



eNews from GAD

Supporting effective decision-making and robust reporting

Issue 32, July 2018



Welcome to eNews – GAD's regular newsletter. Efficient problem solving and effective decision making are key to meeting the challenges that UK public sector organisations face in delivering public services. Often the best solutions and decisions can be reached through collaboration not only between the front line services involved but in partnership with appropriate experts. Ian Rogers examines an example of this, a timely one given this July marks the 70th anniversary of the NHS, by looking at how the Department of Health and Social Care has worked with GAD to address some of its challenges.

A common element to problem solving where large volumes of data are relevant is the use of analytical models. However, care and diligence are needed to ensure reliance can be placed on information generated in this way. Chris Paterson looks at how government departments have progressed with putting appropriate assurance processes in place to ensure this in practice since the 2013 Macpherson review of modelling.

Sharing ideas with others facing similar challenges is an important step towards finding the right solutions and the right partners to deliver them. A recent GAD event provided an opportunity for a range of government departments to do this in the context of reviewing their employee benefit packages. Jeanette Johnson sets out the highlights of this event.

I hope that you enjoy this issue. As always, previous issues of eNews are available on our website www.gov.uk/gad.

MARTIN CLARKE, GOVERNMENT ACTUARY

NEWS FROM GAD

GAD contributions at actuarial pensions conference

GAD actuaries delivered two sessions at the Institute and Faculty of Actuaries annual [pension conference](#). Mark Shaw spoke about his work with the Department of Work and Pension on the white paper on [protecting defined benefit schemes](#), and Anika Nicholson presented on the Pensions Dashboard as deputy chair of the profession's working party on this topic. Additionally Sarah Brough was a member of the organising committee and chaired the opening and closing sessions of the conference.

GAD report and accounts

The GAD 2017/18 [annual report and accounts](#) are now available on our website. As well as the financial statements, the report details our progress with improving service for clients.

DEVELOPMENTS

Personal Injury Discount Rate

Reforms to how compensation pay-outs for personal injury victims are calculated continue to progress. In England & Wales, the [Civil Liability Bill](#) is subject to ongoing Parliamentary scrutiny. In Scotland a [Damages Bill](#) has now been introduced to Parliament. Both Bills set out a statutory role for the Government Actuary who will, in the future, be involved with regular reviews of the discount rate.

Consultation on updated mortality tables

The Continuous Mortality Investigation, which is supported by the Institute and Faculty of Actuaries, is consulting on new ['S3' mortality tables](#). These tables of death rates are based on the mortality experience of certain self-administered pension schemes between 2009 and 2016. This includes, for the first time, data submitted by GAD for some public service pension schemes.

The Pensions Regulator (TPR) - update

In April, TPR published its 2018 [Annual Funding Statement](#) for the trustees and sponsoring employers of defined benefit (DB) pension schemes. The statement provides guidance on how to approach a valuation as well as setting out TPR's expectations of trustees. Other recent publications from TPR include research on the [DB landscape](#), [analysis](#) of schemes with valuation dates in the year to September 2018 and the findings of its latest [annual survey](#) into the governance and administration of public service pension schemes.

Changes to the actuarial qualification

The Institute and Faculty of Actuaries has been reviewing its education strategy to ensure that it is 'fit for the future'. Further information about its plans is now available in this [consultation response](#). A new [curriculum](#), reflecting the wider application of actuarial skills in both traditional and non-traditional fields, comes into force in 2019.

ADDING VALUE TO DECISION MAKING IN PUBLIC SERVICES

UK public sector organisations face increasing challenges in delivering public services efficiently. Critical decisions can often be best informed by combining their own specific knowledge with support from the public sector Analysis Function community.

As specialists in advising on long term risk and uncertainty, GAD are part of this cross government professional network. We look at the growth of our collaboration with the Department for Health and Social Care to show how this works in practice.



