Title: Pension Reform – The Nuclear Decommissioning Authority (NDA) Estate. **IA No:** DESNZ041(F)-23-NPID **RPC Reference No: RPC-BEIS-5173(1)** **Lead department or agency:** Department for Energy Security and Net Zero (Formely BEIS) **Other departments or agencies:** Nuclear Decommissioning Authority (NDA)	**Impact Assessment (IA)** **Date: 19/12/2023** **Stage:** Final **Source of intervention:** Domestic **Type of measure:** Secondary Legislation **Contact for enquiries:** Bolade.kerr@energysecurity.gov.uk Alastair.Findlay@energysecurity.gov.uk

Summary: Intervention and Options

RPC Opinion: Green Not Applicable

Cost of Preferred (or more likely) Option (in 2020 prices)			
Total Net Present Social Value	**Business Net Present Value**	**Net cost to business per year**	**Business Impact Target Status**
N/Q	N/A	N/A	Not a regulatory provision

What is the problem under consideration? Why is government action or intervention necessary?

Government policy on public sector pensions follows from recommendations made in the Independent Service Pensions Commission (IPSPC) report in 2011. The main recommendation was to reform final salary defined benefit schemes in favour of Career Averaged Revalued Earnings (CARE) schemes. The recommendations have been enacted through the provisions of the Public Services Pension Act 2013 (PSPA). This Impact Assessment considers implementing a CARE scheme to two defined benefit pension schemes across the Nuclear Decommissioning Authority (NDA).

What are the policy objectives of the action or intervention and the intended effects?

The objective of this intervention is to reform in-scope NDA pension schemes in line with public sector pension policy. In particular, to: appropriately balance risk between the Government and pension scheme members; be fairer for employees with different earnings trajectories; and ensure a good level of retirement income with a reasonable degree of certainty through a CARE scheme.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1 – current schemes. This is not feasible given the PSPA to create fairer career average public service pension schemes.
Option 2 – implement the Government-preferred CARE reference scheme enacted through the provisions of the Public Services Pension Act 2013.
Option 3 – implement a bespoke revised CARE reference scheme, agreed with trade unions, that reflects the unique circumstances faced by the NDA Group decommissioning workforce.
Option 4 – implement a pensionable pay cap (non-legislative option).
Options 2 and 4 were rejected by the trade unions and the workforce on the grounds that the impact on pension benefits would be too financially detrimental and would undermine the confidence of the workforce to plan for future retirement. The Government believes option 3 is the only viable option as this would ensure consistency across the public sector.

Will the policy be reviewed? It will/will not be reviewed. **If applicable, set review date:** Month/Year N/A

Is this measure likely to impact on international trade and investment?	No			
Are any of these organisations in scope?	**Micro** No	**Small** No	**Medium** No	**Large** No
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)	**Traded:** N/A	**Non-traded:** N/A		

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Andrew Bowie ______________ Date: 19.12.2023

Summary: Analysis & Evidence Policy Option 3

Description: A bespoke CARE scheme reflecting the unique circumstances faced by the NDA and the workforce.

FULL ECONOMIC ASSESSMENT

Price Base Year 2020	PV Base Year 2022	Time Period Years TBC	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: -£3.5m

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low				
High				
Best Estimate	£3.5m		£3.5m	£3.5m

Description and scale of key monetised costs by 'main affected groups'

The estimated cost for 18 months from 01/04/2022 to NDA/employers in implementing changes is estimated as £3.5m. The NDA work with Site Licence Companies who are classified as public sector as they are directly funded by the NDA. This is one-off external costs arising from technical, professional, supporting services and legal advice to NDA and the scheme's costs incurred over the development and implementation. On-going administration of any new arrangements will be reimbursed by the NDA (i.e. indirectly funded by the Exchequer).

Other key non-monetised costs by 'main affected groups'

None.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low				
High				
Best Estimate				N/Q

Description and scale of key monetised benefits by 'main affected groups'

There are no monetised benefits. It is estimated that around £300m (2017 prices, undiscounted) lifetime savings will accrue to Government as a result of the policy, but these savings are treated as an economic transfer from scheme members to Government / taxpayers and therefore are not included in the NPV.

