HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

Number CBP-01189, 23 January 2020

Mineworkers' Pension Scheme

By Djuna Thurley

Inside:

Contents

Contributing Author: Djuna Thurley

Summary

On privatisation of British Coal in 1994, an arrangement was made between the Government and the trustees of the Mineworkers Pension Scheme (MPS) on future arrangements for pensions from these schemes after privatisation. Key elements were that the Government would guarantee that any pension earned up to privatisation would not fall in cash terms. If at subsequent valuations, the scheme was in surplus, this would be shared 50/50 between scheme members and the Government. The members' share would be used to fund bonus enhancements over and above annual indexation (HC Deb 27 April 1994 c167-9W). The decision to share the surplus 50:50 was "agreed between the Government, in its role as Guarantor, and the Scheme Trustees," rather than being based on actuarial advice (PQ128727, 26 February 2018). The National Audit Office said the guarantee would be of significant reassurance to pensioners (HC 360 1995-96).

In the 2000s, the Coalfield Communities Campaign argued for a review of the surplus-sharing arrangements, arguing that the guarantee had been struck on actuarial advice which, with hindsight, may have been too cautious and that a "50% share of an unexpectedly large surplus is too much." The Labour Government looked again at the arrangements but decided that, against the background of large falls in stock markets, it would not be right to change the arrangements (HC Deb 7 March 2003, cc 1278-9W).

The campaign for a review of the surplus sharing arrangement has continued. In 2017, the Conservative Government responded that all parties to the agreement had believed it fair at the time. The payments that had been made to the Government reflected the guarantee (which enabled greater investment risk to be taken) but also the contributions it had made to the scheme in the past (HC Deb 5 December 2017 c317WH).

In April 2019, an open letter to the Chancellor of the Exchequer from MPs called for greater protection for scheme members' bonuses and a larger share of the surplus to be returned to mineworkers. In a Westminster Hall debate on 10 June 2019, the House agreed to a backbench motion calling on the Government to "carry out a review of the existing arrangements for the sharing of the surplus generated by the Mineworkers' Pension Scheme."

In July 2019, the MPS trustees wrote to scheme members saying they had got support from the Energy Minister for a proposal for greater protection of existing bonuses. They said that, while a change in the surplus share would be welcome, it would only lead to bonuses for members if investment returns were strong, requiring a riskier investment strategy. Bonuses would not be protected. In November, the trustees announced that the Government had accepted their proposals and that work was underway to implement them. (See also, PQ 1709, 15 January 2020).

The Labour Party's manifesto for the 2019 general election included a commitment to reduce to 10% the share of the surplus going to the Government. Press reports of a visit to Nottinghamshire during the election campaign, said Prime Minister, Boris Johnson, had "made a 'categorical' pledge that miners will soon receive their fair share of the Mineworkers' Pension Scheme."

1. Introduction

The main pension schemes operating under British Coal: were the Mineworkers' Pension Scheme (MPS) and the British Coal Staff Superannuation Scheme (BCSSS).

The MPS is largest with 158,099 members in 2017 (18,958 deferred and 139,141 pensioner members including dependants), compared to 52,964 in the BCSSS (3280 deferred members and 49,684 pensioner members including dependants).[1]

Both schemes had surplus sharing arrangements put in place at privatisation. However, the arrangement in the BCSSS was brought to an end in 2015, following valuations in 2009 and 2012 which showed the scheme to be in substantial deficit (see below).

This Briefing Paper concentrates on the MPS, on which there is an ongoing campaign to change the surplus sharing arrangements.

1.1 Before privatisation

The MPS website explains the history before privatisation:

> The MPS was introduced in 1952. The Rules of the Scheme set out in detail the benefits payable to members. Contributions before April 1975 were paid on a flat-rate basis, with members paying no more than 20p per week. Benefits payable in respect of membership before April 1975 were therefore relatively small.
>
> After 1975 the contributions members paid, and the benefits that were earned, were both linked to the salary that a member received, providing a higher level of benefits as a result of the higher contribution paid. The contributions paid by a member did not cover the full cost of providing the benefits, so British Coal paid the "balance of the cost of the benefits".
>
> British Coal's contributions went up or down over time based on the amount needed to pay benefits. In the late 1980s and 1990s, many pension schemes found that their investments had performed better than expected and they had more money than was needed to pay the benefits due to members. In the MPS, these surpluses were used to give Scheme members additional benefits and to reduce the level of contributions paid by the employer.[2]

An actuarial valuation of the Mineworkers' Pension Scheme in 1993 explains that the surplus identified in that scheme was used to pay for benefit improvements and reductions in the employers' contributions. The conclusion of the valuation in 1993 was that:

> After allowing for the continuation of the employers' contribution reductions under the arrangements to dispose of the surplus disclosed at the previous review, the excess of assets over liabilities is reduced to £585 million. The available surplus may be used in a

1 MPS Report and Accounts 2017;BCSSS Report and Accounts 2017
2 MPS, History of the Scheme before privatisation;

> number of different ways, including benefit improvements, or contribution reductions. [3]

1.2 At privatisation

The Government's involvement in the Scheme began at privatisation in 1994. Until that point, the scheme was funded by member contributions and British Coal contributions.[4]

On 27 April 1994, the then President of the Board of Trade announced that comprehensive agreements had been reached between the Government and the trustees of the MPS and the BCSSS.[5] The main elements were that:

- The existing schemes would be closed to further contributions;
- The Government would take over the role as Guarantor for the Scheme from British Coal. The Guarantee would mean that scheme members would always receive the benefits they had earned up to privatisation, increase in line with inflation;
- 50% of the surplus in the scheme at privatisation would be used to enhance members' pensions immediately, with the other 50% being payable to the Government as Guarantor. The Government's share would be left in the Scheme as the Investment Reserve and paid to it over a 25-year period;
- Scheme members and the Government, would receive equal shares of any distributable surpluses from valuations after 31 March 1994.[6]

These arrangements related to past service pension entitlements. The Act also provided for two new industry-wide schemes for future service, including 'protected person status' for transferred employees. Accordingly, the new schemes were required to provide to transferred employees benefits no less advantageous than those provided under the BCSSS and the MPS.[7]

On 26 February 2018, the Government explained that it had not obtained actuarial advice for this purpose:

> Stephanie Peacock: To ask the Secretary of State for Business, Energy and Industrial Strategy, if he will publish the actuarial advice on which the surplus sharing arrangement in the Mineworker's Pension Scheme was based.
>
> Claire Perry: No such advice was obtained. The arrangements were agreed between the Government, in its role as Guarantor, and the Scheme Trustees.[8]

---

3 Mineworkers' Pension Scheme – Actuarial Review as at 30 September 1993. Report by the Government Actuary, June 1994

4 PQ 253540 16 May 2019

5 HC Deb 27 April 1994, cc 167-169W; And an exchange of letters between then Energy Minister, Tim Eggar, and the chairmen of the two schemes -Deposited Paper, 3rd series 1828

6 Ibid

7 HC Deb 27 April 1994, cc 167-169W. For information on protected person status, see Library Briefing Paper SN-06725 Pensions: the statutory override and 'protected persons', April 2014

8 PQ128727, 26 February 2018

However, the creation of the Investment Reserve was informed by the copy of the 1993 valuation produced by the Government Actuary's Department.[9]

In a Westminster Hall debate on 10 June 2019, Ed Miliband called on the Government to publish the papers underlying the decision that was made in 1994.

> If there was no actuarial advice behind a decision that had billions of pounds-worth of implications for hundreds of thousands of miners and their families, that really was negligence of the highest order.
>
> The more closely we look at this decision, the more dubious it becomes. A document from September 1993 was released under a freedom of information request in 2016. It is a report carried out by the Government Actuary, and it is the closest document that anyone can find that is relevant to the time. It is not about the future arrangements, but it does talk about the current practice at the time and implies that at that point miners were enjoying not 50% of the surplus but 70%. So the question then arises: if 70% was the basis of the scheme then, why did it change to 50%? We just do not know the answer to that question.[10]

In a letter to the Chair of the BEIS Committee, Rachel Reeves, the scheme trustees said that they had "received independent actuarial and legal advice at the time of the changes."[11]

Legislation

They were provided for in the *Coal Industry Act 1994* (Sch 5) and the regulations made under it, in particular the *British Coal Staff Superannuation Scheme (Modification) Regulations 1994 (SI 1994/2576)* and the *Mineworkers' Pension Scheme (Modification) Regulations 1994 (SI 1994/2577)*.

