# 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. It also incudes an update on groups looking at Exit Credits and Fund Annual Reports.

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 second time 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.

It was noted that the new Code had been issued to apply from 27th March 2024. This had been shared with each Fund. Laura Colliss provided a presentation on key points including that all Funds need to do a gap analysis; that Funds have to comply with the Code; that this would need to be added to Pension Board training; that the Code essentially brings together previous practice and not substantial changes; there was an issue raised of existing controls versus new requirements; and that this would likely take 6 months to bed in, with further details to be looked at. To this end it was noted that Hymans has produced a toolkit to support Funds. The Group also noted that whilst the Code brings practice into a more aligned approach there would be different practices due to in house governance.

There remains a question of whether the SAB wants to consider guidance around the Code. However it was felt that a more beneficial approach would be for SAB Members to attend a training session arranged with Funds and Board Members, this reflecting that more learning would support the SAB in taking views on any guidance but also ensuring Members are fully up to speed on the governance considerations arising out of the Code. Such a session could be looked at for September, post summer.
Additionally it was felt that the SAB could agree to write out to check what Funds are doing to respond to the Code and that timing of this suggests brining this back to the SAB's first meeting in 2025.
The Working Group would meet again post the May SAB and pre the September training.
The SAB is therefore asked to support the suggested course of action set out above.

## Cost Control Working Group

The group met on 28 March with participants from GAD, SAB Actuarial advisors, SAB members and joint secretaries. The principle discussion revolved around the costs and benefits of the SAB adopting its own cost control mechanism, given that the new HM Treasury mechanism incorporated an “economic check” which intends to assess the affordability of any changes.  A 3% cost collar was less likely to be breached than a 2% one, but would have more significant impact.

Key issues were identified as the sensitivity of certain factors – what level of change in which factors would make it likely that the cost collar would be breached – and the time and cost of operating an independent mechanism.  It was agreed to seek information from GAD around sensitivities, and from the English and Welsh SAB on the cost of operating a mechanism, and then to reconvene to report to the SAB.

## Fund Annual Reports Group

The SAB working group on Fund Annual Reports met on 10 May and discussed the issue, with input from advisors who weren’t able to attend.

The new and generally simplified guidance (a full ‘explainer’ is at https://lgpsboard.org/images/Annual%20report%20guidance%202024%20explainer%20final.pdf) includes a requirement to report on UK investments, relating to the “Levelling Up” agenda.  Reporting on Scottish investments, as a commentary or a list, was seen as potentially relevant.  In addition, reporting on “Fund of Funds” management expenses and a volatility measure – to contextualise risk against return - were considered and specific wording on these will be looked at.

The group agreed to try to rapidly finalised this work, and will contact the English and Welsh SAB to understand the Scottish specific wording, and now has a contact at CIPFA to seek accreditation.

## Exit Credit Working Group

The group looking at cessation regulations met on 10 May and examined the new draft regulations on exit credits and the existing 90-day guarantee on exit valuations.

On the new regulations, the group suggested the SAB consider querying why the transitional provisions related to the date of paying an exit credit, rather than the employer commencing the process of obtaining a quote.

The exit credit offered to an employer may not reflect the full actuarial value of their share of fund assets, depending on when the joined and the value of employer contributions paid in.  Funds have wide discretion on this, and there is a case for their approach being set out in their Funding Strategy Statements and the SAB issuing high level guidance on best practice for the principles relating to exercising their discretion and interpreting certain provisions in the regulations.

On the 90-day guarantee, there was a concern that exiting employers should not be able to “game the system” at the expense of remaining employers.

Further work on these issues is underway, and the group is due to reconvene.