

PS Pension Project Board

The Agency continued to run a formal project board for 'the PS Pension Project' (previously Project 2017) - a project to replace three existing systems with a single integrated multi-scheme pension administration and payroll solution, including web-based member and employer services. The Board was chaired by the Senior Responsible Officer for the project and comprised relevant senior SPPA management in specific project roles (Senior User, etc.), representatives of the strategic supplier, the Agency's 'Fraser Figure' and a representative from the

Scottish Government's Office of the Chief Information Officer department. Non-executive directors attended some meetings, in an observational capacity. The main objective of the Board was to ensure appropriate governance to facilitate a successful implementation of the new system. Summary progress reports were considered by the Management Advisory Board and risk, governance and control issues by the Audit and Risk Committee.

This Board ceased to meet following the findings of an independent Technical Assurance Group from the Scottish Government's Office of the Chief Information Officer. Based on the report findings the Agency closed the project without detriment to the services provided. The Agency has in place contracts with existing suppliers terminating in 2020.

Pension and Scheme Advisory Boards

SPPA assumes 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 contribution collection, preparation of annual accounts, budget or financial management.

The Agency's policy function also acted 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 Local Government Pension Scheme.

During the year SPPA policy officials:

- supported Scotland's statutory NHS, Teachers', Police and Firefighters' Pension Boards which assist the Scheme Manager of those schemes in securing compliance with regulatory requirements
- supported Scheme Advisory Boards 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
- provided secretariat services to and attended the NHS, Teachers', Police and Firefighters' Pension Boards
- participated in and provided general and technical pensions policy advice to

the tri-partite Scheme Advisory Boards for the Police, Firefighters', NHS and Teachers' Scheme Advisory Boards

- represented the Scottish Government as observers on and providing general and technical pensions policy advice to the bi-partite LGPS Scheme Advisory Board.

In line with a Scottish Government commitment made during the 2015 pension reforms, the Agency completed the review of the effectiveness of the scheme governance arrangements by putting into effect the outstanding recommendations included in the review conducted by the independent consultants employed.

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 2017-18, fifteen 'minor' security breaches were reported internally to the Head of Security. Through consultation with the Office of Protective Security, the Agency have established that only 'serious' breaches need to be referred, categorised as, 'those that will cause harm or reputational damage'. There were no serious breaches reportable during the period.

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 in December 2017 demonstrated, once again, that improvements had been made over the previous year. Using the Red/Amber/Green traffic light system there are now 21 categories at green (2016: 19 green) and 9 at amber (2016: 10 amber and 1 red).

Business continuity

Each year SPPA undertakes a test of 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. Key findings are fed back to the SLT and changes are made to the Plan in the light of lessons learned.

In order to draw upon wider expertise and enhance the standard desk top test approach, a facilitated session was delivered by Police Scotland Counter Terrorism Security Advisors on 1 November 2017. The session was attended by 15 members of staff from across the organisation including CEO, Disaster Recovery Team, Facilities and HR. Content for the first part of the session was drawn from Project Griffin, which is an initiative to raise awareness and understanding of the practical measures that can be taken to counteract terrorism and extremism in our communities. The second part covered business resilience and involved a scenario involving a flu pandemic that, incrementally, imposed a greater challenge to the business.

In addition to the facilitated session, the SPPA building was closed Wednesday 28 February and reopened Monday 5 March 2018 due to severe winter weather conditions. The closure was managed as per pre-established business continuity procedures for severe weather. Advice from police, government, council and meteorological sources assisted in decision making that was communicated to staff through the Agency's 'groupcall' messaging system and other media channels.

During the year feedback on the Agency's Business Continuity Plan and draft Counter Terrorism Plan was sought from experts in the field and has been broadly positive.

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. These include the annual report to the Scottish Public Pensions Agency and the Auditor General for Scotland.

In the Annual Audit Report issued July 2018 relating to year 2017-18 it was reported that 'SPPA had adequate governance arrangements in place that support scrutiny of decisions made by the Board' and the 'risk management processes are

operating effectively'. It should be noted that Audit Scotland take consideration of the work performed by Internal Audit.

