19 February 2018

Rt Hon Frank Field MP
Chair
Work and Pensions Committee
House of Commons
London
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workpencom@parliament.uk

By email

Dear Mr Field

Carillion Group of the ESPS

Thank you for your letter dated 8 February 2018, concerning the collapse of Carillion and your six questions about the Carillion Group of the Electricity Supply Pension Scheme (the “Carillion ESPS” or the “Scheme”). By way of background the Carillion ESPS is a Section of the industry-wide Electricity Supply Pension Scheme (“ESPS”). All sections of the ESPS have different, non-related sponsoring employers and are actuarially independent. For the avoidance of doubt, this response relates to the Carillion ESPS only.

The Trustees of the Carillion ESPS (“Trustees”) comprise two member nominated trustees, one employer nominated trustee and one independent trustee (Chair). For the period April 2008 to 5 May 2017 the independent trustee (Capital Cranfield Pension Trustees Limited) was represented by Mr Edward Dowler; he was succeeded on that date by Mrs Judith Maguire, also of Capital Cranfield Pension Trustees Limited.

We detail responses to your six questions below.

1. The total number of members of your scheme at the point Carillion became insolvent, the deficit/surplus of the scheme on a technical provisions and buyout basis, along with any initial assessment of the deficit for PPF purposes.

As at 31 December 2017, the Carillion ESPS had 6 active members, 275 deferred members, 216 pensioners and 16 dependents, giving a total of 513 members.

The balance sheet positions as at 31 December 2017 are as follows:

- A deficit of £21.0M on the technical provisions basis, and a funding ratio of 85%
- A deficit of £55.9M on a solvency (buy-out) basis, and a funding ratio of 69%
- A surplus of £12.6M on a s179 (PPF) valuation with a funding ratio of 111%
The Scheme's technical provisions have been calculated using assumptions set on a scheme-specific basis by the Trustees for this Scheme, and agreed by Carillion, and so the above figures are unlikely to be directly comparable with those provided by other Carillion schemes.

The technical provisions and solvency figures have been rolled forward in an approximate manner from the triennial valuation as at 31 March 2016. The s179 figures have been based on accurate calculations based on data as at 31 December 2017. All the above figures are based on the Scheme's actual assets, including cash in bank, as at 31 December 2017.

We do not believe that the position will be materially different at the point Carillion went into liquidation on 15 January 2018.

2 Has the scheme being subject to a deficit recovery plan? If so, how many times has the plan been revised, how has it been revised and what is the current schedule?

The scheme has been through four valuations (2007, 2010, 2013 and 2017) since the introduction of scheme-specific funding. Deficits were revealed at each valuation, and so recovery plans needed to be agreed with Carillion at each valuation. Further details are given below:

31 March 2007

The 2007 valuation basis revealed a deficit of £15.2M and a funding ratio of 76%.

It was agreed that deficit reduction contributions of £0.8M p.a. would be paid over the 8 years and 9 months to 31 December 2015 to eliminate the deficit. The recovery plan allowed for investment outperformance of 0.7% p.a. in excess of the discount rate.

The Trustees also put into place a legally enforceable deed with Carillion (AM) Limited and Carillion Utility Services SE Limited (the Principal Employer to the Scheme at the time), that had the following effect:

- Contributions remaining unpaid by any participating employer could be recovered by the Trustees from any of the then current and former participating employers named in the deed (of which there were nine)
- Additional deficit contributions would be payable if Carillion Utility Services (a business unit comprising the Principal Employer and Carillion Infrastructure Services Limited) exceeded the cash generation in its business plan for any of the three years from 2009 to 2011, at a rate of 20% of any excess cash, subject to a maximum of an additional contribution of £0.5M p.a.

31 March 2010

The 2010 valuation basis revealed a deficit of £25.8M and a funding ratio of 66%.

It was agreed that deficit contributions of £2.7M p.a. would be paid over the 14 years and 11 months to 28 February 2025. No allowance was made for additional asset outperformance over and above the discount rate. This represented a lengthening in the Recovery Period but a
substantial increase in contributions from the 2007 agreement.

The Trustees also secured the following two guarantees:

- A Parent Company Guarantee from Carillion plc, which guaranteed payment of all sums due under the Schedule of Contributions before 31 March 2020
- A Type A PPF compliant guarantee with Carillion Construction Limited covering obligations of the participating companies to the Scheme necessary to bring the funding level up to 105% on the section 179 valuation basis.

