



House of Commons

Business, Energy and Industrial
Strategy Committee

**Mineworkers' Pension
Scheme: Government
Response to the
Committee's Sixth
Report of Session
2019–21**

**Fourth Special Report of Session
2021–22**

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Business, Energy and Industrial Strategy Committee

The Business, Energy and Industrial Strategy Committee is appointed by the House of Commons to examine the expenditure, administration and policy of the Department for Business, Energy and Industrial Strategy.

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Fourth Special Report

On 29 April 2021, the Business, Energy and Industrial Strategy Committee published its Sixth Report of Session 2019–21, *Mineworkers' Pension Scheme* (HC 1346). The Government's response was received via correspondence on 28 June 2021. The Government's response is appended below. The Committee's recommendations are in **bold** type, the Government response is in plain type.

Government Response

Letter from the Minister of State for Energy, Clean Growth and Climate Change, 28 June 2021

I am writing to respond to your Committee's report into the Mineworkers' Pension Scheme (MPS) published on 29 April 2021.

Thank you for conducting the enquiry and for the opportunity to respond to the report. The enquiry enabled issues surrounding the MPS to be aired and considered thoroughly. I am pleased to see that all parties recognise the reassurance that the guarantee has provided and the ability it has brought the Trustees to invest so as to maximise returns and generate bonus pensions for their members.

I met the Trustees on 21 June to discuss the Committee's report and it was very useful to get their views on how we might move forward. I asked them whether they might feel able to proceed without the continued Government guarantee, which would enable all surpluses to be shared amongst scheme members. However, there are numerous examples of pension schemes that have been unable to meet their basic obligations, let alone increase pensions to the extent the MPS has under the current arrangements. The Government continues to believe that the arrangement agreed in 1994 was fair and beneficial to both Scheme members and taxpayers. Scheme members have rightly shared in the benefits but the Government has taken on all the risk.

In the meantime, I am unable to agree to the Committee's recommendations. The Government response to the report is set out in the attached annex.

Appendix: Government Response

Mineworkers' Pension Scheme

1. **The Scheme's Trustees had little choice but to accept the Government's proposal to divide future surpluses on a 50:50 basis, as a condition of securing the Government's guarantee during the negotiations in 1994.** (Paragraph 16)
2. **The Government failed to conduct due diligence during the 1994 negotiations and undertook no empirical analysis or evaluation to inform or support the 50:50 split it proposed. The Government was negligent not to take actuarial advice.** (Paragraph 17)
3. **The 50:50 split was, and remains, arbitrary.** (Paragraph 18)
4. **To date, the Government has received £4.4bn from the Mineworkers' Pension Scheme. This is already more than the 1994 expectations of what the Government would receive. The Government is also due to receive at least another £1.9bn, on top of 50% off any future surpluses.** (Paragraph 22)
5. **The Government has not paid any funds into the Scheme since the surplus sharing arrangement was put in place in 1994.** (Paragraph 23)
6. The Government does not accept that the Trustees had no choice about the Government proposal in 1994. We note that if the Trustees did not think the 50:50 offer was a reasonable one, they could have declined the offer of the guarantee at that time. BEIS Ministers would still be happy to discuss that option with them. Without the Government guarantee, Scheme members would have access to all surpluses. However, there are numerous examples of pension schemes that have been unable to meet their basic obligations, let alone increase pensions to the extent the MPS has under the current arrangements. The Government continues to believe that the arrangement agreed in 1994 was fair and beneficial to both Scheme members and taxpayers. Scheme members have rightly shared in the benefits but the Government has taken on all the risk.
7. That the Government has received more than anticipated is a sign of the success of the arrangements. The Scheme members have also benefitted to a greater extent than expected, and that success should be welcomed. Similarly, had the Scheme been in a position to have required the Government to have paid into it, members would not have received bonus pensions to the same extent. That should be seen as an achievement both of the guarantee arrangements and of the Trustees' stewardship of the Scheme and should be celebrated.

Fairness of the current terms

8. **Many former mineworkers have chronic health issues directly related to their former occupation, and the former coalfields are amongst the most deprived areas of the UK. Sadly, their numbers are also decreasing year by year. Over half of Scheme members receive less than the average pension. Given the success of the Scheme, and the vast sums which have been paid to the Government, it is unconscionable that many of the Scheme's beneficiaries are struggling to make ends meet.** (Paragraph 31)

9. We recognise that the Government's guarantee is important, has contributed to the success of the Scheme, and has benefitted Scheme members. However, we are not convinced by the Government's argument that its entitlement to 50% of surpluses is proportionate to the relatively low degree of risk it actually faces in practice. The number of Scheme members and the relative size of the fund has fallen significantly since 1994. Yet, the Government's 'price' for the guarantee has not been adjusted to reflect that fact. With no formal period review mechanism built into the agreement, pension members remain tied to an expensive arrangement. (Paragraph 46)