In more detail…

In the case of the MPS, the scheme's surplus was calculated at 30 September 1993. Half of the surplus was allocated to the beneficiaries and used to improve benefits; the other half was allocated to British Coal. British Coal's unused share of this surplus became an investment reserve, available to make good any deficit which should arise in the fund, and protect bonus increases which were paid as part of the benefits. This investment reserve would gradually be transferred to the government over a period of 25 years (or such longer period as the Government might from time to time determine), with the scheme's actuary deciding how much could prudently be transferred at each triennial valuation.

In addition, any surpluses that arose in the fund in the future would be split between the beneficiaries and the government in equal shares.

9 See MPS FOI request and response, August 2013; Valuation produced by the Government Actuary's Department (1993)
10 HC Deb 10 June 2019 c488
11 Letter from Mineworkers' Pension Scheme to Rachel Reeves, 16 September 2019

The Government stands as guarantor to the scheme, ensuring that it is always able to pay the benefits promised in the rules of the scheme, including the annual indexation of guaranteed pensions in line with price inflation. The remaining 50% is allocated to the scheme's bonus augmentation fund and may be used to improve benefits. The Government does not guarantee these bonuses, but should a deficiency arise in the bonus augmentation fund, it does guarantee that pensions will not fall in cash terms.

In more detail, the terms of the Guarantee for the MPS are that: [12]

- The guaranteed pension (built up before the Scheme was restructured in 1994, including benefit improvements made immediately prior to restructuring) is increased annually in line with the Retail Prices Index (RPI);
- In return for the Guarantee, Government receives, over a 10-year period, a 50% share of any valuation surpluses disclosed after 31 October 1994.
- The remaining 50% share is allocated to the Bonus Augmentation Fund, and subject to the approval of the Guarantor, can be used to improve benefits.
- Bonus augmentations are covered by a lesser guarantee to the extent that, in the event of deficit in the Bonus Augmentation Fund, "standstill" comes into operation. This means bonuses can be restructured and becoming reducing amounts over time. However, the total amount of any pension payable from the Scheme cannot fall in cash terms.

To facilitate the operation of the Guarantee, the MPS was notionally split into four sub-funds:

- The Guaranteed Fund, from which guaranteed benefits are paid;
- The Bonus Augmentation Fund from which bonus augmentations are paid from the members' 50% share of surpluses;
- The Guarantor's Fund from which payments to the Government are made with its 50% share of surpluses;
- The Investment Reserve, containing the unused balance of British Coal's share of pre-1994 valuation surpluses.

Payments are made between the different funds. To the extent that the Investment Reserve is not required to maintain benefits, initially it could be drawn down by Government over a period ending no earlier than 2019. Under agreement reached with the Guarantor in 2014 the MPS Investment Reserve will now be extended until 2029. The rate of draw down is determined by the Scheme's Actuary.[13]

In the event of a valuation surplus, 50% of the surplus in the Guaranteed Fund is credited to the Bonus Augmentation Fund, where it can be aggregated with any surplus in that fund and distributed to members by way of Bonus Augmentations, subject to the approval of the Guarantor. The remaining 50% share of the surplus in the

[12] *Mineworkers' Pension Scheme (Modification) Regulations 1994 (SI 1994/2577)*, Schedule, rule 26; Source: *MPS Report and Accounts 2007* (with updates from the scheme); MPS Annual Report 2014 and MPS Annual Report 2017

[13] MPS website – History of the Scheme/the trustees' role

Guaranteed Fund is credited to the Guarantor's Fund and released to Government as a stream of 10 annual payments.

In the event of a valuation shortfall, the shortfall in the Guaranteed Fund is corrected:

- Firstly, by a transfer of assets from the Investment Reserve;
- Secondly, if the Investment Reserve is insufficient to meet the shortfall, by equal transfers of assets from the Guarantor's Fund and the Bonus Augmentation Fund; and
- Thirdly, if the transfers have not been sufficient, by the obligation on Government to make direct payments to the Scheme in 10 annual instalments.

Once a transfer has been made from the Investment Reserve, the first charge on any subsequent surplus in the Guaranteed Fund is to replenish the Investment Reserve so that it is in the position it would have been had the earlier transfer of assets to the Guaranteed Fund not been made.

There is no provision in the guarantee arrangements for making good a shortfall in the Bonus Augmentation Fund. Bonus Augmentations may therefore be eroded or withdrawn. The Guarantee does, however, ensure that the total pension payable does not fall in cash terms. This works by reducing Bonus Augmentations each year by an amount equal to the index-linked increase paid on guaranteed pension in that year. This process continues until the Bonus Augmentations existing at the time a shortfall was shown in the Bonus Augmentation Fund have reduced to zero. If the assets in the Bonus Augmentation Fund are insufficient to meet the liabilities, the assets and liabilities are transferred to the Guaranteed Fund.

As soon as it becomes necessary to make these equal transfers, the Scheme Actuary must certify the balances in both the Guarantor's Fund and the Bonus Augmentation Fund to the Guarantor. If the Bonus Augmentation Fund is greater, the Guarantor is required by the terms of the Guarantee to make payments into the Guarantor's Fund to bring it up to the level of the Bonus Augmentation Fund. These payments are to be made in ten equal annual instalments. Any surplus in the Guarantor's Fund is used to top up payments already being made to Government from previous surpluses.[14]

The only other scheme with which the Government has an analogous arrangement is the Railways Pension Scheme (1994 Pensioners Section and the British Rail Superannuation Fund), for which it also acts as guarantor. These schemes each have arrangements for sharing surpluses but have not provided payments to the Guarantor.[15]

[14] NAO, DTI: sale of the mining operations of the British Coal Corporation, HC 360 1995-96

[15] PQ 178494 17 October 2018; For more on the background see SN-03109 Railway Pensions Scheme (May 2019)

1.3 NAO report

The National Audit Office (NAO) said that the guarantee would be of significant reassurance to pensioners:

> The Government agreed to make good any deficiencies which might arise, thus guaranteeing the solvency of the closed schemes. The guarantee would be a significant reassurance to pensioners and other members and, given the uncertainty of future investment performance and inflation, could give rise to Government payments in some future years. In return, while half of any surplus declared by the closed schemes on the basis of future three yearly valuations is to be available to provide enhanced benefits for pensioners, the other half is to be distributed in ten equal annual instalments to the Government. In addition, the Government will receive further sums as follows:
>
> • the remaining part of British Coal's 50% share of the last valuation surplus prior to privatisation will be retained in the schemes for the time being as an investment reserve and will be distributed to the Government over a 25 year period:
>
> • any residual surplus will eventually be available to the Government when the schemes are wound up;
>
> • since members' benefits cannot be enhanced beyond limits set by Inland Revenue rules, the schemes, particularly the BCSSS, may be increasingly constrained in later years in making further benefit improvements out of future surpluses. This may increase the residual surplus potentially available to the Government.[16]

Binder Hamlyn, the NAO's advisers, said the Department had:

- Investigated comprehensively the options for the future provision of pensions in the coal industry;
- Consulted extensively with interested parties;
- Determined the future pension arrangements responsibly and secured good benefits for pensioners; and
- Obtained good value for money by negotiating for the Government to receive a share of future receipts (currently estimated to have a net present value of about £3 billion net of any payments by the Government because of its guarantee) arising from pensions surpluses in the existing principal British Coal pensions schemes.[17]

