House of Commons

Business, Energy and Industrial Strategy Committee

Oral evidence: Mineworkers' Pension Scheme, HC 1331

Tuesday 13 April 2021

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Watch the meeting

Members present: Darren Jones (Chair); Alan Brown; Judith Cummins; Richard Fuller; Ms Nusrat Ghani; Paul Howell; Charlotte Nichols; Sarah Owen; Mark Pawsey.

Questions 42 - 55

Witness

I: Rt Hon Anne-Marie Trevelyan MP, Minister for Business, Energy and Clean Growth, Department for Business, Energy and Industrial Strategy.

Written evidence from witnesses:

Examination of witness

Witness: Anne-Marie Trevelyan.

Q42 **Chair:** Welcome to this morning's session of the Business, Energy and Industrial Strategy Select Committee. We are delighted today to have two Ministers, first Minister Anne-Marie Trevelyan to answer questions in relation to our Mineworkers' Pension Scheme inquiry, and then, at 11.30 am, Kwasi Kwarteng and Permanent Secretary Sarah Munby to answer questions more generally about the work of the BEIS Department. Coming to you, Anne-Marie Trevelyan, good morning.

Anne-Marie Trevelyan: Good morning.

Chair: Our questions today are on the Mineworkers' Pension Scheme. In the last general election, the Prime Minister, I understand, made a categorical pledge that miners would get a fair share of the Mineworkers' Pension Scheme, in the context of it being a very successful pension scheme over very many years. What did the Prime Minister mean by that pledge?

Anne-Marie Trevelyan: I am afraid you would have to ask him in the broader sense of his commitment. I think he wanted to make sure that those communities would continue to receive pensions that provided them with the stability and reassurance they have always had and, indeed, that the Mineworkers' Pension Scheme, and the arrangements that have been in place for a very long time, ensure that that guarantee remains in place.

Q43 **Chair:** Have there been any actions from the Government, since the Prime Minister's pledge at the election, to change anything about the Mineworkers' Pension Scheme?

Anne-Marie Trevelyan: The scheme remains in place. It is reviewed every three years, when valuations are done. Conversations go on, on a regular basis, with the trustees and we are continuing to consider the arrangements. I am informed that that has continued to be a set of arrangements that the trustees are happy with. The guarantee—the full backstop that the Government provide—is one that ensures trustees can make the sorts of investments they want to do, knowing that there is always this Government protection.

Chair: The reason for our inquiry is that we have had evidence that people are not happy with the way it is functioning. There has been a very significant profit from this pension scheme that many pensioners do not feel has been fairly shared with them under the scheme. We are going to get into more of the detail about that now with further questions from colleagues.

Q44 **Paul Howell:** Thanks, Minister. I will move on to talk about how the agreement was actually reached and the expectations of returns. That is where we want to go. We hear lots of evidence that has talked about how relatively small changes to the pension scheme, about £19 a week or whatever, could make a significant difference to the mineworkers themselves because of the low level of money that is there. When you start to look at a deal like this, it is difficult in hindsight because you were not there in the room with all the circumstances there. A good deal now might have been a bad deal with different outcomes in different circumstances.

We need to look at the actual way the deal was sorted in the first place. I have been a pension fund trustee and I understand that the need for a guarantor, or the guarantee piece, would be paramount in the trustees' position at that point in time. From the evidence we have been given, it appears that the Government position at that time was literally, "You can have 50:50 with the guarantee or you do not get the guarantee". That is a focused situation that feels almost unfair, with no negotiation around the 50:50 split at the time. If you combine with that that the Government did not seem to get actuarial advice at the time, you wonder what the actual decisions were based upon.

I have three questions that I will try to wrap together for you. Why did the Government not seek actuarial advice at the time, in terms of where they were going with their 50:50 split? If they did not, what advice or information did they get to make that determination that 50:50 was fair? Even from the Government's point of view, they should have known whether they wanted 10:90, 90:10 or 50:50. There should have been some logic to that decision. Do you feel that it is correct what the trustees tell us, that 50:50 was in fact just a fair accompli? There was nothing else on the table that could have been discussed. The question is on the way the deal was framed, as opposed to the outcomes.