Internal Audit

The Agency directs the work of Internal Audit, informed by the Agency's Risk Registers, its 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 2017-18, Internal Audit finalised or is in the process of finalising reviews of:

- Pension board governance (provisionally 'reasonable' assurance)
- Ability to deliver business as usual ('reasonable' assurance)
- Contract management arrangements for the integrated pension administration and payroll system (management letter reporting format)
- General Data Protection Regulations across Scottish Government (including SPPA assessment)
- Scottish Government's payroll, human resources and IT systems assurance (services received by SPPA)
- follow-up reviews on previous audits.

Internal Audit has provided the Accountable Officer with an overall 'reasonable' assurance opinion for 2017-18 on the risk management, internal control and standards of governance applied across the Agency.

Audit Scotland completed a review of the Scottish Government's Internal Audit Directorate, which is responsible for providing internal audit services to SPPA, in 2017/18. The review concluded that internal audit meets some Public Sector Internal Audit Standards (PSIAS), but also does not comply with significant aspects of the standards. The review found no areas where the underlying evidence would suggest an incorrect audit opinion or conclusion. However, improvements are required to meet both PSIAS and the Scottish Government's own Internal Audit Manual.

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. During the year the Agency's whistleblowing policy was reviewed and refreshed and agreed at the Audit and Risk Committee meeting in January 2018. Reportable breaches of health and safety and data security were reported to the Audit and Risk Committee at each meeting through the reporting year.

Reliance on experts

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. The District Valuer reviewed the Agency's premises as at 31 March 2018 and the results of the work carried out are reflected in the annual accounts.

2.3.5 Corporate governance management arrangements changes

Governance arrangements for the PS Pensions Project were strengthened by the involvement of a skilled, independent specialist team commissioned through the Scottish Government's Office of the Chief Information Officer. The team carried out two in-depth assurance IT health checks during the reporting period, in July 2017 and January 2018 (following up on an initial review of October 2016). The review findings were shared with the Audit and Risk Committee and the strategic supplier, which participated fully in both reviews. The July 2017 review recommendations were used to inform the basis of a contract variation with the supplier and a further strengthening of project controls and project management arrangements in operation in the Agency. The January 2018 review recommendations were used to inform the action taken to discontinue the project.

During the year, there were a number of executive and non-executive personnel changes (see paragraph 2.1.2 Directors and management structure). The Agency appointed a new Chief Executive with effect from 3 July 2017. Three existing non-

executive members were issued with new letters of appointment extending their term of office and two new non-executive members were appointed in February 2018.

The gender balance of non-executive members on the Board at 31 March 2018 was 57:43 female to male and the gender balance of executive directors also attending the Board was identical.

The Audit and Risk Committee carried out its annual self-assessment of its effectiveness using criteria set by the Scottish Government. The 2017-18 evaluation strongly supports the view that the Committee were effective in carrying out their functions. Also the Audit and Risk Committee provided a full account of its year's activities to the Management Advisory Board.

The Management Advisory Board aims to submit its annual self-assessment to its autumn 2018 meeting. In line with the guidance provided in the Scottish Government's "On Board", the Chief Executive will regularly review the performance of Board members and carry out an annual appraisal process. The Board and Audit and Risk Committee members recognise the value in this undertaking and a new process in support of the existing Terms of Reference has been written to assist in ensuring that the activity is conducted timeously after the reporting year end.

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

During the reporting year, the Agency followed a process of assessing risk at four levels. Individual directorates and project teams initially considered risk at an operational level through the year. The results of this work formed one plank of the work carried out at the second level by the Risk Governance Group. The identification of risks and associated controls emerging from audit review reports, business planning sessions and strategic away-day were also taken into account by the Group.

The Group convened meetings on at least 8 formally minuted occasions at which senior members of staff in each directorate surveyed pension scheme and agency-

wide risks in more detail. On all of these occasions a non-executive member with a background in risk was present. A range of tools and techniques were employed to ensure all risks were considered in detail e.g. key risk 'deep dives' and more broadly e.g. risk 'heat maps'.

Once changes were made to the risk registers, consideration was given to the revisions made at a third level by the SLT. Consideration involved assessing risks in the operational and wider political, economic, social, technological, legal, environmental context whilst also taking account of the Agency's risk appetite. Once the internal bottom-up and top-down processes were complete, the Corporate Risk Register was shared with the Audit and Risk Committee on a quarterly basis for non-executive member review. Similarly, the pension scheme risk registers were shared with Pension Boards on a quarterly basis with a further emphasis in the narrative on the impact of risk on the Agency's customers. The registers are used primarily as a tool in managing and mitigating the Agency's short, medium and long-term risks.