1.4 Payments to the Government

The Binder Hamlyn report prepared for the NAO in 1995/96 said the estimated net present value of the projected payments to the Government over 25 years was in the region of £2 billion in total from the two schemes:

> The Government Actuary's Department have carried out separate calculations which suggest that this does not appear unreasonable. Binder Hamlyn have estimated that approximately £1.35 billion relates to the surpluses which existed when the

[16] NAO, DTI: sale of the mining operations of the British Coal Corporation, HC 360 1995-96

[17] Ibid, para 1.25

> schemes were last valued prior to privatisation and the balance of £6.65 billion relates to further projected surpluses which may arise in the future. In return for the right to receive these surpluses, the Government has guaranteed pension benefits with a net present value estimated by the Government Actuary's Department to be little more than £12.5 billion in real terms as at 31 October 1994.[18]

In 2007, the Government gave up update on payments under the surplus sharing arrangements from both schemes:

> Between October 1994 and December 2006 the Government received £1,785 million in respect of such payments from the Mineworkers' Pension Scheme (MPS) and £1,470 million from the British Coal Staff Superannuation Scheme (BCSSS). A further receipt of £242 million is expected from the BCSSS this month. In addition, the Government have used just over £68 million from the MPS Investment Reserve to fund lump-sum payments to members of the MPS on low pensions, and received £154 million from the BCSSS Investment Reserve, of which over £90 million has been used to fund pension liabilities inherited from British Coal. A further payment of 10 million from the BCSSS Investment Reserve is expected this month.
>
> All payments to the Government as scheme Guarantor are reported in each scheme's published Annual Report and Accounts. Copies of the latest reports are available on each scheme's website:
>
> www.mps-pension.org.uk and www.bcsss-pension.org.uk
>
> I understand that a report for the National Audit Office by Binder Hamlyn in 1995 suggested total gross payments to the Treasury from both schemes over 25 years of £8 billion.[19]

In 2016, the then Energy Minister Andrea Leadsom explained that Binder Hamlyn had produced two figures for estimated payments to the Government from the surplus sharing arrangement – one in net present value terms (£2bn), the other in cash terms (£8bn):

> Analysis by Binder Hamlyn in 2006 for the NAO had estimated the net present value of payments to the Government (net of any payments from the Government arising from its guarantee) at £2bn over 25 years. This reflects the value at the time of the expected future net payments.
>
> The parliamentary question 125573 answered on 8 March 2007 records that the Binder Hamlyn report found that the total gross payments to the Treasury would be £8bn. This would have been both gross of any payments from the Government and also in cash terms i.e. allowing for the returns achieved on the funds before payment.[20]

Net present value and cash terms

Figures in cash terms ignore two factors: inflation and the fact the value of a future payment is lower than that of one received today. Payments in the future are 'discounted' to obtain a present value for costs in the future. These figures can be combined to obtain a present value for costs into the future. The resulting "net present value" is used to compare the costs and benefits of different projects.

A Parliamentary Written Answer from November 2018 said that the Government had received £4,438 million under the surplus sharing arrangements since 1994:

18 Ibid

19 HC Deb 8 March 2007 c2138W; The figure of £8bn relates to the total gross payments to the Treasury from both schemes over 25 years. It is the undiscounted cash flow and therefore more comparable with the actual cash flow figures also included in the answer. Source: DTI

20 PQ 38959 8 June 2016

> Gloria De Piero: To ask the Secretary of State for Business, Energy and Industrial Strategy, how much money the Government has received from the Mineworkers' Pension Scheme (a) since 1994 and (b) in each of the last three financial years for which data is available.
>
> Claire Perry: Since 1994, the Government has received £4,438.1m from the Mineworkers' Pension Scheme. £3,127m of that is the Guarantor's share of surpluses and £1,310.2m has been returned from the Investment Reserve. Receipts in each of the last three years were:
>
> 2016/7: £51m
>
> 2017/8: £51m
>
> 2018/9: £617.2m (£475m of which is from the Investment Reserve)
>
> The Government guarantee has enabled an investment strategy that has resulted in scheme members receiving payments 33% higher than they would have been if they received only their actual earned pension up to privatisation.[21]

Comparison with earlier estimates suggest this figure is in "cash terms i.e. allowing for the returns achieved on the funds before payment."[22]

For each of the three years 2018-19 to 2020-21, the Government will receive £142.4 million.[23]

No payments have been made to the MPS from the Government.[24]

1.5 Payments to scheme members

The MPS has 158,099 members: 139,141 pensioner members and 18,958 deferred members.[25]

The arrangement reached at privatisation meant that:

> The Government have guaranteed that the pensions to which scheme members were entitled at privatisation, increased each year in line with the retail prices index, will always be paid and that their total pension entitlement, including bonuses funded from the members' share of surpluses, will never fall in cash terms. This guarantee applies, and will be honoured by the Government, regardless of the value of the investment reserves or the solvency of the schemes at any time.[26]

The MPS website states that, as a result, a typical member's pension is around 33% higher in real terms:

> Over the years, the Guarantee has enabled the Trustees to adopt an investment strategy that targeted high returns. The investments have generally been successful in generating excellent returns which has resulted in surpluses at some of the actuarial valuations. These surpluses have allowed the Trustees to award extra benefits to members, usually in the form of bonus pensions.

21 PQ 190420 15 November 2018; see also PQ 10313 20 September 2017; PQ51065, 3 November 2016
22 PQ 38959 8 June 2016
23 PQ 190423 15 November 2018
24 PQ 190421 15 November 2018
25 Mineworkers' Pension Scheme Report and Accounts 2017
26 HC Deb 8 March 2007 c2125W

> As a result, the typical member's pension today is around 33% higher in real terms than it would have been had they received only their actual earned pension up to privatisation. These high investment returns have also benefitted the Government, via their 50% share of surpluses which are paid out over a ten year period.[27]

On the basis of the 2017 valuation, the Trustees announced bonuses – equal to 4.2% of guaranteed pensions - in each of the next six years to 2023 (bonuses beyond that would depend on the outcome of future valuation):

> • The new bonuses will provide increases equivalent to 4.2% of guaranteed pensions in each of the next six years.
> • The first bonus will take effect from 1 October this year. The five remaining bonuses will take effect at around the same time in 2019, 2020, 2021, 2022 and 2023.
> • These bonuses will be provided with certainty over the next six years and cannot be lost in that time, even if financial markets perform disappointingly.
> • Without these new bonuses, most members' total pensions would not have increased in 2018, 2019 and 2020 and potentially beyond.
> • Bonuses, and therefore increases to total pensions, from 2024 and beyond will depend on the outcome of the 2023 and subsequent actuarial valuations.
> • We have also been able to secure improved benefits for members under age 60 who have not yet retired and are in serious ill health.[28]

A letter from the Trustee to scheme members explained that the average pension from the MPS in 2019 is £84 per week – made up of a £65 guaranteed pension, and a £19 a week bonus pension:

> Each members' pension broadly consists of two elements – a guaranteed pension and a bonus pension. The guaranteed pension is paid from the assets in the Guaranteed Fund and the bonus pension from the assets in the Bonus Augmentation Fund.
>
> An average pension is around £84 per week, made up as shown below. Many members receive much smaller pensions that this because pensions earned for service before 1975 were small and many members had little service after 1975, when the scheme improved and because linked to earnings.
>
> How an average weekly pension is made up:

How an average weekly pension is made up

	£ per week
Guaranteed pension	65
Bonus pension	19
Total	84

> The guaranteed pension increases by inflation each year and cannot be lost.
>
> The bonus pension is the additional pension provide to members from the good investment returns based on the Scheme's assets. These bonus pensions depend on the future performance of the Scheme's assets and could go up, down, or stay the same. Under

27 MPS website/history of the scheme; see also PQ 190420 15 November 2018
28 Result of the 2017 valuation, MPS website, 12 July 2018

current rules, if the Scheme is in surplus and at a valuation, 50% of that surplus can be used to fund new bonus pensions. The other 50% is moved to the Guarantor's Fund and paid to the government over the following ten years.

