



Morris Review of the Actuarial Profession

**Response by Prospect, Government Actuary's
Department Branch**

to Chapter 9 of the Interim Assessment

February 2005

MORRIS REVIEW - INTERIM ASSESSMENT

CHAPTER 9: THE GOVERNMENT ACTUARY'S DEPARTMENT

Response by Prospect, Government Actuary's Department Branch

1 Introduction

- 1.1 Prospect GAD Branch¹ notes the marked difference between Chapter 9 and the rest of the Interim Assessment with regard to the level of analysis so far undertaken by the Review team. It appears that the extent to which the Review's final recommendations have been developed in relation to Chapter 9 is significantly less than for others. Paragraph 9.105 of the Interim Assessment highlights that there remains a need to consider GAD as a whole, and to frame recommendations consistent with a business model for GAD which is viable. This further submission from the Branch is offered in the capacity of assisting the Review team with that work. Whilst this has been prepared by the Branch, the submission has been shared with, and is endorsed by, Prospect as a whole. It is without prejudice to any submissions which individual members may wish to make to the Review team on their own account.
- 1.2 The Branch has also provided comments to management in the preparation of, and fully endorses, GAD's submission to the Review team dated 4 February 2005 on Chapter 9 of the Interim Assessment.
- 1.3 We welcome the visit to GAD made by the Review team on 27 January 2005, which included a meeting at which the Branch was represented, and which we hope served to enhance the team's understanding of GAD, what it does and how it does it. However, we would be happy to have a further meeting with the Review team in the light of the further comments made in this submission, and believe that this would be helpful. The Review team should contact me, as Branch Chair, in the first instance to make arrangements for any such meeting.

2 Future viability of GAD

- 2.1 For the Review to have value, it is clearly essential that it makes sound and practical evidence-based recommendations which are capable of being implemented by Ministers, and which are capable of achieving and sustaining the continued role for the Government Actuary which is endorsed by the Interim Assessment.
- 2.2 It follows from this that the recommendations made by the Review must provide for the continued financial and operational viability of GAD, as it is clear that the Government Actuary cannot operate without a dedicated support team. It is also essential that the recommendations made are in the interests of Ministers, government departments, Parliament and the wider public sector – which GAD currently advises, and to which the provision of readily accessible, independent actuarial advice of the highest quality is the pre-eminent requirement – as well as in the public interest.

¹ The status and role of the Branch were described in our previous submission dated 9 September 2004.

- 2.3 This, in turn, means that the Review team must understand clearly how GAD operates, and the factors which secure its viability now, and which need to be preserved in the future in order that the recommendations made by the Review meet the key criteria noted above. A lack of appreciation of these factors, or of their importance, places the Review at risk of making recommendations which undermine the future viability of GAD. This would not only have profound adverse consequences for its existing staff, but also fail to meet the essential needs of government and the wider public interest.
- 2.4 Because of this future viability issue, the recommendations made by the Review in relation to one part of GAD potentially have profound implications for other parts. Logically, the Branch submits that this necessarily constrains the recommendations that can be made. The view expressed in the Interim Assessment that the Review team does not see a need to intervene in the areas of GAD's overseas activities, or its providing advice on the pensions aspects of public/private partnerships and private finance initiatives, for example, are worth nothing if recommendations made by the Review team in relation to other parts of GAD undermine its ability to continue to provide those services. This would happen, for example, if those other parts of GAD were no longer able to make their fair contribution to the overheads of the department (see paragraph 3.6 below).
- 2.5 Maintaining the financial and operational viability of an in-house actuarial service to government is a delicate balancing act which presents considerable challenges. These include, among others, issues relating the recruitment and retention of high quality staff, and handling political pressures and maintaining (and being seen to maintain) professional independence. During its 85 year history, and contrary to the experience of many other countries, GAD has been successful in meeting these challenges.
- 2.6 The following sections describe the factors which have served to keep GAD strong and successful in meeting its objectives, with particular emphasis given to staffing issues, and outline some of the measures that have been taken by management, in consultation with the Branch, in recent years and months to further strengthen GAD for the future.