The Agency's top 10 risks for the period:

- successful implementation of integrated pension admin and payroll system and digital customer services with minimal disruption to core business (n.b. a threat to the PS Pensions contract signed in October 2015 materialised in February 2018 when an independent assurance review uncovered significant failures which were unresolvable and assessed the Project as status 'red').
- successful delivery of Annual Benefit Statements for four pension schemes to time and quality required (n.b. a threat to meeting the ABS deadline materialised on 31 August 2017 and as a result the Agency self-reported to the UK Pension Regulator as described in the Performance Review)
- delivery of specific annual Operations Directorate business as usual (statutory, regulatory and other) tasks for four schemes to quality and time
- timely and accurate delivery of Guaranteed Minimum Pension scheme administration and management responsibilities by December 2018 without detriment to business as usual
- compliance with TPR Code of Practice 14 and meeting the service expectations of all key stakeholders, including the Pensions Regulator, Pension Boards, scheme employers and customers

- compliance with regulation and legislation in respect to information assurance
- effective management of external suppliers
- ensuring the right people, with the right knowledge, skill, experience and behaviours in the right place at the right time
- obtaining a sustainable funding stream sufficient to meet recurring expenditure and service investment needs
- technology and customer data and services compromised and/or vulnerable to 3rd party attack and/or potential fine for regulatory non-compliance.

Towards the year end, two further key risks were added to the Corporate Risk Register:

- successful delivery of the Target Operating Model with minimal disruption to core business and providing a sound foundation for the achievement of the Agency's vision and meeting stakeholders' expectations
- maintenance of business continuity and uninterrupted service provision in the event of a known or unknown threat materialising.

For each of the above the Agency reviewed its internal controls and identified actions to bring risk assessments down to a targeted level of acceptable residual risk based on the Agency's declared risk appetite. The threats which materialised and identified above were addressed by pre-determined compensating internal controls aimed at mitigating risk to the business area. All actions during the year were time-bound and reported upon to the Audit and Risk Committee. Risk management arrangements in operation 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 annual 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. Market intelligence and research is received from Pension Boards, targeted groups (e.g. Retired Police Officers Association Scotland), desk-top research, data including comments routinely gathered on customer service from surveys and complaint feedback supports a user-centred approach. Single event and continuous customer satisfaction surveys act together to provide event driven and more real-time feedback on services and service levels provided. Though take-up rates remain an issue, with actions planned to improve this, the 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 2017 CEM benchmarking survey are provided at paragraph 1.5.11.

The Agency continues to participate in the 'Investors in People' (renamed Re:markable) accreditation programme. The Agency first achieved 'Gold' status in 2012 and this was most recently reconfirmed in January 2017. The Agency will be subject to a new set of standards (the sixth generation) going forward and will seek to retain its status at the next full assessment in January 2020.

In June 2017 a partnership agreement was signed between the Agency and the Trades Union to encourage participation in joint decision-making processes. Working as partners to reach mutually acceptable arrangements the intention is to benefit staff and ensure the effective running of the Agency.

In October 2017, the Agency participated in a UK Government-led annual staff survey for civil servants which identified a staff engagement level of 55% (2016-17: 54%). In response to the results, the Agency carried out a number of initiatives to improve leadership and management and also change management skills. The People Network comprising representatives from a range of grades, directorates and from the trade union colleagues continues to provide a 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 Organisational Development and Operations in respect of the Scottish Government's human resources, payroll and financial systems that are shared with the Agency.

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 (audited information)

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

	2017-18	2016-17
	£000	£000
Alistair Brown (to February 2017)	n/a	0-5
Sheena Cowan	0-5	0-5
Ian Forbes (from February 2018)	0-5	n/a
Liz Holmes (from April 2017)	0-5	n/a
Jane Malcolm (from February 2018)	0-5	n/a
Eleanor Ryan (to July 2017)	0-5	0-5
Alex Smith (to January 2017)	n/a	0-5
Stuart Smith	10-15	0-5
Gillian Thompson	10-15	5-10
Gordon Wales (from July 2017)	0-5	n/a