However, if the Scheme is in deficit, members' pensions go into 'standstill'. This means that members' total pensions would not increase. For example, for the average pension of £84 per week (shown above), the guaranteed pension of £65 would increase in line with inflation, but the bonus pension of £19 would reduce by the same amount so that the total pension 'stands still'.[29]

1.6 The current position of the scheme

The 2017 valuation showed the MPS to have £12,241 million in assets.[30] A surplus in the Guaranteed Fund meant new bonuses could be paid to scheme members in each of the next six years:

> • **Good investment returns**: Fortunately, financial markets have been kind to us over the three years to the valuation and we've had the right investment strategy to benefit from the market trends. That strategy has also been executed well and the result is a three year investment return of around 40% (or put another way, on average, nearly 12% a year for each of the three years). That's a very good outcome indeed and, realistically, we can't reasonably expect returns to continue at those levels throughout the future.
>
> **Large surplus**: Following a consultation with both your Trustees and the Government (specifically the Department for Business, Energy and Industrial Strategy), the Scheme Actuary calculated that the Scheme's Guaranteed Fund had a very significant surplus (just over £1.2 billion), and hence the potential to pay new bonuses to Scheme members. Indeed, the surplus was large enough to fund bonuses which would provide increases equivalent to 4.2% of guaranteed pensions in each of the next six years.
>
> • **Bonus certainty for six years:** Given our 'stretch target' is to deliver new bonuses of this size throughout the future, the Trustees felt that this was potentially a very good outcome indeed. To enable us to be certain that we could provide these bonuses over six years, we suggested to the Government that we make a change to the Scheme's Rules which would prevent these bonuses being lost because of the 'standstill' mechanism at the 2020 valuation, even if the financial markets perform disappointingly between now and then.
>
> I am very pleased to be able to report that the Government has agreed to this proposal. As a result, we've been able to provide new bonuses that will provide increases equivalent to 4.2% of guaranteed pensions in each of the next six years, with certainty. The first bonus will be paid with effect from 1 October this year. The remaining five bonuses will be paid at around the same time in 2019, 2020, 2021, 2022 and 2023.
>
> • **The next valuation in 2020**: There will be a Scheme valuation in three years' time, but the Rule change means that whatever financial markets do between now and then, the 'standstill' mechanism cannot apply and this means that the bonuses we are

[29] A letter from the chairman of the MPS Trustees to scheme members, 15 July 2019
[30] PQ252054 13 May 2019

> announcing now cannot be lost at the 2020 valuation. Members can, therefore, have complete confidence in the pensions they will now receive over the next six years. Without these bonuses most members' total pensions would not have increased in 2018, 2019 and 2020 and potentially even beyond then.[31]

The other half of the £1.2 billion surplus would be transferred to the Guarantor's Fund, from where it would be paid to Government over ten years.[32]

A letter from the chair of the Trustees to scheme members summarised the financial position of the scheme as at September 2018:

> The Scheme at 30 September 2018 had total assets of nearly £12 billion, split into four sub-funds – two of which will be used to pay members' pensions (referred to as 'Member Assets') and two which, under the rules of the Scheme, are due over time to be paid to the government (referred to as 'Government Assets') – see below:

Scheme assets as at September 2018

	Assets (£m)
Member Assets	
Guaranteed Fund	7,883
Bonus Augmentation Fund	1,938
Sub-total	**9,821**
Government Assets	
Investment Reseve	1,130
Guarantor's Fund	1,028
Sub-total	**2,158**
Total	**11,979**

Source: MPS Trustee letter, July 2019

> Member Assets total just over £9.8 billion and these need to be sufficient fund all members' pensions throughout heir retirement, a period estimated to last until around 2070. After allowing for future expected investment returns, £9.8 billion is currently estimated to be just enough money to pay the guaranteed pension and current bonuses throughout the life of the scheme.[33]

1.7 The BCSSS

Between 1994 and September 2017, the Government received £3,119m from the BCSSS since 1994.[34]

As a result of valuations in 2009 and 2012 showing it to be in substantial deficit, the surplus sharing arrangements for the BCSSS were brought to an end, although the scheme would continue to receive the support of a Government Guarantee:

31 MPS, Pensions Newsline, Summer 2018
32 Ibid
33 A letter from the chairman of the MPS Trustees to scheme members, 15 July 2019
34 PQ 19313 20 September 2017

> On 13 February 2015 an agreement, hereafter referred to as "the Agreement", was signed between the Trustee and the Secretary of State for Energy and Climate Change ("the Guarantor") to amend the Scheme structure and provide certainty to members over increases to their pensions in the future. The Scheme continues to receive the support of a Government Guarantee.
>
> **Reasons for the changes**
>
> The effect of the global financial crisis on the Scheme's investment returns, together with increases in life expectancy, contributed to the 2009 and 2012 Actuarial Valuations reporting substantial deficits in the Guaranteed Fund. The deficits were eliminated primarily through the reallocation of funds from the Investment Reserve.
>
> At subsequent valuations, in accordance with Scheme provisions, the first call on any Guaranteed Fund surplus would have been to repay the debt to the Investment Reserve including investment returns on that debt. As at the date of the Agreement the debt stood at approximately £2.2 billion.
>
> The Trustee and Guarantor both agreed that the current Scheme provisions were unsustainable, as they constrained the ability of the Trustee to provide increases to members' pensions over the foreseeable future and exposed the Guarantor to volatile and uncertain cash calls.[35]

In the absence of a new agreement, the most likely outcome would have been a "long period with no increases to total pensions."[36] The agreement meant there would be increases to 2019. From 2020, all bonuses in payment would be consolidated into one bonus, which would then be frozen:

> As a result of the Agreement made between the Trustee and the Guarantor on 13 February 2015, funds were allocated to provide three separate level bonuses, equivalent to 2% of Guaranteed Pension, in 2017, 2018 and 2019. The first of these level bonuses was effective on 1 January 2017.
>
> In future members' pensions will increase as follows:
>
> - Guaranteed pensions will continue to be increased annually in line with the percentage rise in RPI.
> - Bonuses awarded up to and including 2013, all of which are now reducing bonuses, will continue to reduce in the same way up to and including 2019.
> - The bonuses awarded between 2014 and 2017 will remain level throughout the future.
> - New bonuses of 2% of Guaranteed Pensions will be awarded in 2018 and 2019.
> - No new bonuses will be awarded after 2019.
>
> • From 2020 onwards, all the bonuses in payment at that time will be consolidated into one total bonus: this total bonus will neither increase nor be reduced thereafter.[37]

35 BCSSS Report and Accounts 2014/15
36 BCSSS pensions news, February 2015
37 BCSSS Report and Accounts 2016

The MPS is in a different position to the BCSSS – with the 2014 valuation showing it to have a small surplus.[38]

38 Mineworkers' Pension Scheme 2016 Report and Accounts

2. The Conservative Government's approach

The Conservative Government has argued that the surplus sharing arrangements for the MPS have worked well, giving the Trustees freedom to invest in a way that has generated surpluses and - as a consequence - bonuses for scheme members. In October 2019, the then Energy Minister Kwasi Kwarteng wrote to the chair of the BEIS Committee Rachel Reeves to explain the Government's position and the background to it:

