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27 March 2023

Dear Tom

## **Public Accounts Committee Hearing 13<sup>th</sup> March 2023 – AEAT Pension Scheme**

Thank you for your email of 21<sup>st</sup> March in connection with the above. I have checked through the transcript of the proceedings for factual accuracy and have attended to matters that were outstanding for me to respond to. My responses are set out in the Appendix to this letter.

I hope that these are all satisfactory and if there is anything further the Committee would like from me. I will be happy to oblige.

Yours sincerely

Martin Clarke

Government Actuary



## **Appendix – follow up to PAC hearing**

### **1) Transcript of the Committee Hearing**

I have a small number of corrections to suggest to the transcript of the proceedings of 13<sup>th</sup> March as follows:

- i. Question 2: In the third paragraph of my response beginning “The exercise that was undertaken...” please replace “seeding” with “ceding”;
- ii. Question 5: In my response please replace “AEAT” with “UKAEA”;
- iii. Question 10: Similarly in my response please replace “AEAT Technology” with “UKAEA”

### **2) Question Q27 (changes to draft GAD note)**

*Chris Loder: Would you be able to clarify for the Committee, maybe afterwards in writing, the exact changes that were made in the drafting that I have referred to, which the FOI identified?*

*Martin Clarke: Sure.*

*Chair: It is information that the National Audit Office has had access to.*

We have four drafts of the information note on our files at GAD including the final version issued in 1996 and comments received from AEAT on the first draft. These are attached separately.

### **3) Questions 37 and 38 (GAD statement of practice)**

*Q37 Chris Loder: In that case, Mr Clarke, could you just help us understand why the GAD statement of practice 1994 says, “It is also relevant to consider, when moving from a public service scheme, that the benefits under those schemes are absolutely guaranteed by the Government”?*

*Q27 While you said a little earlier that what we refer to as the GAD note did not say one way or the other, you could quite reasonably say that those reading the statement of practice, in terms of its references used, and making that decision would fairly assume that the Government would underwrite such a situation, as we have seen come to pass.*

*Martin Clarke: I have to ask for a little more clarity on what you are quoting from.*

*Q38 Chris Loder: I have here the GAD statement of practice 1994. I am not an expert like you are, but I am just looking at my note.*

*Chair: Perhaps we can share that afterwards.*

*Chris Loder: Maybe we could do that and I could just ask you to respond to us about it.*

*Martin Clarke: I will do.*

I am grateful to Mr Loder for passing to me a copy of the document he was referring to in these questions and thereby enabling my response.

The document, which is headed “Market Testing, Passport System for Pensions. A Note by the Government Actuary’s Department” and dated September 1994, describes a system at the time for contractors to pre-certify their pension arrangements when bidding for government contracts of work. The system was developed in the 1990’s as an efficient mechanism for pension assessments to be undertaken without causing undue delay to the bidding process.

In paragraph 1.3 of the note, it expresses its purpose as describing first “the main features of the process carried out by GAD in assessing whether or not pension proposals being proposed satisfy the broad comparability requirement” (the no less favourable test) and secondly the passport system then in place for which contractors may apply.

Whilst not produced specifically for the AEAT privatisation, the note summarises how comparative assessments of pension benefits were made at that time. (Such an assessment was indeed undertaken by GAD in the AEAT case and is referred to in paragraph 1.6 of the NAO briefing note.)

In the extract from paragraph 2.13 that Mr Loder cited and which is referenced above, the note acknowledges that the security of pension benefits would be different in the contractor’s scheme. The paragraph goes on to explain that the assessment would accordingly check that “safeguards are built into the scheme’s provisions to protect the members’ interests”. These safeguards were described as a) member representation on the trustee body and b) that “explicit provision within the scheme that benefits could not be worsened in respect of service completed to date without the agreement of the members concerned.” There is no reference in paragraph 2.13 or elsewhere in the note to a requirement that government continues to underwrite the benefits under the scheme and, on reading the whole of this paragraph in its entirety, I am unable to conclude that such an obligation is implied by it.