2.4.2.2 Strategic Leadership Team (audited information)

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

Name and Title	2017-18			2016-17		
	Salary	Pension benefits	Total	Salary	Pension benefits	Total
	£000	£000	£000	£000	£000	£000
Penelope Cooper, Chief Executive (from 3 July 2017)	60-65 (part year salary, 80-85 full year equivalent)	24	85-90	n/a	n/a	n/a
Ross Paterson, Chief Executive FTE 0.92 (to 19 March 2017)	n/a	n/a	n/a	75-80 (part year salary, 75-80 full year equivalent)	30	105-110
Chad Dawtry, Deputy Chief Executive (to 25 August 2017). Refer to 2.1.2 for positions held during 2017-18	30-35 (part year salary, 70-75 full year equivalent)	11	40-45	65-70	30	95-100
Pamela Brown, Head of Operations Transformation (to 12 February 2018)	60-65 (part year salary, 70-75 full year equivalent)	6	65-70	65-70	3	70-75
Ian Waugh, Finance Director	60-65	23	85-90	60-65	28	85-90
Marion Chapman, Director of Corporate Services	60-65	26	85-90	60-65	33	90-95
Susan Gray, Director of Business Change Programme FTE 0.95 (to 31 July 2016)	n/a	n/a	n/a	15-20 (part year salary, 50-55 full year equivalent)	7	20-25
Eleanor Guthrie, Interim Head of Customer Services (from 1 September 2016)	65-70	26	90-95	35-40 (part year salary, 65-70 full year equivalent)	17	55-60
Lorimer Mackenzie Interim Policy Director (from 7 September 2016)	70-75	4	75-80	40-45 (part year salary, 70-75 full year equivalent)	12	50-55

Tony Bayliss Temporary Director of Digital Transformation (from 1 April 2017)*	95-100	n/a	95-100	n/a	n/a	n/a
Jeanette Innes Temporary Head of Governance (from 27 November 2017)**	20-25 (part year, 55-60 full year equivalent)	n/a	20-25	n/a	n/a	n/a

* Seconded from a public sector organisation and is not a member of the Civil Service Pension Scheme. The salary stated represents the invoiced value (including VAT) but excluding employer national insurance, pension contributions and travel expenses.

**Temporary agency staff with the salary stated being the invoiced value including VAT.

No director received any bonus payments or benefits in kind during the year ended 31 March 2018.

The pay of the Chief Executive, as a member of the Senior Civil Service, is 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 (FRM), reporting bodies are required to disclose the relationship between the remuneration of the highest paid member of the Senior Leadership Team and the median remuneration of the organisation's workforce. The median calculation includes directly employed staff paid through the Agency's payroll, and covers both permanent staff and those on fixed term contracts. It does not include temporary agency staff paid by invoice. The ratio is calculated as the mid-point of the highest band divided by the median total remuneration. The banded remuneration of the highest paid permanent director in the SPPA in the financial year 2017-18 was £80k-£85k (2016-17: £75k-£80k). This was 4.1 times (2016-17: 4.0) the median remuneration of the workforce, which was £20,011 (2016-17: £19,582). Staff remuneration across SPPA ranged from £5k-£10k (reflecting part-time working patterns) to £80-85k (2016-17: £5k-£10k to £75k-£80k).

2.4.2.3 Compensation on early retirement or loss of office (audited information)

SPPA made no compensation payments to any of the Strategic Leadership Team during 2017-18.

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 18 and related lump sum	CETV at 31 March 18	CETV at 31 March 17*	Real increase/ (decrease) in CETV
	£000	£000	£000	£000	£000
Penelope Cooper, Chief Executive (from 3 July 2017)	0-2.5 plus 0-2.5 lump sum	0-5 plus 0-5 lump sum	19	0	14
Chad Dawtry, Deputy Chief Executive (to 25 August 2017). Refer to 2.1.2 for positions held during 2017-18	0-2.5 and 0-2.5 lump sum	15-20 plus 50-55 lump sum	378	361	10
Pamela Brown, Head of Operations Transformation (to 12 February 2018)	0-2.5 and 0-2.5 lump sum	30-35 plus 100-105 lump sum	724	678	5
Ian Waugh, Finance Director	0-2.5 and 2.5-5 lump sum	20-25 plus 55-60 lump sum	482	416	25
Marion Chapman Director of Corporate Services	0-2.5 and 2.5-5 lump sum	20-25 plus 65-70 lump sum	487	434	24
Eleanor Guthrie, Interim Head of Customer Services (from 1 September 2016)	0-2.5 and 0-2.5 lump sum	10-15 plus 0-5 lump sum	203	175	14
Lorimer Mackenzie Interim Policy Director (from 7 September 2016)	0-2.5 and 0-2.5 lump sum	35-40 plus 0-5 lump sum	718	670	4