Anne-Marie Trevelyan: As you say, I am afraid I cannot go back in time, be in the room and find out for you how those arrangements were made. The scheme was established at the time of privatisation, in 1994, and the Government took on British Coal's liabilities, including pensions at the time. That was part of that whole process. I am informed that there was a consultation exercise at the time and the Government recommended that future surpluses be shared evenly between the scheme members and the Government, in exchange for provision of the guarantee. The trustees at the time, as you say, agreed with that arrangement.

The choice was between the current arrangements and the scheme retaining all surpluses but no guarantee. As you say, anyone who has been a trustee of any organisation of this type recognises the value of the guarantee. Like any pension scheme, this has a very long-term outlook. Providing stability to ensure that pension payments will always be able to be made is a critical part of the trustees' responsibilities. The benefits to scheme members arising from the value of that guarantee coming from Government meant that it would do that.

I have not spoken to the trustees personally, but I understand that they think they would still make that same choice today, in order to have that guarantee to ensure that their members' pensions will always be secure. There were other aspects that the trustees requested: that it be a closed scheme, that the guarantee ensured no detriment, that there would be inflation-linked increases and, indeed, no interference in the investment portfolio decisions that the trustees took. Those were all agreed from the Government's side.

Q45 **Paul Howell:** I have one slight follow-up. The question still sits about the 50:50 element. From what we are told, the Government at the time almost seem to have had an arbitrary 50:50: "That is fine". Therefore, the outcome that the Government have is not a considered one, in terms of the deal that is there. You could say that they were fortunate or lucky, because 10:90 might have been necessary for the Government, if it had been properly evaluated, but there does not seem to have been any rationale behind the decision.

The question comes back to the Government at this point in time: on the basis that you were fortunate in terms of what has come out, should you not share some of that fortune and give at least part of the funds back into the miners, in the way that things have been requested at the moment? Some consideration of that would appear to be appropriate.

Anne-Marie Trevelyan: I am very happy to go back and look in more detail into the history, in terms of the work Government would have done at the time. At the end of the day, the decision that they went with seems reasonable. The trustees also felt that. That should give us a level of confidence that there was clearly a mutual agreement that seemed like a reasonable balance of responsibilities at the time. I am very happy to take that away and ask in more detail, and write to the Committee on any further works and calculations that were done at the time to do that.

Like all these things, for those of us who have looked at pensions details over the decades, it is, however hard one tries, extremely difficult to assess the future and, indeed, to make choices on investments and make much less risky investment choices that provide a base but not that flex. There has been a very successful investment policy, I understand, by the trustees, who were free to do that without the limitations of having to carry all the responsibilities themselves and therefore making less potentially high-return investments. They had that, knowing that there was the backstop. They have been successful in their investment strategy as a result, which of course has benefited the members, as well as where Government have seen a share of that surplus.

I am happy to investigate if there were indeed further discussions and investigations on that. I am happy to come back to you on that.

Paul Howell: The comment I would give to you is that, in the evidence we have seen so far, it has been very clear that the trustees feel that, almost from day one after it was completed, they were trying to say that the 50:50 was not fair. I would like you to think of that in your context when you are trying to do any research.

Q46 **Alan Brown:** To follow on from Paul's point there, Minister, I know you say you cannot look backwards. If we look at what we know in the here and now, looking forwards, by 2029 the Government are going to have received £6.3 billion from this scheme without putting in a single penny. That is 50% more than the £4 billion that was predicted to be received. Do you think that is fair, or are the Government willing to look at doing something with this additional surplus that they have received as a complete windfall bonus?