Ian Rogers

The long-standing relationship between GAD and the Department of Health and Social Care (DHSC) has grown and developed over many years. Initially this relationship was focussed on the NHS Pension Scheme, with GAD providing expertise and trusted advice as pension actuaries in core areas such as:

- Valuations of the scheme to determine the contribution rates to be paid
- Determining actuarial factors used in the administration of the scheme, eg on early retirement
- Providing disclosures for the NHS accounts
- Advising on bulk transfers in and out of the scheme mainly for staff moved between service providers.

Developing the relationship

Over the years, the engagement between GAD and DHSC has grown from a client and advisor relationship into a collaborative working partnership. We have been able to expand from dedicated delivery of the core actuarial services to a more holistic understanding of DHSC's needs. Ensuring our approach is aligned with [GAD's values](#) below has been a key part of this success.

In addition to [civil service core values](#), **GAD's values are:**

Agile	through technical innovation and flexible working to meet evolving client needs
Dedicated	to delivering timely advice and first class and cost-effective customer service
Expert	and focused on quality of analysis to provide robust assurance on decision making
Partnering	with our clients to understand their business needs and develop solutions that add value for them
Trusted	to deliver a professional service with integrity

Expanding our existing areas of support

Better communication and closer working has enabled us to be on hand to provide timely ad-hoc advice and support in a wider range of pensions related areas:

- **Reward:** We have worked collaboratively with the DHSC policy team to carry out analysis in relation to employee pay and reward. An example of this work includes providing estimates of the value of acquiring NHS Pension Scheme benefits in the market. These then enabled an evaluation of the impact of proposed changes to pay on the overall reward packages of various groups of staff.
- **Data improvement:** GAD have worked closely with the NHS Business Services Authority (BSA), who administer the scheme, to monitor and improve the quality of the scheme's membership data. Moving to more regular annual data collection has allowed more errors to be driven out and resulted in more reliable financial reporting and better control of risk and uncertainty in setting employer contribution levels at actuarial valuations.
- **Contribution structure:** Closer collaboration on data has also allowed us to support both NHS BSA and DHSC with several scheme and workforce questions. An example of this is our set of analyses to help determine the appropriate structure of salary tiers and employee contribution rates needed to ensure the scheme receives the correct share of the total NHS payroll in a fair and balanced way.
- **Tax:** Efficient tax treatment is a key part of the UK pension regime, but UK tax and pensions have a complex interrelationship. The maximum pension members can build up within the scheme without incurring a tax charge has tightened annually in real terms over much of the past decade. We have used our specific expertise on the implications of tax for scheme members to give support on areas such as the Annual Allowance and Lifetime Allowance. This has included workforce planning, administrator calculators and analysis of the latest developments.

ADDING VALUE TO DECISION MAKING IN PUBLIC SERVICES

New areas of collaboration

Pension commitments are only one of many sources of financial risk and uncertainty that DHSC face. Similarly, pensions are only one example of an area where GAD can provide expert advice on identifying and addressing risk to public organisations' finances and plans. Over time GAD has been able to demonstrate a track record as a dedicated, expert and adaptable partner who also has a thorough appreciation of public sector context. This has provided a solid foundation on which to extend the areas we work together with DHSC. A significant example is advice around the provision of indemnity cover for legal claims against the NHS.

NHS Resolution, the new operating name for NHSLA, provides this cover for a wide range of NHS bodies via a group of risk pool schemes. Predominantly focussed on clinical negligence claims (but also covering others relating to staff, the general public and buildings), NHS Resolution manages legal claims fairly and quickly on behalf of its members. It recoups each year's expected costs by collecting contributions according to its judgement of the level of risk of each member body.

For several years now, NHS Resolution has been making use of GAD's insurance business knowledge and skills to obtain extensive and detailed advice and analysis. This has been employed to provide much valued support to several areas at the heart of its business:

- calculation of member contributions
- annual reporting of provisions for expected future payments
- monitoring claims experience
- projection of the schemes' future costs.