Other key non-monetised benefits by 'main affected groups'

This measure will align the NDA Estate's two defined benefit pension schemes, that are within scope for reform, with those in place for new members, and it will ensure consistency with wider public sector pension reforms that have already been implemented. The NDA estate refers to the NDA itself, its Site Licence Companies and subsidiaries. This measure will also increase equity as it will balance the cost risks more fairly between members and employers and it will be fairer for employees with different earnings trajectories.

Key assumptions/sensitivities/risks **Discount rate (%)** 3.5%

This measure assumes that there is no wider change to overarching HMG policy on public sector pensions. There is also some uncertainty around the projected savings as the analysis makes assumptions regarding the level of employee contributions, the cost of new arrangements, staff retention over time as well as other wider economic factors. These will be monitored by the NDA on an ongoing basis to ensure the scheme continues to meet government's overall objectives for public sector pensions.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m: None
Costs: None	**Benefits:** None	**Net:** None	

Contents

Evidence Base

1. Problem under consideration and rationale for intervention

1. Government policy on public sector pensions follows recommendations made in the Independent Public Service Pensions Commission (IPSPC) report in 2011[1]. The main recommendation was to reform final salary, defined benefit schemes in favour of Career Averaged Revalued Earnings (CARE) schemes which has been enacted through the provisions of the Public Services Pension Act 2013 (PSPA 2013). This balances the cost risks more fairly between members and employers and distributes benefits across new scheme memberships more fairly. Since then, reform has been successfully implemented across the majority of public sector pension schemes.

2. The IPSPC found that the current public service pensions structure had been unable to respond flexibly to workforce and demographic changes which had led to:
   - rising value of benefits due to increased longevity;
   - unequal treatment of members within the same profession;
   - unfair sharing of costs between the employee, the employer and taxpayers; and
   - barriers to increasing the range of providers of public services.

3. Therefore, long-term structural reform of public sector pensions was recommended. In the IPSPC's view, public service pensions should be affordable and sustainable; adequate and fair; supporting productivity; and transparent and simple.

4. The IPSPC recommendations have been used by Government as the basis for discussion with trade unions and pension scheme representatives to ensure public sector employees continue to have good quality, sustainable and fairer pension schemes.

5. The Government published an impact assessment[2] on public service pension and an equalities analysis[3] on protected characteristics in 2012. The impact assessment concluded that a legislative framework should be created to allow for the implementation of key recommendations from the final report of the IPSPC and the reforms set out in agreements reached with trade unions, member representatives and employer representatives. When compared with making no further changes, this policy option would: lead to cost savings for the Exchequer due to the reduction in costs of scheme benefits; have no impact on the services provided by public servants in return for their total remuneration package; have no impact on scheme members' contribution outgoings; lead to reduced benefits accruals for scheme members; and lead to cost savings for employers due to smaller contributions (which offset the smaller benefit accruals for employees).

6. The Nuclear Decommissioning Authority (NDA) was created through the Energy Act, 2004. The NDA is an executive non-departmental public body reporting to the Department for Business, Energy and Industrial Strategy. It has a large estate across the UK which includes a number of nuclear sites, their liabilities and assets. The NDA does not have a hands-on role but delivers its objectives through wholly owned subsidiaries, primarily the Site Licence Companies, who operate the sites and meet the decommissioning mission under the Energy Act.

---

1 Independent Public Service Pensions Commission: final report by Lord Hutton (2011), available at: https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton

2 Public Service Pensions Bill: Impact Assessment (2012), available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/205841/Public_Sector_Pensions_impact_analysis.pdf

3 Public Service Pensions: central equalities impact analysis (2012), available at: http://www.parliament.uk/documents/impact-assessments/IA12-024.pdf

7. Across the NDA there are two defined benefit pension schemes in-scope for reform, which cover approximately 7,300 employees (as at 31/03/2022), and are closed to new members: the Combined Nuclear Pension Plan (CNPP) and the Magnox Electric Group of the Electricity Supply Pension Scheme (MEG ESPS).

8. CARE reform of these schemes requires amendments to statutory pension protections in order to ensure the pension benefits for existing scheme members are at least as good as those they currently receive. In addition, an employer amendment power is needed in order to enable the lead employer in a scheme to amend that scheme without the consent of the Trustees or members.