Anne-Marie Trevelyan: As a first point, I want to know who your stockbroker is who can tell you, looking forwards eight years, what the returns are going to be. Sadly, I do not think anyone can make those sorts of investment predictions. That is presumably why the trustees wanted to have that Government guarantee, because it is impossible to predict, however carefully one tries to make investments. There is the old adage that these things can go down as well as up.

Q47 **Alan Brown:** We know that it has been really robust to date. It has come through the financial crash and coronavirus, et cetera. There is still a feeling of inherent unfairness. You do not accept there is an unfairness in this additional surplus being generated.

Anne-Marie Trevelyan: I have the figures of the share of surplus that has come back to Government over the years. As I say, because the trustees have had that backstop support, they have made really good choices in investments that have afforded positive results, and all credit to them. It is always really good to see investment portfolios that have had that steady growth and the known backstop that means they can perhaps take slightly more risk in their investments, in order to generate greater profits for the members. That relationship benefits both sides, with Government knowing that, some funds have come back in to help them support it, should they need to.

I often think of it as putting money away safely. The Government would pick up the guarantee if there was a need, so that funding that has come back into Government is there in case of need. The guarantee that the trustees have had has ensured that they have been able to really go out there and do good investment decision-making, and all credit to them for what has been, as you say, Alan, consistently good portfolio management.

Sadly, we can never assume that everything will keep going in a straight and upward line. I have not spoken to them, but I would be surprised if they would rather lose that guarantee, with all the attendant risk that goes with that, than continue to make a proportionate share of surplus in the good times, with Government there in case—God forbid and I hope they do not—they have to go the other way and ask for that guarantee to be enabled.

Q48 **Alan Brown:** Are you saying that, in order to maintain the guarantee, it is 50:50 and the Government are not willing to look at anything alternative or revise that? Is that what I am hearing?

Anne-Marie Trevelyan: I have had no conversations that that has been brought to BEIS for consideration. My door is always open, as indeed is the Secretary of State's, to have conversations. My understanding is that the trustees acknowledge that the guarantee enables them to invest, to target higher returns, which would be too risky to do if they did not have the guarantee. Therefore, that position is one that they are content to remain with at the moment. Conversations are always possible and, as I say, my door is always open if that is a conversation that they want to have and to look at in that broader context.

Q49 **Alan Brown:** If we look at it from the miners' perspective, and we have heard evidence from miners, they often struggle to make ends meet. We know the former coalfield community areas are some of the poorest in the UK. I represent a coalfield area myself. They have made the point that this 50:50 surplus split is therefore inconsistent with the current Government's levelling-up agenda. How is the Government's entitlement to billions of pounds from former miners consistent with levelling up across the UK?

Anne-Marie Trevelyan: There are many pension schemes, as we all know. We work with many different groups of them, as MPs, on a regular basis. This is a scheme that has continued to provide those guarantees in place to manage growth and all those issues, which has ensured that these pensions are secure. The trustees have been able to share surpluses over the years with members and, indeed, as you say, with Government, where there have been surpluses. There have been regular surpluses, so it has been a well-run and financially secure pension fund for those in receipt of the payments.

Q50 **Alan Brown:** The fund might be secure, but the reality is that miners are saying they still struggle to get by. They still do not have enough money really to live on, or to live how they want. Clearly, you represent a constituency in the north-east of England, so I suspect you will have miners yourself in your constituency.

Anne-Marie Trevelyan: I do.

Alan Brown: Can you honestly look them in the eye and say, "Yes, I think it is fair the Government have taken billions of pounds that could otherwise go in the pockets of these miners"?

Anne-Marie Trevelyan: We come back to the same question. The security, the sound investment and, indeed, the higher-risk investments taken have ensured that not only the annual pension payments but the bonuses that have been paid to members over the years have been possible, thanks to the backstop provided by the Government guarantee. That ensures that the trustees are able, with absolute certainty, to crack on and manage as well as they can. They have done well and in good years, therefore, there have been some bonuses paid in some years. Like all the individual pension funds, there is the base payment and then, in good years, there is more available.