By working with GAD, NHS Resolution has been able to develop a deeper understanding of its processes and hence more effectively communicate about the reasons contributions have been set at a given level with its members and the risks of the scheme with other stakeholders. This in turn has supported one of its important objectives of assisting its members in identifying their risk of future claims and improving the service provided to the UK public.

“with GAD, NHS Resolution has been able to develop a deeper understanding of its processes and hence more effectively communicate ... with its members.”

GPs are not covered under NHS Resolution schemes and have recently been facing considerable increases in costs for indemnity cover. Additionally, changes to the personal injury discount rate used in court awards threatened to raise costs further. DHSC used GAD support to consider the options available. They now plan to develop a more stable and affordable system by introducing a new state-backed indemnity scheme for activities delivered by the general practice workforce under primary medical care contracts. The Welsh government have also announced similar measures. GAD help is informing the key decisions in the design of these arrangements.

New ways of collaboration

New ways of working such as seconding GAD staff to DHSC and other bodies have been key for us to quickly understand our potential to add value in new areas. A secondment to the technology appraisal team at the National Institute for Health and Care Excellence (NICE) is a recent example. This team assesses the clinical and cost effectiveness of health technologies, including new drugs, procedures and equipment.

During the secondment, GAD and NICE explored whether actuarial risk management methods could be introduced to the technology appraisal process. This has become particularly relevant as more technologies are likely to come to NICE while evidence of their effectiveness is still emerging. We supported NICE in identifying and categorising their key risks around the appraisal assessments. Together we also considered alternative assessment methods. This evolved naturally to considering how much risk other parties can bear, such as industry and NHS England (who fund NICE recommendations), as any changes to the appraisal process would alter the pattern of risk for all involved.

Future potential

At GAD we look forward to continuing to work with DHSC and its associated public bodies and supporting them in delivering high quality public services in the current challenging environment. We hope to continue to find new areas where we can help. A new secondment to the health care analysis team will hopefully develop into an example of this, providing support both on indemnity issues and also potentially with DHSC activities from long term care to drug pricing mechanisms.

We believe that the values underpinning our approach and the skills in addressing areas of longer term risk and uncertainty have wide applicability to the UK public sector and many of the problems and challenges it faces. If you are interested in finding out more about how GAD can work with you please get in touch with us.

THE MACPHERSON REVIEW – PROGRESS AFTER 5 YEARS

In March 2013 the [Macpherson review](#) gave recommendations on best practice principles for quality assurance for analytical models in government. These models can be used to influence and take key investment and policy decisions and it is crucial the limitations and the reliability of their output is clearly communicated.

It's now five years since the review. In this article we examine recently published information about what has been achieved.



Chris Paterson

In the context of analytical models, quality assurance (QA) is the processes applied to ensure the models and their outputs are fit for purpose and the risk of material error sufficiently low. QA can be implemented in many ways, for example thorough testing and independent review, but in his review for HM Treasury Nicholas Macpherson found that there was benefit in a planned, systematic approach to ensuring key models are as reliable as possible. The review found encouraging signs of QA practices but there was variation in how it was undertaken. Its eight recommendations focussed around creating the right environment, establishing clear processes and publicly reporting this. They aim to extend best practice across the whole of government.

“Macpherson found that there was benefit in a planned, systematic approach to ensuring key models are as reliable as possible.”

What has happened since the Macpherson review?

The Macpherson review led to lots of immediate activity. Some departments published their lists of Business Critical Models which were assessed and their quality assurance mechanisms evaluated. We look at what has been done since the review was published in 2013.

In 2014, GAD [reviewed early progress](#) against the recommendations. We did this by assessing the annual reports of the 19 central government departments examined under the 2013 review. This analysis provided an objective measure of how well departments were progressing with implementing the recommendation.

Macpherson [published a detailed progress review](#) in March 2015 looking at how the departments were putting the 8 recommendations into practice. This review showed a much more detailed picture and found significant progress in the time since the original report, and set an expectation that departments would continue to improve and incorporate best practice.

Since these appraisals departments have continued to publish tools and guidance to help in meeting Macpherson's recommendations.