2. Policy objectives

9. The objective of this intervention is to reform the in-scope NDA pension schemes in line with public sector pension policy. In particular, to:
    - appropriately balance the risk between the Government and pension scheme members i.e. to ensure they are affordable and sustainable, with cost risk managed and shared effectively;
    - be fairer for employees with different earnings trajectories[4]; and
    - ensure a good level of retirement income with a reasonable degree of certainty through a CARE scheme.

3. Description of options considered

10. The policy options that have been considered for this Impact Assessment are:

    Option 1 – the two in-scope pension schemes are not reformed.

    Option 2 – Implement the Government-preferred CARE reference scheme reflecting the IPSPC's recommendations.

    Option 3 (Recommended) – Implement a bespoke revised CARE reference scheme reflecting the unique circumstances faced by the NDA and the workforce with regards to the planned decommissioning and forthcoming closure of sites within some of the estate; the likelihood of high levels of redundancies before retirement; and the existence of statutory pension protections which would need to be amended to allow the NDA to implement pension reform across its estate.

    Option 4 – Implement a pensionable pay cap (a non-legislative option). This retains the two final salary benefit pension schemes, but the pensionable pay cap would limit an individual's final salary used to calculate retirement benefits.

11. A table comparing the main elements of the current NDA pension schemes with the Government's preferred CARE reference scheme (option 2) and the revised CARE scheme (option 3) is in Annex A.

12. Option 1 is not feasible due to the PSPA, which is designed to reform public body and ministerial pension schemes, and create fairer career average public service pension schemes to replace the largest existing final salary schemes. Under option 1 there would

[4] A final salary scheme design is far more beneficial to high earners than to those with slower salary growth, and moving to a CARE scheme means those who benefited from existing distortions created by final salary schemes will cease to do so. Those with slower salary progression will receive proportionately more, equalising the effective benefit rate received by all members.

be no cost savings to the Exchequer, nor for employers due to smaller contributions (which offset larger benefit accruals for employees).

13. The NDA engaged in detailed discussions with national trade unions on Options 2-4 above and undertook a consultation with the workforce (launched on 9th January 2017) [5], which was informed by the Hutton review. The CARE reference scheme (Option 2) and pensionable pay cap (Option 4) were rejected by the trade unions and the workforce on the grounds that the impact on pension benefits would be too financially detrimental and would undermine the confidence of the workforce to plan for future retirement. However, agreement was reached on a revised CARE reference scheme (Option 3), which better reflected the particular circumstances faced by the NDA workforce and the existence of statutory pension protections. For example, the revised CARE scheme has no change to ill health provision, whereas the CARE reference scheme includes two tiers of benefits subject to severity of ill health. The revised CARE scheme also had no change to lump sum on death in service and spouse and partner pensions, but in the CARE reference scheme these match those provided by the Civil Service Pension Scheme.

14. In implementing pension reform, the Department recognises that there will be common features of its preferred CARE reference scheme that will, broadly, apply to all public sector pension schemes, but also variations between different pension schemes that would require a bespoke CARE scheme. The trade unions held consultative ballots with members to accept the proposal as the “best achievable through negotiation” and to support implementation if the proposal was accepted. The consultation ended on 21st April 2017 and workforce ballots were in favour the revised CARE proposal.

15. The Department believes that the revised CARE proposal is the only viable option. It offers a fair and sustainable solution that reflects the particular circumstances facing the NDA and its workforce, ensures that amendments to statutory pension protections can be made without controversy and meets the objectives.

16. In 2018, the Civil Service unions won legal action against aspects of the similar changes that were introduced to Civil Service final salary pension schemes. The revised CARE scheme for NDA was agreed with the unions and didn’t have any transitional arrangements as part of its design, so wasn’t affected by these court judgements. Legislation to deal with the issues caused by this court case is expected to be made law shortly, but as noted above won’t affect the NDA revised scheme.

5. Monetised and non-monetised costs and benefits

17. We have undertaken a proportionate assessment of the costs and benefits of NDA pension reform in light of the impact assessment already undertaken by Government that set out the principles and overall economic benefits of CARE reform on public service pensions. No additional impacts have been identified unique to NDA pension reform, which justify a more detailed impact assessment to be carried out.

18. Option 1 is a continuation of the existing schemes, and is the baseline against which option 3 is compared. The cost of options 2 and 4 are not assessed, as these options were not taken forward and agreed upon during negotiations with workforce trade unions.