*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

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 4.6% and 8.05% of pensionable earnings for members of **classic**, **premium**, **classic plus**, **nuvos** and **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 updated 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 (audited information)

	2017-18	2016-17
Administration costs	£000	£000
Wages and salaries	7,385	6,780
Social security costs	652	587
Other pension costs	1,416	1,297
Agency staff costs	424	478
Total administration staff costs	9,877	9,142

Average number of full time equivalent persons employed	2017-18			2016-17		
	Female	Male	Total	Female	Male	Total
Senior civil servant	1	0	1	0	1	1
Senior management	3	2	5	3	2	5
Other permanent staff	144	128	272	135	127	262
Fixed term appointments	3	2	5	13	5	18
Agency staff	3	2	5	2	3	5
	154	134	288	153	138	291
Included in the numbers above						
Number of staff on capital projects			0			14

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 2017-18, employers' contributions of £1,409k were payable to the PCSPS/**alpha** (2016-17: £1,287k) at one of four rates in the range 20% to 24.5% (2016-17: 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 2017-18 to be paid when a member retires, and not the benefits paid during this period to existing pensioners.

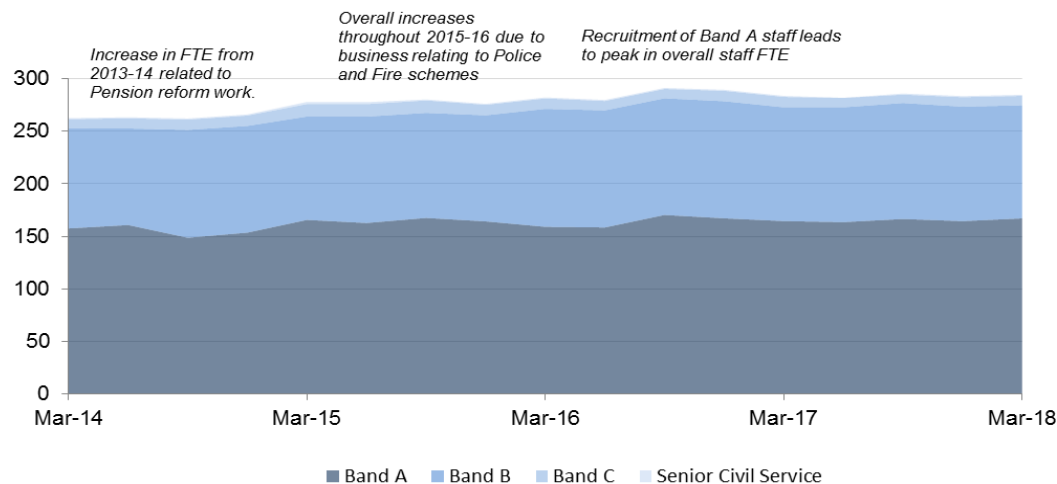
As stated at paragraph 2.4.2.5 above, employees can opt to open a partnership pension account, or a stakeholder pension with an employer contribution. Contributions paid by the Agency in 2017-18 were £7k (2016-17: £10k).

2.5.2 Staffing

Staff turnover for 2017-18 was 4.2% equating to 12 FTE members of staff (2016-17: 5.4% equating to 15 FTEs). Included within staff turnover were five members of staff who left the Agency to join other Scottish Government departments.