3 Recruitment and retention of staff and breadth of actuarial advice

- 3.1 Whilst there have been some short term staffing shortages at certain times in the past, GAD has been very successful in recent years in recruiting both qualified and trainee actuaries of very high quality. GAD typically recruits around 5 trainee actuaries a year, and also recruited a significant number of qualified actuaries, particularly into its pensions directorate, during 2004. For recent appointments to both actuarial directorates, applications of high quality have substantially outnumbered the number of posts available.
- 3.2 Retention of staff has also been very good in recent years, with historically low rates of staff turnover. This is not to imply that GAD's workforce is static, however, with some people having left GAD to continue successfully their actuarial careers in the private sector, and recruitments also having been made by GAD from the private sector (see paragraph 4.4 below).

- 3.3 This success reflects GAD's having the critical mass needed to attract high quality actuaries and trainee actuaries in the first place, and its ability to retain them by offering them a high level of job satisfaction and credible and competitive remuneration and career progression structures. These, in turn, are dependent on the current size of GAD, and the breadth of actuarial advice GAD currently provides, both in terms of its content and discipline and the range of clients to which it is provided.
- 3.4 This position contrasts with that which would pertain if actuarial advice to government were to be dispersed, with small teams of actuaries working within individual government departments. This structure would simply not be viable in the medium to long term. The value of actuaries in considerable numbers working together being able to share ideas, discuss methodologies and assumptions, peer review each other's work and keep abreast of professional developments cannot be over-emphasized, nor the contribution that this, and the variety, nature and challenge of the work they undertake, makes to the retention of senior actuaries with considerable knowledge and experience. Whilst placing actuaries within individual government departments can be appropriate and helpful in certain circumstances, this can be – and currently is – achieved in a very flexible and cost effective way by means of secondment or location of GAD actuaries within a client department for all or part of their working week.
- 3.5 The breadth of actuarial advice provided by GAD reflects the concentration of actuarial expertise within government in GAD and the very dispersed nature of GAD's clients and their needs for actuarial advice. As well as a relatively modest number of large clients, GAD also has a large number of small clients, many of which require actuarial advice only occasionally or on an ad hoc basis, and which therefore derive particular benefit from the ready access to, and the associated cost effectiveness of, actuarial advice which GAD provides.
- 3.6 It is important that the Review team should pay sufficient regard to these small clients – the majority of which are likely not to have responded to the Consultation Document – and to the importance of balancing their needs with those of GAD's larger clients, and of acting in the best interest of government as a whole. In this regard, it should be borne closely in mind that many of GAD's existing small clients would not wish to approach the private sector (with or without a tendering process) with the myriad small one-off requests for actuarial advice that currently come to GAD, which will generally be unfamiliar to the private sector and which GAD is uniquely well placed to deal with. It is also essential that the fair – as a government department, GAD is not permitted to charge different levels of fees to different clients, so there is no cross-subsidy of income and expenditure between different parts of GAD – but considerable contribution made to GAD's overheads by its large clients, and the importance of this to GAD's future viability as a financially self-supporting entity and hence to its ability to continue to meet the needs of its small clients, should not be underestimated.
- 3.7 With the breadth of activity it currently undertakes, and the income derived from its wide range of large and small clients, GAD is currently able to offer a reasonably competitive remuneration structure, despite the constraints to which it is subject as a result of being a government department. This could be easily

undermined if GAD were to lose these facets, or reduce in size to a significant extent, thereby losing critical mass in the actuarial employment market.

- 3.8 GAD's ability to offer a credible and competitive career progression structure reflects a combination of the breadth of actuarial advice it provides and a general willingness on the part of management to consider favourably requests from actuarial staff to move from one part of GAD to another, and, where appropriate, to encourage or arrange such moves. There have been a number of internal transfers of qualified actuaries in recent years, and trainee actuaries are also typically encouraged to move to a different part of GAD within 2 or 3 years of joining to broaden their range of experience and assist them in passing the examinations.
- 3.9 In summary, the variety of work that GAD is able to offer as a result of the broad range of its clients and the advice it provides to them is a very important factor contributing to its ability to recruit and retain very high quality staff, and hence to its continuing financial and operational viability. There is a substantial risk of this being undermined if GAD were to cease carrying out significant parts of the work it currently does.