19. A key justification for the adopting the more generous, bespoke CARE design as opposed to the HMT CARE reference scheme, was that the NDA had already introduced defined contribution pensions for all new entrants. Hence the reform of the NDA Group final salary arrangements was only in respect of a closed group of the workforce. The

[5] NDA Pension Consultation, available at: https://tools.nda.gov.uk/pensionconsultation

Government reform of the public service schemes (under the PSP Act 2013) was introducing new CARE arrangements to apply to both existing employees accruing final salary benefits and for new entrants.

Costs

20. The direct cost of option 3 to NDA/employers is estimated as £3.5m[6] (discounted). This is the one-off external costs arising from technical, professional, supporting services and legal advice to the NDA and affected employers; and the schemes' costs incurred throughout development and implementation. On-going administration of any new arrangements will be reimbursed by the NDA (i.e. indirectly funded by the Exchequer). This is a underpinned by a best estimate from suppliers/stakeholders in terms of the cost of implementation.

21. Specifically, this cost estimate of implementing option 3 principally relates to:
    - The NDA Group costs of the external legal and actuarial support required to instruct the CNPP and MEG ESPS pension schemes to administer the CARE design.
    - The costs associated with running the workforce engagement and communications of the changes.
    - Bearing the cost incurred by the CNPP and MEG ESPS pension scheme to establish the administration arrangements for CARE design.

22. Public pension payments and contributions represent a transfer between scheme members and the Exchequer. This transfer does not represent a change in costs or benefits at a societal level.

23. In 2017, analysis carried out by Deloitte on behalf of the NDA suggested lifetime savings of the revised CARE scheme to the Exchequer of around £300m[7] (undiscounted) compared with the current design, the main direct benefit of the scheme. As above, this is a transfer and does not represent a net societal benefit.

Benefits

24. Unmonetised direct benefits of option 3 include achieving the recommendations of the IPSPC report and consistency with other public sector pension schemes. This option will also be more equitable given the consistency; and it will balance the cost risk more fairly between members and employers, as well as be fairer for employees with different earning trajectories. Also, in the context of uncertain and increasing longevity, the current scheme designs are not sufficiently robust to ensure the sustainability of public service pensions; this is unfair to taxpayers, who meet the majority of increased costs of public service pension provision.

25. This policy will have no effect on emissions or other environmental impacts.

6. Risks and assumptions

26. This measure assumes that there is no wider change to overarching HMG policy on public sector pensions. Given the recent introduction of legislation relating to dealing with

[6] Price base year 2020, PV base year 2022.

[7] This figure is in real prices (2017) and is undiscounted.

the McCloud legal judgement there is a very high degree of confidence that this assumption remains correct.

27. There is a risk the estimated cost of implementing the revised CARE scheme is higher than anticipated. However, costs would still be expected to be far less significant than the potential saving to the Exchequer. There is some uncertainty around the projected savings as the analysis makes assumptions regarding the level of employee contributions, the cost of new arrangements, staff retention over time as well as other wider economic factors. These will be monitored by the NDA on an ongoing basis to ensure the scheme continues to meet government's overall objectives for public sector pensions. Optimism bias has been applied to the costs associated with the implementation of the scheme to reflect this uncertainty.

7. Impact on small and micro businesses

28. The NDA is a non-departmental public body, and therefore this measure will not impact on businesses. The Site Licence Companies workforces are classified as public sector because they are directly funded by the NDA.

8. Wider impacts

29. An equalities analysis has been undertaken for NDA pension reform. A summary of the general impact is detailed below.

30. The Department does not consider that the common features of pension reform across the NDA estate in respect of the CNPP and MEG ESPS schemes will result in any differential impact to persons with the following protected characteristics: gender, disability, ethnicity, age, religion, or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership. This is because members will continue to receive a high quality pension with a guaranteed payment in retirement that is protected against inflation regardless of gender, race, age, disability, gender reassignment, pregnancy and maternity, religion or belief, sexual orientation or martial/civil partnership status.

31. The overall value of a pension depends on unique individual factors that are outside the scope of the pension scheme structure itself. These factors include periods of employment, career progression, salary and personal financial decisions e.g. purchasing "added years" accrual through Additional Voluntary Contributions (AVCs). However, the Department does not consider that these impacts are unlawful or disproportionate.

