

Sir Tom Scholar
Permanent Secretary
HM Treasury

Sarah Munby
Permanent Secretary
Department for Business, Energy & Industrial Strategy

23 February 2022

Operation of the Nuclear Liabilities Fund

Dear Sir Tom and Sarah,

I am writing in connection with our inquiry examining the *Future of the Advanced Gas Cooled Reactors*. Our oral evidence session on Monday 7 February, which was chaired by Sir Geoffrey Clifton-Brown MP, has prompted a number of further questions we wish to put to HM Treasury and the Department for Business, Energy and Industrial Strategy (BEIS) regarding the operation of the Nuclear Liabilities Fund. This letter requests a written response to the questions posed below.

Paragraphs 1.7 to 1.16 of the recent National Audit Office report *The decommissioning of the AGR nuclear power stations* refer to the operation of the Nuclear Liabilities Fund. The report records that around 80 per cent of the Fund's assets are currently held in the UK government's National Loans Fund earning a very low return on investment. The remaining assets are held in a mixed portfolio of mainly illiquid private sector investments.

In recent years the Fund's trustees have raised concerns about the sufficiency of the assets to cover the costs of decommissioning the stations. In each of the last two years this has prompted the trustees to request either agreement from government to a change in its investment policy or the provision of additional funding. In July 2020 the BEIS Department, with the agreement of HM Treasury, decided to top-up the Fund with £5.1 billion to ensure the sufficiency of the Fund over the longer-term. This was granted on the basis that the injection would be invested in the National Loans Fund. We are now informed, barely 18 months later, that the trustees have now made a further request for a £5.6 billion injection predominantly as a consequence, we are told, of the impact of an increase in corporation tax rates to be paid by the Fund.

We have the following questions:

- (i) Please explain the reasoning underpinning the government's support for the current investment strategy – namely the 80/20 split between National Loans Fund and other assets.
 - a. With the estimated Fund liabilities still increasing and the return on assets virtually flat, isn't this approach opening the taxpayer up to further requests for support?
 - b. What impact would current increases in inflation have on the likelihood of further top-ups?
- (ii) Why did the BEIS Department and HM Treasury opt to top up the Fund in 2020 rather than allow the trustees to take money out and invest in other assets? What options were considered by government at the time and what were the results of the cost/benefit analysis undertaken?
- (iii) In the oral evidence session the BEIS Department informed us that government is likely to support the request for a £5.6 billion top-up. Your letter to the Committee of 21 February provided further detail on the impact of the corporation tax changes on

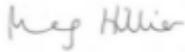
the Fund. Could you also provide information on the other factors that have prompted the £5.6 billion request together with details of the amounts involved?

- a. With reference to the corporation tax change, if corporation tax rates drop in the future can the taxpayer expect an immediate rebate?
 - b. Does the £5.6 billion request include the impact of the recent increase in decommissioning costs arising from the early closure of Dungeness B? If not, should we expect a further top-up next year, and of how much?
- (iv) Please explain the entire rationale for funding the decommissioning of the advanced gas-cooled reactors in this way. In particular, why it is necessary to inject large sums of public money into the Fund, years in advance of need, most of it earning a negligible return, and with the value of the money put in likely to be eroded by inflation. We would be very grateful for a full explanation and whether any alternative methods of funding the decommissioning of these reactors have been considered by your two departments.

The Committee is very keen to include your response in our final report on this topic. I would therefore be grateful for a reply to this letter by **Monday 7 March 2022**.

Yours Sincerely

Dame Meg Hillier MP



Chair of the Committee of Public Accounts