> The Government, as many before it, have considered whether current surplus sharing arrangements remain appropriate. The current arrangements have worked well for all parties having resulted in scheme members receiving payments 33% higher than they would have been if they received only their actual earned pension up to privatisation. The Government's share of surpluses recognises the benefits stemming from the guarantee arrangements. The guarantee ensures that:
>
> - A member's guaranteed pension, including inflation increases, will always be paid; and
> - A member's total pension (including bonus pension) will not fall in cash terms.
>
> In the event of a deficit, the Government would have to find the money to ensure pensions continue to be paid, first from the Investment Reserve and its funds within the Scheme, then from the Exchequer. This is a significant contingent liability and it is fair to taxpayers to recognise this through the surplus sharing arrangements. Any income that the Government derives from the Scheme goes into the Exchequer and contributes to funding public services.
>
> The estimates produced for the NAO in 1996 did indeed underestimate the extent of surpluses that would be generated. This is to the credit of the MPS Trustees and their investment strategy. Just as this has produced higher than expected returns to Government, it has also produced higher than expected bonus pensions for scheme members. However, the risk in the investment strategy has not been reduced by as much as might have been expected; this increases the value of the guarantee that the government provided.
>
> Surpluses are calculated during the valuations undertaken by the Government Actuary. At that time, projections of the assets required to ensure payment of guaranteed pensions and bonuses are made. Any additional funds left in the scheme are considered surpluses. It is for the Trustees, not Government, to decide how they wish to allocate their share of those surpluses. I know they are careful to ensure both current pensioners and those yet to collect their pension benefit from those arrangements.
>
> The Government did not obtain actuarial advice at the time of the 1994 agreement about the fairness of the surplus sharing arrangement. Agreement was reached between the Trustees and the Government following a consultation process. There had been an actuarial valuation of the scheme as at September 1993. This stated that the benefit improvements agreed by British Coal were

> estimated to have reduced the surplus arising at the previous valuation by 70%. However, this was not a fixed arrangement for the sharing of surpluses and the actuarial report did not comment on the appropriate sharing of the surplus.[39]

Press reports during the election campaign said that, during a visit to Mansfield in Nottinghamshire, Prime Minister Boris Johnson had "made a 'categorical' pledge that miners will soon receive their fair share of the Mineworkers' Pension Scheme." He said: "we will make sure that all their cash is fully protected and returned, I have looked into it and we will ensure that's done."[40]

As discussed below, the Government is currently working with the trustees to implement their proposal to protect existing bonuses.

2.1 The trustees' proposal

A Parliamentary Written answer from January 2018 said the Trustees had requested "changes to the surplus-sharing arrangements on two occasions (2000 and 2006). On each occasion, the Government considered that the existing arrangements were working well and fair to all parties."[41] The MPS website states that "the Government has made it repeatedly clear in its response to the Trustee's requests that it does not regard the 1994 arrangements as being unfair and that it has no intention of agreeing to the changes that are not in its interests."[42]

In 10 June 2019, the then Energy Minister, Andrew Stephenson, said he was supporting a proposal from the trustees to protect the bonuses (by ensuring index-linking even if the scheme was a deficit):

> Central to the trustees' proposals is protecting existing bonuses. Under that option, if there is a deficit in the future, members will still see their guaranteed pensions continue to rise in line with RPI, and their current bonuses will not be eroded. Without that additional guarantee, members may not be able to get any increase in payment, possibly for many years. The proposals put to my predecessor by the trustees offer benefits to all pensioners, who will see their pensions secured into the future, even if the scheme was to go into deficit, by protecting the bonuses that have accrued to date. The trustees, who include former miners, believe that that is an important way of protecting future revenues for scheme members in the event of a future scheme deficit, because bonuses accrued at past evaluations could be eroded.
>
> The trustees' proposals would mean a significant additional liability for the Government. In turn, that creates an additional risk of a sizeable call on the public purse. However, I support the trustees' aim to protect the revenues of individual pensioners. My officials have provided an analysis of the proposals, which I have now shared with Treasury colleagues. As I have said, I am

---

[39] Letter from Kwasi Kwarteng to Rachel Reeves, 14 October 2019; See also PQ 164474, 25 July 2018; See also PQ 47614 21 October 2016; See also PQ11555 16 October 2015

[40] Miners' pension promise in the Labour Manifesto, Yorkshire Post, 21 November 2019; 'Boris Johnson makes pledge that 'Mansfield miners will receive their fair pension share', The Chad, 16 November 2019

[41] PQHL4555 16 January 2018

[42] MPS website – surplus sharing

> dedicated to the best for miners across the country, which is why I am immensely proud of the scheme and of the investments that we are making to transform mining communities across the country.[43]

On 15 July 2019, the trustees wrote to scheme members to explain that they would not "contemplate changes to the Scheme rules that compromised the guarantee in any way." A change in the surplus share, while welcome, "would only benefit members if the Scheme is in surplus at future valuations and then the benefit would only be material if the surplus was significant." It would still leave current bonuses exposed to risk.[44]

In November 2019, the trustees announced that the Government had accepted their proposals and work was underway to implement them. This was confirmed by a Parliamentary Written Answer in January 2020:

> Officials are working with the Trustees on implementing the proposals. This requires changes to the Scheme Rules which are being drafted by the Trustees' lawyers.[45]

2.2 Campaign for change in the surplus share

A campaign for a review of the surplus sharing arrangements has continued.[46]

In the 2017 Parliament, an EDM in the name of Grahame Morris, with 74 signatures, called on the Government to reach a fairer surplus sharing agreement to benefit former mineworkers:

> That this House believes the Government should enter into open and fair negotiations with the Mineworkers Pension Scheme Trustees; recognises the 50-50 surplus sharing arrangement is grossly disproportionate for the Government guarantee; believes that the scheme should solely operate for the benefit of its members who contributed to the fund and worked in some of the most dangerous conditions to the detriment of their health; notes that successive governments have taken significant dividends in excess of £8 billion from the fund which would have otherwise improved the pensions and quality of life for former mineworkers; and, in view of the sums taken from the fund, calls on the Government to reach a fairer surplus sharing agreement to benefit former mineworkers.[47]

In the Westminster Hall debate on 5 December 2017, Nick Smith MP called for a change, saying "this is the miners' money. They earned it through years of hard work at the coalface, and they deserve a better and fairer share of it."[48] In response, the then Energy Minister Richard Harrington said that at the time, "all parties believed the equal sharing to be a fair settlement". Furthermore, the government guarantee had

43 Ibid; See also, PQ260581 11 June 2019
44 Ibid
45 PQ 1709, 15 January 2020
46 See, for example, UK Miners Pension Scheme Association Justice and Fairplay Facebook page; See also the Miners' Pension Theft
47 EDM 235 20 July 2017; see also EDM 671 14 November 2016
48 HC Deb 5 December 2017 c317WH

allowed the trustees to pursue a riskier investment strategy and thereby get a better return:

> At privatisation, the Government took on the role of British Coal, and the scheme had a surplus in 1994, half of which was used to enhance members' pensions immediately, with the other 50% payable to the guarantor. The Government of the day agreed to leave their share of the surplus in the scheme as an investment return. Those arrangements were agreed between the trustees and the Government in their role as guarantor—hence the mineworkers' pension scheme of 1994. At that time, all parties believed the equal sharing to be a fair settlement—this arrangement did not come about in conflict or anything like that; it was agreed to be a fair way of proceeding. The Government receive their share not because of their guarantor status—that is a big issue in the financial world, because it allows a much greater risk profile than a normal pension fund could have—but also because of the contributions that they have made to the scheme to make up the pool of money[49]

In April 2019, a group of MPs wrote an open letter to the Chancellor of the Exchequer calling for stronger protection for members' bonuses and a larger share of the surplus for mineworkers:

> The 1994 arrangement saw the UK Government agree to guarantee the scheme and all pensions in cash terms in return for a 50% share of any subsequent surpluses.
>
> This has seen the Government receive a total of around £4.1 billion from the scheme since 1994, although it has not made direct payments into the scheme itself.
>
> We want to fully recognise the importance of the Government guarantee and the protection that it provides to former miners and are clear that this must continue.
>
> However, we do believe that there is a strong case both for providing greater protection for pension bonuses and for revisiting the sharing arrangements. We understand that the trustees have been in communication with the Department for Business, Energy and Industrial Strategy (BEIS) regarding long-term protection for bonuses and have put forward a proposal for consideration.
>
> It is our belief that the strong returns generated by the scheme combined with the absence of direct payments from the Government make the continued withdrawal of a 50% share for the current arrangement difficult to justify.
>
> Specifically, we call on the Government both to include a stronger level of protection for members' bonuses as part of the guarantee and to consider taking a reduced share of the surplus to allow a greater proportion to be returned to mineworkers.[50]