Chart 7

Permanent and fixed-term SPPA staff (FTE), by pay band



2.5.3 Employee recruitment

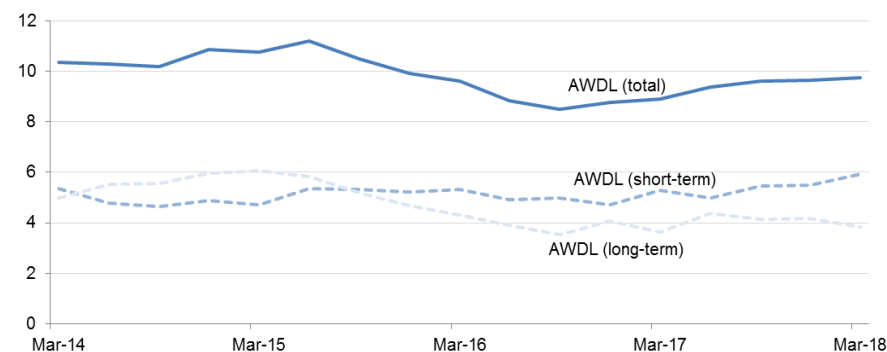
Recruitment and promotion campaigns undertaken by the Agency were carried out on the basis of fair and open competition, selection on merit and in accordance with Scottish Government guidance. The Agency recruited 17 pension administrators during the year (5 fixed term appointments, 11 modern apprentices and 1 transfer from Scottish Government). The Agency has been fortunate to have a member of staff joining from the Civil Service Fast Stream Programme which aims to develop young people into Senior Civil Service roles.

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. Staff awareness sessions were held to ensure a consistent approach. The total average working days lost in 2017-18 was 9.7 per member of staff (2016-17: 8.9) compared to the SG figure of 7.6. The HR team is providing support and advice to ensure early intervention and encourage those coming back from long term sick leave to return on part time medical grounds.

Chart 8

Average Working Days Lost (AWDL)
Short-term, long-term and total sickness absences



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. There are a number of staff with disabilities who continue to be supported in confidence.

2.5.6 Reporting of Civil Service and other compensation schemes – exit packages (audited information)

There were no exit packages agreed in 2017-18 for severance, early retirement or redundancy.

2.5.7 Trade Union facility time disclosures

The Trade Union (Facility Time Publication Requirements) Regulations 2017, took effect from 1 April 2017 and requires employers in the public sector to publish information on facility time. Facility time is the provision of paid or unpaid time off from an employee's normal role to undertake trade union duties and activities as a trade union representative.

The Agency had two (FTE equivalent: two) employees who were trade union officials during the year to March 2018. Both employees spent between 1-50% of working hours on facility time. The percentage of the Agency's total pay bill spent on paying employees who were relevant trade union officials for facility time during the relevant period was 0.03%. Time spent on paid trade union activities as a percentage of total paid facility time hours was 100%.

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 2018.

2.6.2 Fees and charges

Information on fees and charges raised during the year are provided at note 5 to the Financial statements.

2.6.3 Remote contingent liabilities

There were no remote contingent liabilities to report as at 31 March 2018.



Penelope Cooper
Chief Executive
23 July 2018

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 the Scottish Public Pensions Agency for the year ended 31 March 2018 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 financial statements, 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 2017/18 Government Financial Reporting Manual (the 2017/18 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 2018 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 2017/18 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 (UK) (ISAs (UK)). 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 Standard, 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.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the body has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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.

In preparing the financial statements, the Accountable Officer is responsible for using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit 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) 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website: www.frc.org.uk/auditorsresponsibilities

This description forms part of my auditor's report.

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, the audited part of the Remuneration and Staff Report, 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, my responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

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 matters prescribed by the Auditor General for Scotland

In my opinion, the audited 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 audited 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
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

26 July 2018

Scottish Public Pensions Agency

Financial statements 2017-18

Scottish Public Pensions Agency

Statement of comprehensive net expenditure for the year ended 31 March 2018			
	Note	2017-18 £000	2016-17 £000
Staff costs	2	9,877	9,142
Other admin costs	3	5,924	4,561
Depreciation	6,7	837	4,218
Write off of intangible non-current assets	4	1,621	0
Total operating costs		18,259	17,921
Operating income	5	(214)	(233)
Net operating costs		18,045	17,688
Other comprehensive expenditure			
Net (gain)/loss on revaluation of property, plant & equipment	6	(306)	(136)
Total comprehensive expenditure for the year		17,739	17,552

The above results relate to continuing activities.

The notes on pages 53 to 60 form part of these financial statements.