Q51 **Alan Brown:** I accept the importance of a guarantee. As Paul has said previously, the trustees felt that the 50:50 was unfair all along. This is not even just a new argument. It has been illustrated now by performance, but the 50:50 has always felt unfair. Do you think you can honestly look these mineworkers in the eyes and say, "Yes, I believe this is still a fair system"?

Anne-Marie Trevelyan: As I say, I was not there at the time and I am afraid I have no indication to hand as to those conversations that went on. I am clearly directed and informed by officials that the trustees still consider this to be the best way of managing it.

Within the pension fund, there are four sub-funds, if that is the right terminology. You have the guaranteed fund, which has the annual guaranteed payments within in. Then there is the bonus augmentation fund, where there are bonuses paid when there is the 50% of the share of surplus, which sits with the members. Then there is the guarantors' fund, so where the Government's share of surplus goes, and then the investment reserve, which has been usable.

In the event of a shortfall, there is that guaranteed fund there. In the event of a surplus, you see this 50% into the bonus augmentation fund, which can provide extra payments in those good years. That is the nature of all pension funds, to make sure that that is possible, and it is the trustees' choice. If the trustees wish to bring that conversation to the table and for us to look at it again, I am open to having those conversations and assessing whether the situation as we are now is one that people want to change.

There are over 150,000 members in the scheme. That is a lot of people who want and need to have the guaranteed pension for what will be, we all hope, with longer life, a long and happy retirement. The key focus of the trustees is making sure there is the stability, but they are always very welcome to come and talk with us about how we want to look at this going forwards, because these things are very long term.

Alan Brown: Thanks, Minister. I am sure the trustees would be delighted to talk again.

Anne-Marie Trevelyan: I look forward to it.

Chair: Minister, we will send you the transcripts of our hearing with the trustees, because the evidence we have received is that they have concerns, so that is on the record.

Paul Howell: I have a very quick clarification of where the discussion was going there. You are right, I believe, that the trustees would probably still take the same offer because of the strength of the guarantee. They would still be unhappy, as they have been consistently along the way, about the 50:50 split that is attached to it. It is just the weight of the two between them. I do not want you to misunderstand acceptance of the deal as happiness with the deal. It is because it was the least worst option, in the way they were presenting it to us, anyway. I wanted to make sure that point went into the record as well.

Q52 **Ms Ghani:** Good morning, Minister. As you can hear from the thrust of the questions, the evidence we received was uncomfortable about the 50:50 split. I have three questions for you about the risk to Government. First, since 1994, the number of scheme members and the size of the scheme have fallen, yet the Government's price for the guarantee remains the same. Do you accept that the risk to Government has also fallen since 1994?

Anne-Marie Trevelyan: That is indeed a very sound question. I do not know if I have very recent figures. I think they are the September figures. If I am right, the value of the assets was at about £12 billion in September last year. Clearly, with that, investments are being made and generating the income in order to meet the ongoing cost. As the number of pensioners reduces over the years, that will shrink. I am not aware of what the plans are. I have not sat down and looked at the detail of what the plans are with assets in the much longer term.

To continue to ensure that pay-out can be made is something the trustees will do. As we all do ourselves in our old age, if there is such a thing as a pension scheme's old age, as its numbers of members shrink, decisions will be taken by trustees to do things in a different way with their assets. I would imagine that, for the foreseeable future—is that 10 or 15 years?—they will probably want to make sure there is no risk to their still substantial number of members. They will want to not take the risk on their assets. Again, that comes back to the question of that balance, which is why I am very happy to talk to the trustees.

I am very aware that, in what is a relatively unusual scheme in this sense, because it is a closed scheme with a finite number of members, there are choices. At a point in time, they might want to take a different direction, which is why I am very content to talk to them, if appropriate. Their choice remains at the moment that they want to maintain that asset base and generate the income to meet the requirements. If they make bonuses, then indeed the members also receive some of the benefit.