32. The Department has also considered potential cumulative impacts on scheme members with regard to protected characteristics. While it is very difficult to assess cumulative impacts, the Department does not consider that any exist to a disproportionate extent. Taking full equalities impacts into account, the Department believes the proposed reform of the CNPP and MEG ESPS schemes are a proportionate means of achieving its policy aim.

33. The Department believes that the reformed scheme design should not be a disincentive to future participation in the schemes. There remains a strong economic rationale for members to continue active membership in the new schemes.

9. A summary of the potential trade implications of measure

34. The NDA is a non-departmental public body with sites across England, Wales and Scotland, therefore reforming NDA pensions will have no impact on trade.

10. Monitoring and Evaluation

35. The following priorities have been devised for the monitoring and evaluation programme:
    - To monitor and evaluate the improvement of risk balance by scheme members making higher contributions.
    - To monitor and evaluate the improvement in equity for employees with different earnings trajectories by monitoring the size of pensions scheme members receive as soon as the revised CARE scheme is implemented.

36. The NDA has oversight of the affected pension schemes and can monitor the level of employee contributions and cost of the new arrangements. Current monitoring arrangements are the financial reporting arrangement for the NDA and its relevant Operating Companies. Such arrangements will be unchanged by this policy and the NDA will not need to collect any additional data to assess the policy against the above objectives.

37. Pension schemes are required to carry out an actuarial valuation every three years to determine the contributions to be paid by employers using the scheme and as such monitoring of the scheme will take place as standard to ensure appropriate contributions are being made by employers and employees. The level of employee contributions, the cost of new arrangements, staff retention and industrial relations will be monitored by the NDA on an ongoing basis to ensure the scheme continues to meet government's overall objectives for public sector pensions. These will be monitored alongside external factors which may influence results, such as the ability of the Operating Companies and Trustees of the affected pension schemes to successfully implement and operate the new arrangements, and the workforce and unions accepting the agreed changes.

38. An impact evaluation could be used to explore what aspects of the intervention may be generalisable to other similar interventions involving public sector pensions although this is not considered proportionate as this would only be applied in a case where the Government opts to, again, review the public sector pension policy or if general monitoring of the scheme were to suggest that implementation was not going to plan. Since this programme does not provide an obvious counterfactual, the impact evaluation would likely be theory-based involving methods such as simulation, contribution or qualitative analysis.

39. Monitoring will begin once the intervention commences, while timing an impact evaluation for the end of Year 5 would give long enough for the anticipated benefits to be realised and any issues identified in the monitoring to be sufficiently resolved. Circumstances or changes that would require the policy to be reviewed sooner or change the preferred option would include a material change in Government policy away from the use of CARE pensions for public sector workers, or to seek further reductions in the pension benefits for the public sector and/or nuclear decommissioning workforce. This is considered unlikely.

Annex A – Table comparing the main elements of the current NDA pension schemes with the Government preferred CARE reference scheme and the revised CARE reference scheme.

	Current Scheme	Revised CARE Scheme	CARE Reference Scheme
Benefit type	Final Salary	Career Average Revalued Earnings	Career Average Revalued Earnings
Accrual rate	1/80ths	1/58ths	1/60ths
Lump sum	3/80ths automatic lump sum, plus optional commutation	Optional commutation	Optional commutation
Member contributions	5.0% CNPP Scheme / 6.0% MEG ESPS Scheme (some members)	Average increase of 3.2% (2.2% for some) phased in over 3 years	Average increase of 3.2%
Definition of pensionable pay	Permanent salary plus responsibility and certain other allowances	No change	No change
Normal pension age	60 – 65 (depending on your scheme rules)	60 – 65 (depending on scheme rules)	65 or the State Pension Age if later
Early retirement	Over age 55, actuarially reduced	No change	No change
In service revaluation	Final salary	Consumer Price Index	National Average Earnings
Revaluation in deferment	Retail Price Index	Consumer Price Index	Consumer Price Index
Pension Increases	Retail Price Index	Consumer Price Index	Consumer Price Index
Ill heath provision	1 tier system	No change	2 tiers of benefit subject to severity of ill health
Lump sum on death in service	2.5 times actual pensionable pay	No change	To match those provided by the Civil Service Pension Scheme
Spouse and partner pensions	Accrual rate of 1/140th	No change	To match those provided by the Civil Service Pension Scheme
Indicative lifetime cost savings	Nil	£320m	£400m

There are no proposed changes to other pension scheme benefits