Scottish Public Pensions Agency

Statement of financial position as at 31 March 2018

	Note	2017-18 £000	2016-17 £000
Non-current assets			
Tangible non-current assets	6	5,030	4,928
Intangible assets	7	1,060	3,059
Total non-current assets		6,090	7,987
Current assets			
Trade and other receivables	8.1	19,309	16,464
Total current assets		19,309	16,464
Total assets		25,399	24,451
Current liabilities			
Trade and other payables	9.1	(8,116)	(8,795)
Total current liabilities		(8,116)	(8,795)
Total assets less current liabilities		17,283	15,656
Non-current liabilities			
Trade and other payables	9.3	(11)	(16)
Total non-current liabilities		(11)	(16)
Net assets/(liabilities)		17,272	15,640
Taxpayers equity and other reserves			
General fund		16,621	15,295
Revaluation reserve		651	345
Total taxpayers equity		17,272	15,640

The notes on pages 53 to 60 form part of these financial statements.

Penelope Cooper
Chief Executive
23 July 2018

Statement of cash flows for the year ended 31 March 2018

	Note	2017-18 £000	2016-17 £000
Cash flows from operating activities			
Net operating cost		(18,045)	(17,688)
Adjustments for non cash transactions			
Depreciation	6,7	837	4,218
Write off of intangible non-current assets	4,	1,621	0
Notional costs for services provided	3.3	286	259
Movements in working capital			
(Increase)/decrease in trade and other receivables	8	(2,845)	(8,291)
Increase/(decrease) in trade and other payables	9	(262)	1,840
Net cash outflow from operating activities		(18,408)	(19,662)
Cash flows from investing activities			
Purchase of tangible non-current assets	6	(129)	(282)
Purchase of intangible assets	7	(543)	(2,198)
Net cash outflow from investing activities		(672)	(2,480)
Capital element of finance lease payments		(5)	(5)
Net funding - Agency		15,961	16,884
Net funding - pension payments on behalf of Scottish police and fire services		3,124	5,263
Total net financing		19,080	22,142
Increase/(decrease) in cash and cash equivalents		0	0

The notes on pages 53 to 60 form part of these financial statements.

Scottish Public Pensions Agency

Statement of changes in taxpayers' equity

for the year ended 31 March 2018

	Note	General Fund £000	Revaluation Reserve £000	Total Reserves £000
Balance at 31 March 2017		15,295	345	15,640
Net gain/(loss) on revaluation of tangible non-current assets	6	0	306	306
Non cash charges - SG services	3.3	137	0	137
Non cash charges - Auditors remuneration	3.3	149	0	149
Net operating cost for the year		(18,045)	0	(18,045)
Net funding		19,085	0	19,085
Balance at 31 March 2018		16,621	651	17,272

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	6	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

The notes on pages 53 to 60 form part of these financial statements.

Notes to the accounts

For the year ended 31 March 2018

1. Statement of accounting policies

These financial statements have been prepared in accordance with the 2017-18 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 FRAB for subsequent inclusion in the FReM in force for the year in which the changes become applicable. The standard that is considered relevant to the Agency and the anticipated impact on the accounts is as follows:

IFRS 16 – Leases

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. It will supersede the existing IAS 17, but won't come into effect until January 2019. The extent to which this new standard will apply to the public sector is currently being considered by the FRAB.

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 2018 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 RICS Valuation Professional Standards. A professional revaluation of the property will be undertaken at least every five years, 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.

Upwards movements in value are taken to the revaluation reserve. Downward movements are set off against any credit balance held in the revaluation reserve until the credit is exhausted and thereafter charged to the statement of comprehensive net expenditure.

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 normally in the following ranges:

Buildings	31 years (valuation as at 31 March 2018)
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 is greater than £1,000 or where the pooled value exceeds £1,000. 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. The amortisation period is over 1 to 5 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 SPPA have been classified as trade receivable, prepayments and accrued income, and cash 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, 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 the Police Service of Scotland (PSoS) and Scottish Fire and Rescue Service (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	2017-18 £000	2016-17 £000
Actuarial services	2,148	1,008
IT maintenance	1,897	1,896
Reform of GMP	322	0
Postage costs	215	241
Other minor running costs	177	196
Professional & technical advisory services	163	339
Training	125	84
Subscriptions	78	84
Medical services	75	84
Travel and subsistence	45	44
Compensation payments	23	26
	5,268	4,002
3.2 Accommodation and support services		
Rates	121	129
Maintenance	89	17
Other accommodation costs	160	154
	370	300
3.3 Notional charges		
Services provided by the Scottish Government	137	112
Audit fee	149	147
	286	259
Other administration costs total	5,924	4,561

4. Write-off of intangible non-current assets	2017-18 £000	2016-17 £000
Write-off of assets	1,621	0

The PS Pensions project to develop a new integrated pensions administration and payroll system was discontinued in February 2018 resulting in a net write-off of assets amounting to £1,621k in 2017-18. Software licenses, IT software and assets under development of £1,994k (refer to note 7) were offset by a work in progress creditor of £373k included within accruals and deferred income as at March 2017 (refer to note 9).