4 Public sector ethos

- 4.1 It cannot be over-emphasized that GAD is quite unlike a private sector actuarial consultancy. Its focus is on serving the public interest by advising Ministers, government departments and the wider public sector. It is a not-for-profit organization, not motivated by profits or earnings. It also has no ambition to bid for the vast majority of work which is, in general, carried out by private sector consultancies.
- 4.2 GAD makes no pretence of being like a private sector consultancy in its dealings with the outside world, and indeed champions its distinctiveness and public sector status. This is one of its great strengths, with all who work at GAD understanding and greatly valuing its public sector ethos and its unique nature and role. Many GAD staff could command significantly higher salaries in the private sector but, precisely because of the unique nature and environment of GAD, nevertheless choose to remain working in, and for, the public sector.
- 4.3 Management recognizes the key importance and value of GAD staff having an understanding of the workings of government. It has recently announced to the Branch its intention to encourage and facilitate greater use of temporary secondment of GAD staff to other government departments in the future, which underlines this fact.
- 4.4 The above is not to say that GAD does not value and exploit experience from the private sector. On the contrary, a blend of private and public sector experience is highly valued and maintained in all parts of GAD. A number of management positions are held by those who have previously worked in the private sector – for example, four out of the five Chief Actuaries currently in post joined GAD (as actuaries, being promoted to Chief Actuary after varying periods, some of them short) after significant periods of varied private sector experience. The bulk of the recent recruitments of qualified actuaries have also been from

the private sector, and around half of the total actuarial staff at GAD have private sector experience.

- 4.5 GAD's unique nature and role greatly influences its thinking and approach to formulating the advice it gives. For example, it is inclined to take an independent long term view and to change relatively infrequently long term assumptions in response to short term market fluctuations. GAD also has a keen understanding of the practical implications of the advice that it gives to individual government departments and to government as a whole, and the processes involved in government and wider public sector decision making.
- 4.6 GAD has been subject to a considerable degree of competition since 1989 and operates on a commercial basis, charging its clients for the work that it does. However, it is important for the Review team to appreciate that a *purely* commercial GAD, without its current public sector ethos and all that it brings, would not be attractive to at least most of its existing staff. Key actuarial members of staff would almost certainly leave in these circumstances. This, in turn, would risk the continuing operational viability of GAD (see also paragraph 3.4 above), undermining the continued role for the Government Actuary endorsed by the Interim Assessment and GAD's existing function of serving the public interest.

5 Status and commitment to quality of professional advice

- 5.1 The Interim Assessment endorses the overwhelming majority of actuaries in the UK as dedicated, skilled professionals providing important and useful advice to the best of their abilities. This is undoubtedly true of the actuaries (and also the other professionals) at GAD.
- 5.2 GAD has a very distinguished past and present, of which its staff are justifiably proud. It has a long standing very close relationship with the UK actuarial profession. GAD staff take pride in its reputation for professional independence, and in the high regard in which GAD is held by its clients. GAD regularly conducts client satisfaction surveys – the scope and coverage of which are much wider than the Consultation Document – which consistently show a very high level of satisfaction with the service GAD provides. Staff morale within the department is high.
- 5.3 The continuing professional development of qualified actuaries in GAD is ensured by GAD's strong commitment to training and providing access to relevant conferences and seminars, and its support for GAD actuaries to participate in various activities for the actuarial profession. The Government Actuary and other members of GAD serve on various Faculty and Institute of Actuaries boards, committees and working parties, and are regularly invited to provide actuarial input to other outside bodies. A number of GAD actuaries also undertake research in conjunction with various UK universities, and GAD has in the past also employed on a part time basis academics working at universities.
- 5.4 GAD provides support to its qualified actuaries, complementary to the guidance issued by the UK actuarial profession, by issuing internal professional codes of practice, such as the requirement for an actuary to get their work peer reviewed

by another actuary. GAD also holds internal professional briefings to provide information on the work undertaken by different parts of GAD, and to allow cross-fertilization of ideas between actuaries providing advice to different government departments. These briefings help ensure consistency across the department, and alert actuaries in one area of the department to potentially valuable resources in another, either for a specific task or for setting the broader context. They also provide an opportunity for professional debate on important issues, including ones of a technical nature, to better inform final decisions on these taken by the Technical Committee, which is responsible for developing coherent approaches to areas of technical and professional interest across GAD, including, among others, the consistency and defensibility of advice provided by GAD to its clients. GAD also takes care to remain fully up to speed with developments in the UK actuarial profession and to consider the implications of these for GAD actuaries, for example in relation to peer review and practising certificates.