Q53 **Ms Ghani:** Minister, I do not think it is too controversial for me to say this, considering everything you have said and the way my question was posed. in that the number of scheme members and the size of the scheme are down. The risk to Government then naturally will have fallen. Can I ask a follow-on question to that? Do you expect the Government to financially contribute to the scheme at all before it is wound up? Is this something that you could maybe think about and write back to us on, if you cannot give us this answer right now?

Anne-Marie Trevelyan: I am happy to write back. That is the unknown of future investment risk, is it not? The point of the guarantee is that, if there was a need, we would. I am very happy to take away the question of whether that is likely. That is a different question to whether we would say, "We will step off and take the guarantee away, but you have plenty of assets and you can run it to the end of its time". That is a conversation to be had with the trustees and with Government actuaries to make that assessment.

They have run it very well. I would have every confidence that this is clearly a set of trustees with a very sound view of how they invest. With the guarantee, they have been able to make good investments, high-risk investments that have paid off, to ensure their asset base is extremely sound. I am very happy to look at this with the trustees if they want to.

Q54 **Ms Ghani:** This is my final question. The answer to this is probably going to be incredibly important, so I will try to be as slow as I can. Throughout the 2008 financial crash and the coronavirus pandemic, the scheme has continued to deliver strong financial returns. How do you respond to the concern that there is therefore little prospect of the Government having to make up any funding shortfall in the future?

Anne-Marie Trevelyan: As I have said, and you set it out yourself, these trustees are very good at what they do. They have demonstrated that, even in difficult financial years. I am not privy to the details of their portfolio, but I imagine their choices are made on a long-term basis. They are not looking to buy and sell assets at pace, so they are able to hold firm through financial disturbances in the investment markets. Therefore, overall they have a very sound portfolio from which to support their members' pension requirements. On track record, one hopes that that continues to be the case.

The key point of the guarantee is that, should there be, God forbid, some sort of financial crisis that left them with a much-reduced portfolio and ability to pay out on the pensions, the guarantee remains in place for them to lean in and make use of. That is an absolute commitment from Government. I come back to the point that I am very happy to have that conversation with the trustees and see whether they feel that, at this point, which is a lot further forwards than in 1994 in terms of members and the state of their investment portfolios, they would rather step away and take all that risk, or whether they feel that the backstop continues to be something they would rather have, and therefore part of their investment is into that backstop, in case of need.

They have demonstrated clearly very good portfolio management. Their members should feel very reassured that they are being well looked after in that sense. I am very happy to have a conversation with them and looking in detail, looking forwards, as to whether that is a change they want to make.

Q55 **Chair:** As a clarification, a question earlier from Alan Brown referred to

£6.3 billion to the Government by 2029. That was not Alan showing off his Mystic Meg skills. That is on the basis that £4.4 billion from surpluses has already been received by the Government and that £1.9 billion is currently in reserves, which is, at this stage, committed to be returned to the Government by 2029. By that date, the Government will have received £6.3 billion. Do you think there is a case for the money in the reserves, the £1.9 billion, to be distributed to pensioners, as opposed to the Government?

Anne-Marie Trevelyan: I come back to the point that the framework that is set up at the moment is such that that is there—it is in the name—as a guaranteed reserve. It is the security that you keep for your rainy day. My door is always open to have these conversations, to think about whether, because of where we are now—as I said to Nus, this is a closed scheme, so the number of members will, sadly, shrink over the years ahead—they feel that their position is different and want to have control of all their income, but take on what will always be, for a pension fund, the risk of the inability to support their members. That is a conversation we absolutely are always happy to have.

In the meantime, the reserves are there and are exactly that. They are that backstop proposition that ensures that the cash is there, should there be a need, in order to support members. None of us wants to find that pensions cannot be paid for any reason. That would be absolutely unacceptable to all of us.

Chair: Thank you, Minister. As I say, it is on the record as part of this inquiry that trustees and miners want to have this conversation, so I am sure they will be in touch. Of course, we will try to facilitate that conversation through our inquiry. Thank you so much for your time this morning.