

SAB Working Groups update

Purpose

This paper provides an update on the SAB Working Groups, Good Governance Working Group and Cost Control Working Group, convened as agreed by the SAB at its November 2023 meeting.

The Working Groups are continuing to progress work, so this update is for noting and any comments.

Good Governance Working Group

The Group met for the first time on 12th February. The Group considered the remit as agreed by the SAB to:

1. Examine the previous recommendations in light of the survey of Fund governance
2. Consider advice to Funds on the implications of the TPR Single Code of Practice
3. Review proposals from the E&W SAB and their desirability and applicability to Scotland

The Group agreed that a good starting point for work is to look at how effective are policy/ practices for Funds, Pension Boards and Pension Committees, in light of the Code of Practice and what is being proposed in England & Wales. It was felt that the Code of Practice may not be as clear about what is expected, for example from Pension Boards. Governance around Pension Boards and smaller Funds could form a focus, given previous feedback that larger Funds tend to have greater capacity to establish fuller governance arrangements and whether any guidance from the SAB would be beneficial.

The Group will meet again on 18th March, with the aim to:

- Fully review the Code of Practice to pick out key points and areas of concern, in order to focus on these.
- Consider further feedback from Pension Funds, including smaller Funds.
- To consider where England and Wales are at in responding to their review proposals.
- To firm up what we're looking for from Pension Boards; Pension Committees and Funds as regards feedback on their governance arrangements.

Cost Control Working Group

Members of the working group held an initial meeting to review the general issue and consider how to take it forward. GAD presented an overview of the working of the HM Treasury (HMT) cost-cap mechanism, and of how the English and Welsh LGPS SAB 'pre-breach' mechanism worked. They explained the process around quadrennial scheme valuations and assessing the cost cap, including data gathering, agreeing

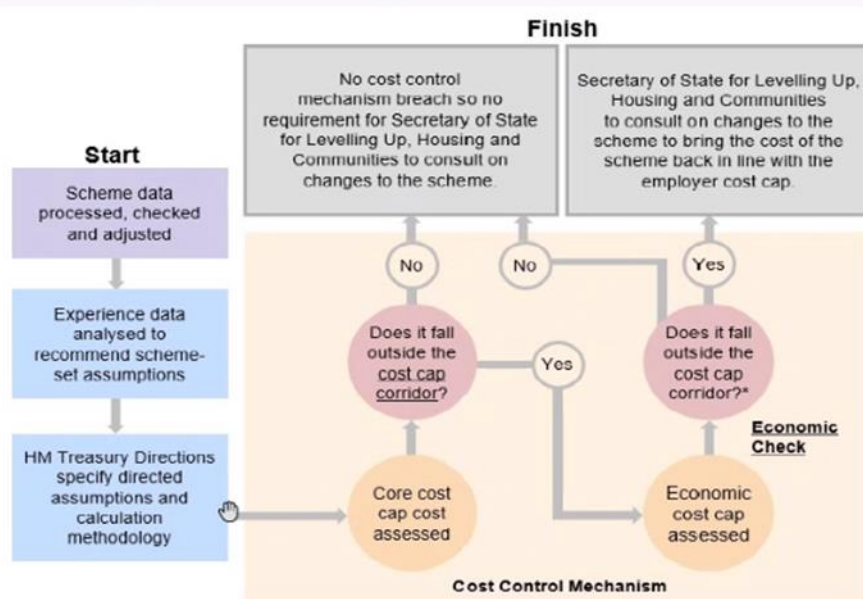
assumptions, undertaking the valuation, and implementing any changes. The slides below reflect the HMT process, and how the SAB process interacts with it.

There is the major financial “cliff edge” if the cost cap is found to be breached, resulting in scheme benefits being adjusted so the scheme meets the target cost. The “pre-breach” mechanism aims to avoid a breach by making smaller adjustments to scheme benefits, and so has a less significant impact. It is supported by advice from GAD. It was also highlighted that recent changes to the HMT cost cap mechanism means it now includes an “economic check” which aims to prevent changes which could be unaffordable.

The working group concluded with a number of action points

1. To invite the SAB actuarial advisor to the group, and to continue to seek a fund advisor to support its work.
2. To seek views from the English and Welsh SAB on the working of their pre-breach mechanism, including its costs.
3. To explore if the English and Welsh mechanism could largely be replicated in Scotland, and what other options might be.
4. To meet again within a month to take this work forward.

HMT CCM Process



EW SAB Cost Management Process