- 5.5 GAD takes particular care to maintain its professional independence and that of its actuaries, and to avoid yielding to political pressures. Some of the work GAD undertakes is for Parliament and not for government. GAD has issued internal guidance to its actuaries on the issues raised by their being both professional actuaries and civil servants, and on their responsibilities when dealing with the media or making public statements, consistent with the civil service management code.
- 5.6 GAD's track record with the development of its trainee actuaries is also extremely good. Taking the most recent 100 and 200 series examination results in November 2004 as an example, GAD's pass rate was an excellent 87%, compared with a Faculty and Institute of Actuaries average of 59%. GAD also had three of its senior trainee actuaries qualify at the same examination sitting. This markedly superior performance is no accident. It reflects GAD's ability to attract high quality graduates in the first place, and its strong commitment to both their technical and professional development once recruited, further details of which are provided in section 7 below. GAD has a policy of recruiting trainee actuaries both with exemptions from some of the examinations by virtue of earlier study at university, either at under-graduate or post-graduate level, and those who wish to study for the examinations from scratch through day release.
- 5.7 GAD is not complacent, and lives in the present and plans for the future. GAD has adapted well to the challenge of having being subject to a considerable level of competition since 1989. It has been flexible and adaptive in its approach, and this continues today. A number of specific measures that have been taken by management in recent years and months to further strengthen GAD for the future are outlined in section 9 below.

6 Synergy and its contribution to quality and cost effectiveness

- 6.1 Apart from this helping to secure the continued viability of GAD as already explained, it is also important that the Review team should not under-estimate the extent to which the breadth of advice GAD currently provides also helps contribute to the quality of that advice, and to generate synergies which help improve the cost effectiveness of the advice provided by GAD.

6.2 Examples of this include the following:

- the quality of pensions policy advice which B2 division is able to provide is enhanced by the knowledge and practical experience of A Directorate actuaries performing a scheme actuary role for public sector pension schemes, and vice versa;
- the presence of B1 division actuaries knowledgeable in insurance matters and familiar with the EU Insurance Directives has proved beneficial in other parts of GAD – for example in B2 division in providing advice on implementing the Pensions Directive in the UK (which has features in common with the Insurance Directives), and in A1 Division, which includes an appropriate actuary to a UK authorised general insurance friendly society;
- the knowledge of B2 division actuaries and demographers on trends in mortality help inform the adjustments made to standard mortality tables used for valuing assurance and annuity contracts which should be looked for (as internal guidelines only) by B1 division actuaries when providing advice to overseas regulators of insurance companies; B2 division staff are also similarly able to contribute to the development of the mortality assumptions used by A Directorate actuaries in providing advice to public sector pension schemes;
- in turn, B2 division's demography work is informed by a close knowledge of mortality developments as monitored by the UK actuarial profession;
- B1 division, which carries out UK social security work, is one of the primary users of the population projections prepared by B2 division; and
- consistency of advice is also better and more easily achieved through dialogue and liaison between divisions, for example with regard to key economic assumptions.

6.3 We do not pretend that it is easy for the Review team to quantify these effects. However, we submit that they make a very significant contribution to the quality and efficiency of the work done by GAD as a whole.

6.4 A related but separate point is that its breadth of experience also allows GAD to assemble multi-disciplinary teams, when appropriate, to meet particular client needs. For example, overseas clients sometimes wish to receive advice on both pensions and insurance matters (and sometimes social security too), where regulation of these is more closely aligned than in the UK.

7 Commitment to continuing provision of actuarial advice to government

7.1 The development of trainee actuaries is very important to, and the subject of a substantial commitment by, GAD. In order to pass the actuarial exams, a broad range of subjects needs to be covered. Trainee actuaries within GAD benefit from the opportunity of gaining practical experience in different areas of actuarial work resulting from the breadth of advice it provides.

