

Rt Hon Frank Field MP
Chair, Work and Pensions Committee
House of Commons
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By email

9 February 2018

Dear Mr Field

Carillion (DB) Pension Trustee Limited

I write further to your letter of 31 January 2018 requesting additional information from the Trustee, and our subsequent correspondence with Tom Tyson and Adam Mellows-Facer.

As agreed, we are addressing the response in stages. This letter covers the main clarifications you have asked for, and we will provide the documentation you have requested in the course of the next couple of weeks. We expect to be able to provide a substantial number of the documents requested by the end of next week.

Question 3 – You wrote that the trustees and company were unable to agree valuations in both 2008 and 2011. Was agreement therefore reached on the 2013 valuations?

My letter of 26 January 2018 noted that for both the 2008 and 2011 valuations, the Trustee and Company were not able to reach agreement on the valuations by the due date under the Pensions Act 2004. The statutory timeframe for reaching agreement is 15 months from the effective date of the valuation. The valuations were ultimately agreed with Carillion outside the 15 month period, following further negotiations with the Company, and with the involvement of the Pensions Regulator (tPR).

The 2013 valuations were agreed with Carillion within the statutory timeframe.

Q 4 – Were Carillion supportive of the Trustee decisions to de-risk the scheme investments or did they advocate a more aggressive investment strategy?

Following the July 2017 profit warning, the Trustee discussed and agreed a two strategy approach with Carillion; the first assuming that financial restructuring was successful (which included de-risking with a move from equities to income generating assets and a longer term plan of further de-risking as the deficit reduced) and a contingency plan of substantial de-risking in the event that the Trustee did not expect the restructuring to be successful. Both options were discussed with tPR.

Looking back over a longer time period, as part of its ongoing management of the Schemes' investment strategies, the Trustee consulted the Company on, and the Company supported, changes that were aimed at reducing risk. For example, the introduction of a "diversified growth fund" in 2012 that reduced the Schemes' exposure to global stock markets and, in 2016, investment by the Carillion Staff Pension Scheme in assets protecting against the effects of inflation.

Also, during discussions in connection with the Schemes' valuations, the Company was supportive of the principle of the Schemes de-risking as the Schemes became more mature. This is demonstrated by the fact that the Trustee and Company agreed that the discount rate used to calculate the deficit of each of the Schemes should include an assumption that the Schemes would de-risk (to investment strategies predominantly invested in UK government bonds and other low risk assets) over time.

However, despite this agreement in principle, the level of funding of the Schemes, and the level of contributions the employers were paying to address the deficits, limited the extent to which de-risking could be implemented in practice. The Schemes needed to continue to take some investment risk (tailored to the circumstances of each Scheme) with a view to achieving long term asset returns (based on prudent assumptions) that, together with the employer contributions being paid, were expected to recover the deficits over time.

If the employers had paid higher contributions, the Trustee could have speeded up the de-risking programme.

Q 5 – You said [on 30 January] that one of the Carillion Directors gave you assurances that the pension scheme was the biggest risk on their risk register. Could you confirm which Director that was? Did you see the risk register?

This was Richard Adam, Carillion plc Finance Director.

I did not see the risk register, other than to the extent it was reflected in Carillion plc's accounts (e.g. in the report and accounts for 31 December 2016 "pension liabilities" are listed as the 3rd highest principal risk to the group's business).

Q 9 – An overview of the Trustee negotiating starting position over the deferral request

I attach a copy of Carillion's initial proposal on 3 August 2017, and the Trustee's response.

Final paragraph

The contribution deferral agreement was fully executed on 24 October 2017. I think the point I wanted to get across in my evidence was that the Trustee did not just sign up to the initial proposal.

Clarifications

I also thought it would be helpful to clarify 3 short points from the evidence given to the Committee on 30 January.

1. *You asked if tPR had been attending meetings for the last 10 years, and I indicated it was 6/7 years*

Just in case there was any misunderstanding on the types of meeting tPR was attending, tPR has attended meetings at significant points in the valuation discussions since at least December 2012 onwards. It did not however start attending full Trustee board meetings until after Carillion issued the profits warning in July 2017.

2. *You asked if the Trustee asked tPR to use any of its powers to help us*

As background, we attach a copy of letters sent to tPR on 25 March 2010 and 9 April 2013 to show the way in which we engaged with tPR in relation to the 2008 and 2011 valuations. (The letter from 25 March 2010 relates to the Carillion Staff Pension Scheme, but the same letter was sent for the other schemes that Carillion (DB) Pension Trustee Limited became trustee for in April 2011 that were undergoing a valuation at that time).

3. *I was asked if the Trustee had requested a negative pledge from the Company to ensure no security could be granted without notification*

My answer was directed at the fact the Trustee did not believe Carillion had anything valuable for it to take security over. The Trustee took into account the various recommendations made by its covenant advisers, but ultimately concentrated in the 2011 valuation on seeking additional contributions for the schemes, and guarantees from Carillion plc (as the parent company) linked to contributions payable by the employers under the schemes' schedules of contributions.

Also, for the record, I note that the transcript refers in a couple of places to the Trustee engaging "Government advisers", which should record that we engaged "covenant advisers".

As indicated at the start of this letter, we will be providing the documentation you have requested in the next couple of weeks.

Finally, as indicated previously, it would be helpful, in the light of current circumstances at Carillion, if you were you to write to me care of the Trustee's lawyers, Sacker & Partners LLP, 20 Gresham Street, London EC2V 7JE rather than to the address on this letter.

Yours sincerely

Robin Ellison

Chairman

Carillion (DB) Pension Trustee Limited

Trustee for the Carillion Staff Pension Scheme, Carillion B Pension Scheme, Alfred McAlpine Pension Plan, Bower Group Retirement Benefits Scheme, Mowlem Staff Pension and Life Assurance Scheme, and Planned Maintenance Engineering Limited Staff Pension and Assurance Scheme