- A cross departmental working group assembled to work on analytical quality assurance published [The Aqua Book](#) in March 2015. This draws together existing practice from across departments and best practice from analysts across analytical professions. It is intended to help and provide advice to those implementing the recommendations from the Macpherson review and to promote analytical quality. The working group have also since released a series of supporting documents, such as QA logs.
- In March 2016, the National Audit Office published its own structured, flexible [approach to reviewing models](#). It is based on the approach the National Audit Office themselves use to review public organisations' models.

How have things changed since 2014?

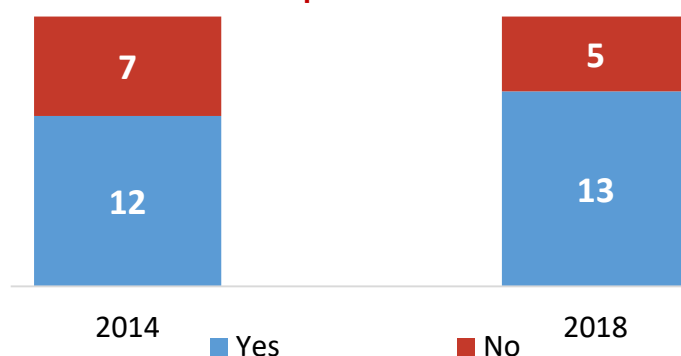
To get a more up to date picture of what progress there has been across government, we have repeated our previous analysis. We have used the 2016/17 Annual Reports for the same government departments we looked at in 2014. (Note: there are now 18 departments rather than 19 due to the merger of BIS & DECC to form BEIS). We again checked these publicly available financial statements for:

- confirmation, in their annual report, of an appropriate QA framework being in place (Macpherson recommendation 4);
- public availability of an up-to-date list of business critical models (Macpherson recommendation 4); and
- confirmation of guidance being in place on how they will ensure they have effective processes to underpin appropriate QA across their organisation (recommendation 6).

THE MACPHERSON REVIEW – PROGRESS AFTER 5 YEARS

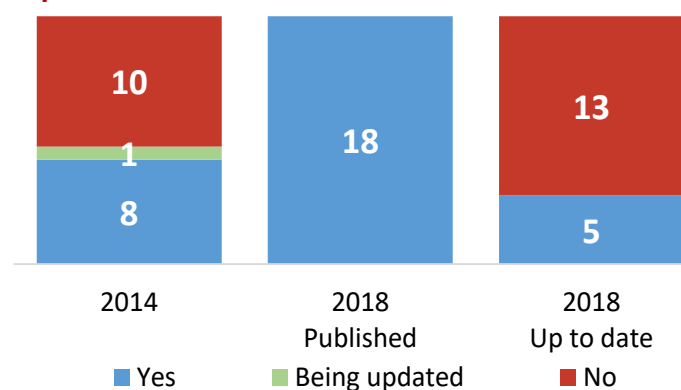
Does the annual report confirm that there is an appropriate QA framework in place?

The departments' Annual Report information on having an appropriate QA framework in place has shown a slight improvement in the past four years. We know from Macpherson's more detailed progress report that five departments had an amber rating or lower in 2015 on this measure and this information doesn't support a story of improvement in this area. Whilst departments may have the framework in place, the Macpherson recommendation is clear that this should be stated in the Annual Report.



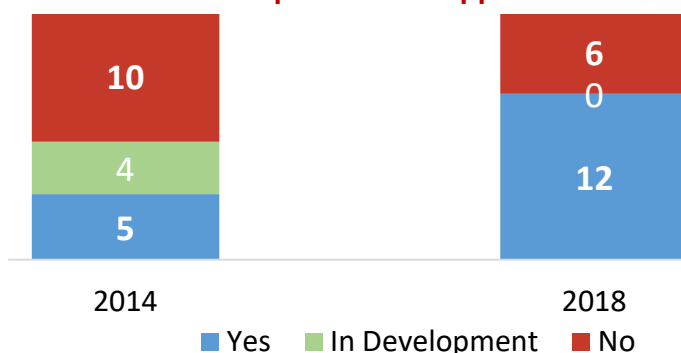
Does the annual report state there is a publicly available up to date list of business critical models?