7.2 GAD takes a realistic view towards supporting its trainee actuaries and has in

place a coherent and comprehensive package of support. This includes:

- paid leave for study, at the rate of one day per week and increasing from this in the run up to examinations;
- full payment for tuition materials, marking and tutorials;
- a study mentor system, under which each trainee actuary is assigned a qualified actuary as a mentor, who provides general advice on study, monitors progress, and provides assistance on specific difficulties arising. Mentor meetings are also held on a regular basis to review trainee actuary progress generally, and to consider changes to the structure of the study package to maximize the incentive given to trainee actuaries to pass the examinations quickly; and
- internal seminars, run by qualified actuaries on specific topics.

- 7.3 This study package is competitive in the actuarial market, and the anecdotal evidence from those who have joined GAD from private sector consultancies is that GAD's study arrangements are much better structured and more efficiently operated than those in place in some private sector consultancies.
- 7.4 Because of their numbers, trainee actuaries in GAD are also more easily able to support each other through group study sessions, etc. They receive personal encouragement from working alongside others who are also studying, as well as from their study mentor. GAD is also committed to treating its trainee actuaries fairly, for example by ensuring that scheduled study leave is not viewed as expendable and that its postponement occurs only in exceptional circumstances; indeed, it is part of the role of the study mentor to ensure that the level of pressure placed on a trainee actuary by their work in the office is properly balanced by their line manager with the need for them to study regularly and productively.
- 7.5 It is these factors which contribute to the markedly superior record of GAD's trainee actuaries in passing the examinations noted in paragraph 5.6 above, which serves to speed up, and improve the cost effectiveness to government, of their development as qualified actuaries.
- 7.6 At the same time as encouraging trainee actuaries to pass the examinations as quickly as possible, GAD also recognizes that this is not all that is required to be a successful qualified actuary – good communication, project management and client skills are also needed. For this reason, management, in consultation with the Branch, are currently in the process, as part of a wider overhaul of GAD's performance appraisal system, of introducing specific competences covering these other areas, attainment of which will be required for progression from junior trainee to senior trainee and from senior trainee to actuary within GAD. This is consistent with the need identified by the UK actuarial profession for work-based experience for trainee actuaries.
- 7.7 It is difficult to see how a steady flow of qualifying actuaries with a knowledge of the workings of government could be maintained if actuarial expertise within

government were not concentrated in a single body. But it is also somewhat difficult to envisage a *purely* commercial GAD wishing to continue to invest resources in the development of trainee actuaries with this skill at the level it currently does. The longer term consequence of this is likely to be an erosion of the availability and quality of actuarial advice available to government as a whole, and to an increase in its overall cost to the public purse.

8 Non-actuarial staff and other issues

- 8.1 Qualified and trainee actuaries, and demographers and statisticians, account for some 60% of the total staff at GAD. The remaining 40% are non-actuarial staff working in central services – which includes finance and accounts, office services, IT, and personnel – or in the actuarial divisions, providing technical and administrative support to actuarial staff.
- 8.2 The Branch has been concerned in the past about the relative lack of development opportunities for non-actuarial staff within GAD. However, a number of developments in recent years have served to ameliorate this concern. GAD attained Investor in People status in December 1999, and this highlighted the ongoing need for the training and development of *all* staff. For some time now, GAD has had a dedicated training officer, and actively helps non-actuarial staff to obtain higher educational or vocational qualifications. Indeed, the majority of staff in central services are encouraged, and supported, by GAD to undertake professional training in their field of expertise (for example, CIMA or similar in finance; MCSA/MCSE in IT; CIPD in personnel; and health and safety qualifications in office services), with securing qualifications in procurement also currently being considered for relevant central services staff. Support is also provided to staff to undertake relevant degree courses, where appropriate. GAD's Investor in People status has now been re-accredited twice, most recently in November 2004.
- 8.3 GAD introduced new “technical pay bands” in parallel with the standard civil service administrative grades in 2002 and encourages staff to transfer to these, linked to undertaking technical training including, in many cases, obtaining relevant qualifications as noted above. Vacancies in other government departments are notified to GAD staff on a regular basis, and as noted in paragraph 4.3 above, greater use of secondment of GAD staff is also to be encouraged and facilitated in the future.
- 8.4 GAD has consistently been successful in meeting all financial targets imposed upon it by HM Treasury by virtue of its being a government department. Its total fee income increased by around 3% in 2003/4 compared with the previous year.
- 8.5 As well as the professional briefings already mentioned, GAD also holds informal meetings for all staff on a regular basis. These provide staff with updates of developments in the department, and a wider view of how their work fits into GAD's overall business plan. They also allow staff to mix and get to know each other better. This helps staff morale, which is high. GAD's sick leave record is also significantly better than the civil service average and continues to improve.