Opening a Westminster Hall debate on 10 June 2019, Grahame Morris called on the Government to renegotiate the surplus sharing arrangements. He said urgent action was needed. Many scheme members and their widows were now in their 80s or older. Pensions in payment were low, with an average of £84 pw. There was no evidence that the arrangements could be considered 'fair or reasonable':

49 HC Deb 5 December 2017 c319WH
50 Signed by 39 MPs on 23 April 2019

> Incredibly, the scheme was established, and the surplus-sharing arrangements agreed, without any actuarial advice […] We know a lot more about the mineworkers' pension scheme and the associated risks that it faces than we did in 1994. If the 50-50 split represented a risk in 1994, 25 years later the risk to the Government is marginal. After a quarter of a century, they have never made a single contribution to the fund.[51]

The House agreed to a motion "instructing the Government to conduct a review of the existing surplus sharing arrangements."[52]

Following this, the National Union of Mineworkers (NUM) wrote to the chair of the BEIS Select Committee, Rachel Reeves, asking for a hearing into the issue It argued that the Government guarantee was of value and must remain in place but that the share of the surplus going to the Government should be reduced to "reflect the low level of risk it has assumed":

> A 50% share from a pension scheme that it has made no direct contribution to is not, in our judgement, a fair share and we believe that the Government has received a significant financial windfall while assuming relatively low risks. We further believe that the remaining Investment Reserve, if the Government were to formally transfer ownership of it over to the Scheme, could provide a clear and immediate cash boost that could be used to enhance payments for retired miners […] Nearly 6,500 miners died last year alone and there are just 152,000 members of the pension scheme left. Many are suffering the effects of decades working underground and we believe it is crucial that both they and their families receive a fair settlement for the years of service to our country at significant personal risk to themselves. [53]

The correspondence between the Chair, the Minister and the trustees is on the Committee's website.[54]

The Labour manifesto for the 2019 election included a commitment to reduce the Government's share of the surplus to 10%

> Labour has listened to the NUM and in government will end the injustice of the state taking 50% of the surplus in the Mineworkers' Pension Scheme and introduce new sharing arrangements so that 10% goes to government and 90% stays with scheme members. This new sharing arrangement will also apply to the British Coal Staff Superannuation Scheme.[55]

---

51 HC Deb 10 June 2019 c479
52 Ibid; backbench business committee debate motions are not binding on the Government
53 The NUM formally write to request a hearing into the MPS Guarantee, 9 July 2019
54 Letter from Kwasi Kwarteng to Rachel Reeves, 14 October 2019; Letter to Kwasi Kwarteng from Rachel Reeves, 1 October 2019; Letter from Mineworkers' Pension Scheme to Rachel Reeves, 16 September 2019
55 Labour 2019 election manifesto – social security/pensions

3. The Labour Government's approach

3.1 Campaign for a review

The Coalfields Communities Campaign (CCC) is a national campaign to defend and promote the interests of communities affected by change in the coal mining industry. In 1999, it published a report, *It's the miners' money*, which argued for a review of the surplus sharing arrangement:

> The guarantee was struck on actuarial advice. Hindsight may have shown that the advice was too cautious but that is now history. The point is that the funds are in a robust financial position and under the current arrangements the Government has no real liability. The fears expressed at the time of privatisation no longer carry the same weight.
>
> No-one is suggesting that the guarantee should be abolished. It provides security for the pensioners, and a greater degree of freedom in the funds' investment strategy. No-one is suggesting either that the Government should receive nothing in return. What is at issue is the reward which the Treasury receives for providing the guarantee. At a 50% share of an unexpectedly large surplus it is too much.[56]

The report also pointed to the low level of pensions payable from the MPS, due to the fact that the scheme had not become earnings-related until 1975. According to the CCC, the average pension within the scheme was £38 per week at that time.

The CCC argued that a greater proportion of the surplus should be retained by the schemes to help the poorest pensioners; it also advocated increased investment in coalfield communities. Any surplus paid to the Government from the pension funds is returned to the Consolidated Fund (the Government account into which most revenue from taxation and other money payable to the Exchequer is paid).[57] However, the Government has referred to these surpluses on previous occasions when allocating money to coalfield communities. In December 1998, a DETR press release said that £350 million was to be allocated to coalfield communities and of this sum "£10 million…will be an endowment which recognises the surpluses that the government has received from the miners' pension funds."[58]

Initial response

The Government made an initial response to the CCC's campaign in December 1999. The then DTI Minister Helen Liddell summarised payments to and from the scheme so far:

> Since 1994 the DTI has paid almost £400m to cover pre-privatisation deficiencies, and has received £519m as its share of

---

56 CCC, *It's the miner's money! Miners' pension fund surpluses and the Treasury's windfall*, 1999

57 HC Deb 19 April 2004 c67W

58 DETR press release, *Multi-million pound package for the coalfield communities*, 1 December 1998

> post-1994 surpluses. The remaining surplus has been used to increase mining pensions by 20% over and above inflation.[59]

She said the guarantee arrangements were the envy of other mature pension schemes:

> The guarantee arrangements are for the long term. But recent surpluses must be considered against earlier large deficits, which the Government continues to fund and which, conceivably, could happen again.
>
> The present arrangements were negotiated at the time of privatisation. They are the envy of all other mature pension schemes, and we should be cautious about any re-shaping of them. Retired miners are getting a good deal. Their pensions have increased by 20 per cent in real terms since privatisation. But security of their pensions is also important to miners and important to me." [60]

However, she was willing to consider creative suggestions for building on the 50/50 sharing of surpluses:

> "There may be other ways in which Government and Trustees can build on the present 50/50 sharing of surpluses. Perhaps a more ambitious investment strategy or an extension of the guarantee would provide more opportunities. We will continue to work constructively with the Trustees in exploring how to generate continuing growth in pensions benefits."
>
> "This Government shares the aspirations of the coalfield communities to develop new jobs and infrastructure as mining declines. The DTI are working closely with John Prescott and his team on this." However, she noted that it would require primary legislation to divert the pension fund surpluses for this purpose.[61]

However, in a written answer in June 2000, the Minister said the DTI had "no statutory powers to divert pension surpluses for regeneration."[62] In more detail, she said:

> Since 1994, the DTI has acted as guarantor to the former British Coal pension schemes. In doing so it underwrites 100 per cent. of any downside risk to guaranteed benefits in the event of scheme deficits. The guarantee means that basic pensions will always rise at least in line with inflation and will never fall in cash terms. In return the Government receive 50 per cent. of any actuarial scheme surpluses--the remaining 50 per cent. being available to the scheme Trustees for distribution among their memberships. The Government have no plans to re-open the guarantee arrangements, but it is discussing with the Trustees whether there are opportunities to build upon them to the mutual benefit of Scheme members and Government.[63]

Michael Clapham MP put down EDMs in support of the Coalfields Communities Campaign in the 1999/2000 and 2000/01 sessions,[64] and John Cummings MP put down an EDM in the 2001/02 session which attracted 68 signatures. The motion read:

---

59 DTI press release, *Statement by Helen Liddell on coal miners pension funds*, 8 December 1999

60 Ibid

61 Ibid

62 HC Deb 5 June 2000 c 108W

63 HC Deb 25 May 2000, c 595W

64 EDM 264 of 1999-2000 and EDM 184 of 2000-1

> That this House recognises that the 50 per cent. clawback by the Government of any surplus of the Mineworkers' Pension and Superannuation Scheme is grossly unfair; and invites the Government and the trustees of the Pension and Superannuation Scheme to enter into negotiations and agree upon a more just appointment of the surplus and so enhance the pensions of thousands of retired mineworkers and widows.[65]

The actuarial valuation of the MPS published in September 2000 disclosed a surplus of £1,050 million to 30 September 1999. The Minister said that the scheme trustees and government had agreed that the bulk of the members' share of the surplus would be used to provide a 9% increase in pensions in payment and deferred pensions.[66]