All departments have now published a list of business critical models, a big step forward compared to 2014 when fewer than half of them had yet done so. However when looked at in more detail, 13 of the 18 departments haven't updated this list since 2014. It may be that for these departments the 2014 lists still represent an accurate picture but this is unlikely to be true for all of them.



Does the annual report state there is clear guidance and documentation in place on its approach to QA?

There is also an improvement in the number of departments stating they have clear guidance and documentation in place on their approach to QA. However there are some departments who are yet to meet the recommendations in this area.



Although it is highly relevant, information published in annual reports does not give a complete picture. Outside of the annual reports there are many examples of good practice from some departments such as:

- producing their own framework on top of the guidance given in The Aqua Book
- producing and publishing templates
- regularly publishing lists of their business critical models
- publishing guidance on how they deal with business critical models and have implemented recommendations from the Macpherson review
- collaborating to look at how to communicate uncertainty to senior decision makers (an initiative GAD is also participating in)

What next?

In his 2015 progress update Macpherson concluded that the responsibility of the Accounting Officers for their department's models, and duty to publish information on this in their annual reports, would drive progress until all recommendations are met. We can see that progress has clearly been made towards this since 2014 but this needs to continue for this conclusion to be satisfied.

Further information

GAD provides a range of services on QA issues, from review of individual models to departmental processes. If you address QA as part of your role we may be able to help.

If you would like to discuss the [use of models in decision making](#) or any other aspect of QA at your department, please get in touch with your usual GAD contact.

MARCH 2018 CROSS GOVERNMENT EVENT ON WIDER REWARD

Wider reward means considering all benefits employers offer to staff as a reward package, including pay, pension benefits, and even non-financial benefits such as flexible working.

GAD arranged this event in recognition of the increased interest amongst clients in these concepts. The event offered a forum for departments to come together, share ideas and gain insight into the successes and challenges experienced across government.



Jeanette Johnson

Who attended?

Participants in the event included representatives from various government departments including: GAD, HM Treasury, Ministry of Defence, Department of Health and Social Care and Cabinet Office.

What was covered?

Several presentations and two break-out sessions allowed delegates across the room to share their own thoughts and concerns on the theme of wider reward.

Speakers addressed a range of topics including:

- aims and challenges in setting reward strategies;
- practical insights from planning and implementation;
- workforce characteristics that shaped key decisions;
- examples of analysis to value reward packages;
- benefits of collaborative working and sharing ideas;
- ideas and plans for the future.

The first break-out session focussed on designing and valuing reward and flexible benefits packages. Most departments recognised the potential for significant gains from offering alternative benefits via: increased employee appreciation; and remaining competitive with non-government employers. It was noted that benefit packages should allow for cost-effective implementation and fit within government's overall reward policy framework.

Picking up on recognition of the importance of employee appreciation and understanding, the second break-out session focussed on communicating reward packages. A major theme was that public service staff often do not realise that their pension benefits are generally more valuable than alternatives offered by private sector employers. This is in part due to the complex nature of defined benefit pension schemes. More could be done in this area to help employees better appreciate the value of the benefits they are already paying for.

What were the outcomes?

Those attending were able to take away the many thought-provoking insights that had been shared; additionally, the discussions clearly demonstrated an appetite to explore this topic more widely.

The event also highlighted the support available from collaborating with other departments. For example, GAD was able to showcase our work with departments including on:

- placing a value on reward packages;
- developing effective communications for reward packages;
- offering quality assurance on departments' work (such as elements of pay policy).

If you would like further information on how GAD could assist you in this area please contact [Alan Dorn](#) or [Jeanette Johnson](#).

GAD contacts

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For details of our management team and office address please visit: <https://www.gov.uk/gad#people>

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