- 8.6 It should also be noted that GAD maintains one of the largest non-university actuarial libraries in the world. Library staff within office services acquire or subscribe to, catalogue and disseminate to staff, relevant books, periodicals, magazines and newspapers; assist actuarial staff in research; and cooperate with other actuarial libraries to ensure coordinated delivery of information. They have also developed information databases which are used both internally within GAD and by other public authorities.
- 8.7 Any narrowing of the breadth of advice currently provided by GAD, or significant reduction in its overall size, would likely have a disproportionate impact on its non-actuarial staff. This is because not only would they have fewer actuaries to support but there would also be a need to reduce overheads in relative terms because of the lost, contribution to these currently fairly made by any business transferred away from the department. Whilst it might be possible for some of these staff to transfer to other government departments, this would be of little comfort to those who enjoy working at GAD and serve it so well. The same staff are also those potentially most affected by the Lyons and Gershon reviews of the civil service as a whole. Many of the positive things which GAD currently does described above would be compromised as a result.

9 Recent developments

- 9.1 It would be unrealistic for the Branch to claim that everything about GAD is perfect. This would not be true of any organization. But there is much that GAD gets very right, as explained above. Management has also taken, or is currently taking, in consultation with the Branch, a number of measures to further improve the way in which GAD operates.
- 9.2 Significant examples of these include the following:
- the composition of the Management Board has been streamlined to speed up decision making and enable it to focus better on the medium and long term goals of GAD, and two new non-executive directors have been appointed for the first time to provide a broader range of corporate management experience and to advise the Board;
 - associated with the above change, a revised Board committee structure has been introduced, which is more coherent, provides clearer delineation of responsibility, and allows for the involvement of a wider range of staff in the management of the department;
 - a thorough overhaul of GAD's invoicing systems and practices has been completed, which are now much improved;
 - a new pensions valuation system ("one per desk") is close to being introduced in A Directorate, and other computer hardware and software has recently been updated;
 - a review of internal management information systems is currently in progress;
 - a dedicated client liaison team has been established, which has improved

communications with clients and greatly reduced debtor balances;

- a dedicated training officer has been recruited, who also has responsibility for equity and diversity policy and for maintaining GAD's Investor in People status, which was most recently re-accredited in November 2004 (see paragraph 8.2 above);
- new pay bands have been introduced for non-actuarial staff, with the majority of these staff now working to obtain higher educational and vocational qualifications (see paragraphs 8.2 and 8.3 above);
- the performance appraisal system is currently being overhauled (see paragraph 7.6 above);
- a new internal pay-roll system has recently been put in place;
- work on the development of an electronic records management system is well advanced; and
- an internal working party was established to consider the implications of the coming into force of the Freedom of Information Act for GAD and its clients.

9.3 These examples demonstrate GAD's lack of complacency, and its commitment to further improve the way in which it operates in the future.

10 Conclusion

10.1 GAD employs very high quality staff and its actuaries, demographers and statisticians are dedicated, skilled professionals who, supported by dedicated support staff, provide important and useful advice to Ministers, government departments, Parliament and the wider public sector to the best of their abilities. For 85 years now, GAD has provided the highest quality, independent actuarial advice in a readily accessible, flexible and cost effective way, which has served government very well. It remains a strong and growing organization, which is highly valued and appreciated by its clients. It also looks forward to, and plans for, the future. These facts demonstrate that GAD's existing constitution and structure work, and we therefore see no case for making any radical changes to these.