Sacked miners

On 11 December 2001, the new Energy Minister, Brian Wilson, announced that some of the miners dismissed during the 1984/85 miners' strike and not re-instated would be given enhanced pension rights. The cost would be met from the residual assets of British Coal:

> **Mr. Kevan Jones:** To ask the Secretary of State for Trade and Industry if she will make a statement on the pension rights of miners dismissed during the 1984-85 strikes. [22728]
>
> **Mr. Wilson:** Following the consultation process last year, I am persuaded that a number of miners dismissed in connection with the 1984-85 strike, and not subsequently re-employed by British Coal, were harshly treated.
>
> I have concluded that the most appropriate way forward would be to enhance the pensions of these miners in recognition of the years of further service they lost as a result of British Coal's decision not to re-employ them. The costs of this will be met from the residual assets of British Coal. I would emphasise that those whose offences involved serious acts of violence or intimidation, or actions which jeopardised the safety of others will not qualify for this enhancement of pension. […] [67]

Apparently, of the 1,000 or so miners sacked in connection with the strike, only 335 were not subsequently re-employed. They would be eligible for a 5-year enhancement to their pensions, as long as this did not increase their service over the maximum.[68]

Review of the arrangements

In a response to the Coalfield Communities Campaign in January 2002, the Government announced that it would pay one-off lump sums to those with low pensions built up when the scheme was flat-rate:

> I am pleased to announce a new, additional benefit for members of the mineworkers' pension scheme on the lowest incomes, at a cost of £90 million. This will be funded out of the Government's share of the scheme's reserves.
>
> The package will help mineworkers' pension scheme members who have only very modest miners' pensions, despite many years of service to the industry before 1975. Help for that particular

65 EDM 149 of 2001/02
66 DTI press release, *Liddell welcomes boost for miners' pensions*, 8 August 2000
67 HC Deb 11 December 2001, cc 759-760W
68 HC Deb 10 March 2003, c 12W

> group was identified as a priority in discussions with the scheme's trustees. Now, thanks to gains in the scheme's value under the Government's guarantee, the Government and Trustees have agreed a package of benefits, which includes special one-off payments for up to 66,000 of these members, alongside the 9 per cent. bonus for all members agreed earlier this year.[69]

Secondly, there would be a review of the guarantee arrangements made at the time of privatisation:

> […] both the Government and the Trustees recognise that there have been changes in circumstances since 1994. They have therefore agreed to explore how these changes might best be reflected in revisions to the 1994 arrangements which would benefit members. In doing so, they recognise that any revisions will need to be based on an equitable sharing of risks and reward between the schemes and the Exchequer, and will need to be sufficiently robust to operate satisfactorily in a wide variety of conditions.[70]

This announcement was welcomed by coal communities. An Early Day Motion, in the name of Jeff Ennis, MP, welcoming the changes announced by the government received 81 signatures:

> This House welcomes the £90 million scheme recently announced jointly by the Government and Trustees of the Mineworkers Pension Fund to provide additional benefits for retired miners on the lowest pensions; recognises the urgent need for the Government to re-visit the issue of the MPF surpluses with a view to the Government taking a smaller share of the surpluses, leaving more for the pensioners.[71]

By June 2003, almost £60 million had been paid to about 44,000 MPS members on the lowest pensions who left British Coal before or shortly after 1975.[72]

Progress

A statement on the DTI website on 10 December 2002 said that the fall in world stock markets could have an adverse outcome for the schemes. Discussions would continue:

> Since [the 17 January 2002] announcement was made there have been radical changes surrounding pensions. The large fall in world stock markets is having a major effect on investment performance, and may have an adverse outcome on the next actuarial valuations of the British Coal Schemes.
>
> Therefore the discussions will continue, and will focus on considering possible different methods of paying for the guarantee. We will also be exploring the scope to extend the Guarantee to cover bonuses created from the recent years' strong investment performance. This would enable the Trustees to secure the bonuses within members' overall pension entitlements.
>
> These negotiations will be technical, and will rely largely on advice from actuarial experts. They will take time, because they are complex and both sides need to be sure that we get them right.

69 HC Deb 17 Jan 2002 c417W
70 HC Deb 17 Jan 2002 c417W
71 EDM 711 of 2001/02
72 Brian Wilson, Westminster Hall debate on the MPS, HC Deb 10 June 2003, c 189WH and HC Deb 7 January 2003, c 154W

> But the principles remain unchanged – a fair and equitable sharing of risk and reward in the interests of both Scheme members and taxpayers, and an agreement which is robust and sustainable.
>
> In the meantime, the Government and Trustees have agreed various specific measures, which will put the Schemes on a sounder footing. These include making clear the rules on 'standstill', whereby pensions are protected in cash terms if the schemes go into deficit – which will now apply to all members, including those not yet in receipt of their pension. We have also agreed to discuss extending the lifetime of the Investment Reserve - which is both an asset within each fund to generate future returns to for pensioners, and provides the first line of Government funding in times of deficit - beyond the 25 years agreed in 1994.[73]

Coalfield Communities continued to urge a change in the surplus sharing arrangements. An EDM put down by Michael Clapham in the 2002/03 session attracted 83 signatures:

> That this House recognises that the Treasury is finally proposing new ways of guaranteeing miners' pensions for the future but, according to the Coalfield Communities Campaign's latest calculation is still due to take £3.5 billion historical surpluses out of the two schemes at a time when many retired miners are struggling to make ends meet; and requests that Her Majesty's Government give consideration to leaving more of the past surpluses with the schemes to be used to increase pensioner incomes and also introduce a fairer division of future surpluses in accordance with the recent asset and liability study recommendation, whilst continuing to provide support to help renew and rebuild mining communities.[74]

On 7 March 2003, Mr Wilson said there would be no change to the 50/50 surplus-sharing arrangement:

> Against the background of large falls in world stock markets, which continue to have a major effect on investment performance, the trustees have been advised that the Government does not feel it would be right to adjust the current 50/50 surplus sharing arrangements.
>
> A number of other changes to the Guarantee arrangements have been agreed. In addition, discussions were to have continued to consider different methods of paying for the Guarantee and other ways of guaranteeing bonuses, where these different methods might offer advantages to Scheme members whilst not representing a significant additional burden on the taxpayer. However, NACODS South Wales have instigated a Judicial Review concerning the Guarantee to which the Government is obliged to respond. As a consequence, until this has been resolved, the Government does not feel it would be right to continue those discussions with the Trustees. [75]

David Parry of the CCC was reported to have said that the asset and liability study suggested that the fair payment for the solvency guarantee should be more like 15% to the Government, leaving 85%

---

73 DTI website, British Coal Pension Schemes, 10 December 2002
74 EDM 744 of 2002/03, 13 February 2003
75 HC Deb 7 March 2003, cc 1278-9W

of any surplus in the scheme.[76] But in June 2003, Brian Wilson, the Energy Minister, described this split as "off the radar screen in current circumstances".[77]

In a Westminster Hall debate on 10 June 2003, Anne Picking described the surplus-sharing arrangement as a "legalised but grossly immoral raid on the funds":

> The Government have taken about £400 million a year at the same time as some miners are being paid a pension of less than a fiver a week. As hon. Members know, there are taxi drivers in London who would look down their noses at a fiver tip, never mind a fiver pension. I therefore say to my hon. Friend the Minister that it is time to stop patronising these proud people and to give them back their money.[78]

The Minister responded that the guarantee had worked effectively for scheme members:

> There was a different perspective on the matter in 1994, and even if the figure was based on small-c conservative actuarial advice, it was based on actuarial advice, to which everyone had to sign up. In return for a safeguard, the trustees freely entered into an arrangement whereby any future valuation surplus would be split 50:50 between beneficiaries and Government. In providing that guarantee to the two schemes, the Government accepted a pretty massive contingent pension liability, which has been valued at £16 billion. The other side of the coin was that, even if there was no return on investment or there was a deficit in the scheme, as at present, miners' pensions, as at privatisation, would always rise in line with inflation and would never fall in cash terms.
>
> No one has mentioned today that that guarantee has not only been met but comfortably exceeded since 1994. The current arrangements have yielded bonus increases on guaranteed benefits totalling about 30 per cent. since 1994, which is a significant increase in such a relatively short time. Those bonus increases are separate from, and additional to, the inflation-linked increases that are applied to pensions each year to maintain their real values. By any objective analysis of what has happened, the guarantee has worked effectively for members of the scheme. I understand all the concerns about where the other 50 per cent. went, but it should be acknowledged that if the guarantee had not been in place, it would not have been possible for the trustees to make the high-risk, high-return investments that have led to the bonuses being paid.[79]

3.2 Further questions

Valuations of the schemes in 2002 and 2003 found both schemes to be in deficit, calling the government guarantee into play. This resulted in £350 million being transferred to the MPS and £220 million to the

[76] "Pit stop for miners?", *Guardian*, 22 March 2003
[77] [HC Deb 10 June 2003, c 186WH]
[78] Ibid, c 171WH
[79] HC Deb 10 June 2003, c 187WH

BCSSS from their respective Investment Reserves to ensure members' guaranteed benefits were paid. [80]

Valuations of the MPS and BCSSS in 2006 showed both schemes to be in surplus. Under the terms of the guarantee, the first call on this surplus was restoring the level of the investment reserve. After that, the surplus was divided equally between scheme members and the guarantor.[81]

The terms of the government guarantee were again questioned, with the trustees making representations that the investment reserve should be repaid over a longer period than the 25 years originally intended.[82] However, the Government said it would not change the guarantee arrangements:

> The equal division between beneficiaries and Government of periodic surpluses in the Mineworkers' Pension Scheme is a fundamental element of the arrangements established in 1994 whereby the Government provides an insolvency guarantee to the scheme. These arrangements are not time limited. Although my officials are in regular dialogue with scheme representatives on a range of issues, I have no immediate plans to meet the trustees.[83]

The then Energy Minister, the late Malcolm Wicks summarised the bonus payments made to scheme members since privatisation:

> I understand that, including the new bonuses payable from April 2007, BCSSS pensions in payment will have increased by 82 per cent since 1994 and deferred pensions by 89 per cent. For MPS the increases, effective from September 2006, are just under 78 per cent. for pensions in payment and 83 per cent for deferred pensions.[84]

He also outlined payments that had been made to the Government and how these related to the original estimate made by the NAO:

> Between October 1994 and December 2006 the Government received £1,785 million in respect of such payments from the Mineworkers' Pension Scheme (MPS) and £1,470 million from the British Coal Staff Superannuation Scheme (BCSSS). A further receipt of £242 million is expected from the BCSSS this month. In addition, the Government have used just over £68 million from the MPS Investment Reserve to fund lump-sum payments to members of the MPS on low pensions, and received £154 million from the BCSSS Investment Reserve, of which over £90 million has been used to fund pension liabilities inherited from British Coal. A further payment of 10 million from the BCSSS Investment Reserve is expected this month.[…] I understand that a report for the National Audit Office by Binder Hamlyn in 1995 suggested total gross payments to the Treasury from both schemes over 25 years of £8 billion.[85]

---

80 Mineworkers' Pension Scheme, *Report and Accounts 2007; British Coal Staff Superannuation Scheme Report and Accounts 2006/07;* HL Deb 6 November 2003, c WA 146; BIS website: Coal Pensions: The Former British Coal Pension Schemes
81 BCSSS, *Pensions News - Summer 2007*
82 BCSSS pensions news, Winter 2006/07; Mineworkers' Pension Scheme, *Pensions Newsline,* Spring 2007
83 HC Deb, 22 Feb 2008, c1032W; See also HC Deb, 8 March 2007, c2138W
84 HC Deb, 8 March 2007, c2137W
85 HC Deb, 8 March 2007, c2138W

The figure of £8bn referred to in the Minister's response relates to the NAO estimate of total gross payments to the Treasury from both schemes over 25 years. It is the undiscounted cash flow and therefore more comparable with the actual cashflow also provided in the PQ answer of 8 March 2007.[86]

The Treasury Select Committee noted that there was controversy regarding the way in which the schemes had been valued and recommended that the Government Actuary make a statement addressing the potential risk to the taxpayer:

> 150. There are those, such as pensions consultant John Ralfe, who contest the method of valuation used by GAD. They argue that if alternative valuation methods are employed the scheme appears to be in deficit and thus represents a liability for the British Taxpayer. As a relatively recent appointee, Mr Llanwarne admitted that he had not been involved in the valuation of the miners' pensions but he maintained that:
>
>> There is not one unique number as to what the surplus is or not. What is critical about this pension scheme is that the way in which the valuation is done is set out in specific legislation relating to it as to what you do, how you calculate the surplus and it is reasonable to do that because, unlike the private sector, where it is absolutely critical that you get things in balance between your assets and your liabilities, this one has the underlying government guarantee which makes it quite different. When someone asks whether the surplus is this or that, I will say to you that if you do your calculation on one basis you get that surplus, if you do your calculation on another basis you might get another surplus or a deficit.
>
> **151. We note the controversy surrounding the valuation of miners' pensions and recommend that the Government Actuary's Department issues a statement addressing the risk of future liabilities being faced by the ultimate guarantor of these schemes, the UK taxpayer**.[87]
> Administration

Capita has recently been appointed scheme administrator.[88]

However, the Government has confirmed that the level of pensions is guaranteed by the government and unaffected by the finances of the administrator:

> Jon Trickett: To ask the Secretary of State for Business, Energy and Industrial Strategy, what steps his Department is taking to ensure that a further decline in Capita's finances will not affect the level of payments to members from the Mineworkers' Pension Scheme.
>
> Claire Perry: To ask the Secretary of State for Business, Energy and Industrial Strategy, what steps his Department is taking to ensure

---

86 Source: DTI. Figures in cash terms ignore two factors: inflation and the fact the value of a future payment is lower than that of one received today. Payments in the future are 'discounted' to obtain a present value for costs in the future. These figures can be combined to obtain a present value for costs into the future. The resulting "net present value" is used to compare the costs and benefits of different projects

87 Treasury Select Committee, Administration and expenditure of the Chancellor's departments 2007-08, January 2009; The requested statement was provided in the 2008 valuation for the scheme, which has not been published.

88 MPS Annual Report and Accounts 2016, p5

> that a further decline in Capita's finances will not affect the level of payments to members from the Mineworkers' Pension Scheme.[89]

The trustees have put the following statement on the MPS website:

> The Trustees are fully aware of the recent press coverage about the Capita Group following the trading update it issued on the 31st January. The Trustees keep abreast of news about all its key suppliers and regularly meet with them to discuss their future plans and any impact upon the Scheme and its members. The Trustees can provide assurance to our members that their MPS pensions are completely secure.
>
> The only involvement of Capita Group with the Scheme is the administration of pensions through Capita Employee Benefits ("CEB") who continue to be a core operating division within the Capita Group. The due diligence undertaken by the Trustees ahead of contracting with CEB to administer MPS Pensions showed that CEB holds a strong capital position in its own right and is a profitable and successful business in the provision of pension administration and other employee solutions to some of the largest pension schemes and companies in the UK. CEB is also regulated by the Financial Conduct Authority and as a result they have to evidence their financial strength and adequacy of capital on a regular basis as a standalone legal entity. The Trustees will continue to closely monitor the company and service performance as they do for all key suppliers and proactively seek clarification on any matters that might have an impact upon the Scheme. We believe that the Capita Group proposals for strengthening of the Group balance sheet and a focus on core business areas, such as Capita Employee Benefits, will only have a positive impact upon the present Scheme administration arrangements and the ongoing payment of MPS pensions.[90]

89 PQ 126117, 6 February 2018
90 Trustees Statement about Capital Employee Benefits, 31 January 2018

BRIEFING PAPER
Number CBP-01189, 23 January 2020