10. Given that the Scheme has continued to produce strong returns despite the 2008 Financial Crisis and the COVID-19 pandemic, there is little reason to believe the Government will be required to pay into the Scheme before it is wound-up. Even if, in extremis, the Government is required to financially contribute at some point in the future, realistically its contribution will not come close to the (at least) £6.3bn it is currently due to receive in total. (Paragraph 47)

11. Whether or not the Government knew in 1994 that it would disproportionately benefit from the arrangement, and whether all parties thought it was fair at the time, is irrelevant. It is patently clear today that the arrangements have unduly benefited the Government, and it is untenable for the Government to continue to argue that the arrangements remain fair. (Paragraph 48)

12. Governments should not be in the business of profiting from mineworkers' pensions. We are therefore disappointed by the Government's argument that the 1994 agreement is a success because the public purse has had strong returns from it. The Government is not a corporate entity driven by profit-motives, and should not view miners' pensions as an opportunity to derive income. We also note that allowing the arrangement to continue would appear antithetical to the Government's stated aim of redressing socio-economic inequality and 'levelling up' left-behind communities. (Paragraph 49)

13. The Government recognises the harsh conditions in which coal miners worked and the health issues those conditions caused. At privatisation, the Government took on British Coal's liabilities and has since compensated former miners and their families for the damage done to their health.

14. Those liabilities included the pension schemes in operation. Those were broadly left unchanged in respect of the entitlements of scheme members. That some payments are limited reflects the arrangements of the schemes inherited and the short service pre-1994 that counted towards those pensions amongst other things.

15. As indicated above, if the Trustees believe that 50% of surpluses is too high a price to pay for the guarantee and want to extract themselves from the guarantee arrangements, BEIS Ministers would be happy to have that discussion. However, they have clearly indicated that having the guarantee is worth more than the share of future surpluses. The Government is happy to continue to provide the guarantee and the assurance of the payment of future pensions that gives.

16. The Government does not accept that it has benefitted unduly from the arrangements which have been a success and benefitted all parties. Indeed, the concerns about the extent of payments to the Government for its share of surpluses have only arisen as a result of the

Scheme's success. Had the investments not provided as good returns over the years, we would not be having this debate, but Scheme members' pensions would be considerably lower.

17. In respect of levelling up, it is proper that the receipts of the Scheme go to the Exchequer for distribution according to the priorities on which the Government was elected. It was never intended that the Government's share of surpluses would be ringfenced for the benefit of Scheme members or wider coalfield communities. The Government must consider the needs of all communities.

Changing the terms of the 1994 agreement

18. **The Government is disingenuous in claiming the Trustees are content with the terms of the current arrangements. The Trustees have been clear that they are not - and never were - happy with the terms, and that they would welcome any changes in members' favours. The Government should not mistake the Trustees' acceptance of the deal for contentment.** (Paragraph 53)

19. **We are disappointed by the Government's dismissive approach to proposals to review the existing arrangement. The Minister's claim of openness is contrary to the approach successive governments have taken since 1994. *The Government must approach any future discussions with the Trustees with a genuinely open mind, and with the best interests of the pension members in mind.*** (Paragraph 54)

20. ***With the benefit of hindsight, it is clear that the Government has already profited greatly from the Scheme. The Government must acknowledge that continuation of the arrangements in their current form deserves a review and a better outcome for pensions should be found. The current arrangements should be replaced with a revised agreement in which the Government is only entitled to a share of surpluses if the Scheme falls into deficit, and the Government has to provide funds. In that event, the Government should be entitled to 50% of future surpluses up to the total value of the funds it has provided to make up any shortfall. Such an arrangement takes account of the vast funds the Government has received thus far and the significant reduction in the risk it faces, and would ensure that neither party will be out of pocket in future.*** (Paragraph 58)

21. **Whilst we have called for the 50:50 split to be replaced with a more appropriate arrangement moving forward, we believe pensioners should also receive a more immediate uplift. *We recommend that the Government hands the £1.2bn it is due to receive from the Investment Reserve back to miners, and sets out its proposals for how and when this will be administered in response to this report.*** (Paragraph 63)

22. The Trustees have been clear that they would prefer to retain the guarantee rather than take 100% of future surpluses. In the changes to the Scheme that they suggested in 2019, which were agreed by the Government, they prioritised the protection of bonuses that had accrued over changing the surplus sharing arrangements.

23. As BEIS Ministers stated to the Trustees on 21st June 2021, the Government is always open to suggestions of ways to improve the schemes, as the recent changes show. The Government is happy to consider ways to improve benefits, though this has to be weighed against the risks to taxpayers.