10.2 It is essential that the Review makes sound and practical evidence-based recommendations which are capable of being implemented by Ministers, and which are capable of achieving and sustaining the continued role for the Government Actuary which is endorsed by the Interim Assessment. They must therefore provide for the continued financial and operational viability of GAD. Maintaining the viability of an in-house actuarial service to government is a delicate balancing act which presents considerable challenges, and it is important that the recommendations made do not upset this balance.

10.3 It is critical that the Review team understands that the breadth of work currently undertaken by GAD, its size, and its public sector ethos are important factors securing its viability, and that it recognizes, and takes due account of, the

inherent tension which exists between GAD operating *purely* on a commercial basis and its maintaining its unique nature, role and public sector ethos. It is also essential that the Review team should pay sufficient regard to the large number of GAD's small clients as well as the relatively modest number of its large ones, and to the importance of balancing their needs, and of acting in the best interest of government as a whole, to which the provision of readily accessible, independent actuarial advice of the highest quality is the pre-eminent requirement.

- 10.4 The rationale for the recommendations which the Review makes in relation to GAD should be articulated clearly in its final Report and be based on sound evidence and a considered and rounded analysis. Care should be taken to recognize that submissions made by potential competitors of GAD may be based on commercial interest, and to bear in mind that many of GAD's smaller clients are likely not to have responded to the Consultation Document.
- 10.5 In this regard, we would highlight to the Review team the following specific points, not all of which have been made in the earlier sections above:
- it is essential that the fair but considerable contribution made to GAD's overheads by the relatively modest number of its large clients, and the importance of this to GAD's future viability as a financially self-supporting entity, and hence to its ability to sustain the continued role for the Government Actuary endorsed by the Interim Assessment, and its existing function of serving the public interest, should not be under-estimated;
 - it is also important that the extent to which the breadth of advice GAD currently provides helps contribute to the quality of that advice, achieve consistency across the wider public sector, and generate synergies which help improve the cost effectiveness to government of the advice provided by GAD, should not be under-estimated;
 - the repeated references in the Interim Assessment to those public sector entities that have taken actuarial advice from the private sector being "very satisfied" with that advice are based only on very limited experience, both in terms of timescale and the number of scheme actuary appointments; it is, in fact, far too early to assess whether these new arrangements will prove beneficial to those entities in the medium to long term, or what the implications of these arrangements will be more generally, for example with regard to the level of consistency of actuarial advice across the wider public sector. It is also important that these references are properly balanced with the very high level of satisfaction with the service provided by GAD expressed by GAD's existing clients;
 - with regard to existing references to GAD in secondary legislation, it should not be forgotten that it has always been within the power of individual government departments to remove these references to provide them with greater flexibility as to the source of actuarial advice on the pension arrangements for their staff if they had desired this; and
 - the list of main differences between the public and private sector pension

schemes provided in paragraph 9.14 of the Interim Assessment misses a number of points which we regard as highly pertinent to the importance of the role performed by GAD in advising public sector pension schemes and to its suitability for this role:

- public sector workforces tend to be very large and have many special characteristics; as a government department itself, GAD has a particularly close understanding of these factors;
- public employers tend to have very different human resources and other policy objectives (driven by wider government policy) than are typical in the private sector; again GAD understands this well;
- some public sector pension schemes are sponsored by highly decentralized organizations, with policy development for the schemes being subject to a process of consultation with a wide variety of stakeholders, including relevant trades unions and other negotiating bodies. GAD is uniquely well placed as an independent actuarial adviser within government to provide advice generally securing the confidence of all such stakeholders. GAD is also subject to public scrutiny during this process in a way in which private sector consultancies are not as part of their work, with its assumptions being subject to disclosure, and to challenge by interested parties.

10.6 Reviews are, in general, helpful, and the Branch is confident that much can come out of this Review which is positive for GAD. However, the nature of reviews is such that, with respect, the personal risk run by those who prepare them is small whilst, in contrast, the potential impact that the recommendations made can have on the staff of the organization subject to review is profound and long lasting. This Review is no different for the existing staff of GAD. We would ask that the Review team take this observation into account in making its final recommendations, which should pay due regard to staffing issues and to the need to ameliorate the effects on existing GAD staff of any structural changes which are proposed for the department; indeed their professionalism demands no less of them.

Jeremy Dunn
Branch Chair
On behalf of Prospect GAD Branch

4 February 2005