5. Income	2017-18 £000	2016-17 £000
Pension sharing on divorce – charges to courts and solicitors	192	213
Pension calculation services for third parties	12	12
Other income	10	8
	214	233

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

6. Property, plant & equipment

For the year ended 31 March 2018	Land	Buildings	Information technology	Equipment	Furniture and fittings	Total
	£000	£000	£000	£000	£000	£000
Cost or valuation						
At 1 April 2017	434	4,362	632	251	743	6,422
Additions	0	0	78	0	44	122
Disposals	0	0	0	(38)	0	(38)
Revaluations	(34)	(177)	0	(116)	(57)	(384)
At 31 March 2018	400	4,185	710	97	730	6,122
Depreciation						
At 1 April 2017	0	492	311	142	549	1,494
Charged in year	0	125	149	22	30	326
Disposals	0	0	0	(38)	0	(38)
Revaluations	0	(617)	0	(58)	(15)	(690)
At 31 March 2018	0	0	460	68	564	1,092
NBV at 31 March 2018	400	4,185	250	29	166	5,030
NBV at 31 March 2017	434	3,870	321	109	194	4,928

Equipment includes assets held under finance leases with a net book value of £16k (2016-17: £21k).

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

7. Intangible assets

For the year ended 31 March 2018	Software licences £000	IT software £000	Assets under development £000	Total £000
Cost or valuation				
At 1 April 2017	1,769	6,758	1,308	9,835
Additions	336	170	0	506
Disposals	0	0	0	0
Write off of intangible non-current assets	(888)	(4)	(1,308)	(2,200)
At 31 March 2018	1,217	6,924	0	8,141
Depreciation				
At 1 April 2017	154	6,622	0	6,776
Charged in year	425	86	0	511
Disposals				
Write off of intangible non-current assets	(205)	(1)	0	(206)
At 31 March 2018	374	6,707	0	7,081
NBV at 31 March 2018	843	217	0	1,060
NBV at 31 March 2017	1,615	136	1,308	3,059

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
Transfers	(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

8. Trade receivables and other current assets

	2017-18	2016-17
	£000	£000
8.1 Amounts falling due within one year		
Trade receivables	13	19
Prepayments and accrued income	1,251	1,172
Cash in transit	17	8
Other receivables*	18,028	15,265
Total receivable within one year	19,309	16,464
8.2 Intra-government balances		
Balance with bodies external to government	19,309	16,464

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

9. Trade payables and other current liabilities

	2017-18	2016-17
	£000	£000
9.1 Amounts falling due within one year		
Trade payables	315	270
Accruals and deferred income	512	883
Taxation and social security*	7,284	7,637
Other payables	0	0
Finance lease	5	5
Total due within one year	8,116	8,795
9.2 Intra-government balances		
Balances with other central government bodies**	366	489
Balances with bodies external to government	7,750	8,306
	8,116	8,795
9.3 Amounts falling due after more than one year		
Finance lease	11	16
Total due after one year	11	16
9.4 Intra-government balances		
Balances with bodies external to government	11	16
	11	16

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

**Includes accrued employee benefits.

10. Capital commitments

Capital commitments at 31 March 2018 not otherwise included in these accounts.

	2017-18 £000	2016-17 £000
Contracted for at 31 March	0	1,586

11. Commitments under leases

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

11.1 Obligations under operating leases comprise	2017-18 £000	2016-17 £000
Office Equipment		
Not later than one year	4	11
Later than one year and not later than five years	0	4
	<u>4</u>	<u>15</u>

11.2 Obligations under finance leases comprise		
Office Equipment		
Not later than one year	6	6
Later than one year and not later than five years	11	17
Less interest element	(1)	(2)
	<u>16</u>	<u>21</u>

12. 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.

13. Contingent liabilities

There were no contingent liabilities as at 31 March 2018.

14. 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