31 March 2013

The 2013 valuation basis revealed a deficit of £31.0M and a funding ratio of 69%.

It was agreed that deficit contributions would continue at a rate of £2.7M p.a. over the 11 year period to 31 March 2024. The recovery plan allowed for investment outperformance to be 0.7% p.a. in excess of the discount rate.

In addition to the valuation agreement the Trustees secured a payment of £2.0M in connection with an agreed change of sponsoring employer to Carillion Services Limited. This was notified to the Pensions Regulator.

The Trustees also secured the extension of the existing parent company guarantee to cover sums due under the Schedule of Contributions over the period to 31 March 2024. The Type A PPF compliant guarantee with Carillion Construction Limited remained in force.

31 March 2016

The 2016 valuation basis revealed a deficit of £27.0M and a funding ratio of 78%.

It was agreed that deficit contributions would increase to £2.88M p.a. from 1 April 2016 to 31 March 2024 – the end of the existing recovery plan. The recovery plan allowed for investment outperformance to be 0.75% p.a. in excess of the discount rate.

The two guarantees remained in force.

3 Were the deficit recovery plans agreed with Carillion or imposed on the scheme by Carillion? If the plans were imposed, what steps did the trustees take to try and prevent this? Were the Pensions Regulator (TPR) involved during these negotiations, and was there ever any consideration that TPR would impose a schedule of contributions on the company?

The Pensions Regulator was involved in the agreement of the 2010 actuarial valuation where the Trustees had been unable to agree a deficit recovery plan with Carillion. After a meeting between the Pensions Regulator, the Trustees and the Group Finance Director of Carillion plc, the Company agreed to accept the Trustees' proposed deficit recovery plan. The Trustees were able to reach agreement with Carillion without the need to involve the Pensions Regulator for the 2013 and 2016 valuations.
4 How would you categorise Carillion’s approach to the pension scheme? Were they committed to tackling any deficit or were other corporate interests of greater importance? Did you feel you had adequate communication with the Carillion board?

Following the completion of the 2010 actuarial valuation, relations between the Trustees and Carillion progressively improved. Carillion were supportive of the Trustees’ objective to substantially de-risk the Scheme’s investments in recent years.

Representatives of the Trustees attended Carillion’s annual DB Forum where senior management presented financial results to the various Carillion pension schemes. The Trustees also met quarterly with Carillion's Head of Reward.

5 Robin Ellison informed us that his trustee board were asked by the Carillion board to agree to a deferral of contributions in September 2017, which they consented to for fear that failure to do so could lead to the company becoming insolvent at that point? Were you similarly approached by Carillion and if so did you agree to a deferral?

The Trustees were not asked by Carillion to agree to a deferral of contributions in 2017, and no deferral had been formally proposed to the Trustees by Carillion by the time the company went into liquidation on 15 January 2018. The Trustees had been made aware that a deferral of contributions was likely to be required as part of a restructuring of the Carillion group of companies and had been taking advice on the feasibility of different options at the time of the liquidation.

6 Keith Cochrane, interim chief executive of Carillion, wrote that the company was attempting to put together a restructuring plan in December 2017 that focused on restructuring the group’s pension liabilities, either through a consensual deal with the trustees, the Pension Protection Fund and TPR or through a regulated apportionment arrangement. Were you approached by Carillion about this and if so, what discussions did you have with the company before it collapsed?

Yes, Carillion approached the Trustees about a potential consensual deal to restructure the Carillion group pension liabilities, which would have involved the Scheme accepting suspension or reduction of contributions as part of a restructuring of Carillion. This restructuring would have included a debt for equity swap and much reduced borrowing going forward and was expected to result in Carillion’s ability to support its schemes being substantially improved.

During the last quarter of 2017 and the early days of January 2018 the Trustees were represented at several meetings through which we were kept informed of the Group’s progress in developing a restructuring plan.

On 9 January 2018 the Trustees received a formal request to restructure the pension liabilities, either through a consensual deal or via a regulated apportionment arrangement.

The Trustees worked with our advisors to consider the scope for agreeing lower contributions or a contribution suspension. The Trustees understood that the likely recovery to the scheme on Carillion's insolvency was highly uncertain, with a strong prospect of being minimal. We
therefore confirmed to Carillion that we were, in principle, willing to allow them to restructure their contributions subject to appropriate protection for members' interests, as part of a restructuring of the Carillion Group.

In considering a Regulated Apportionment Arrangement, a key consideration for the Trustees was the interaction of this proposal with the protections given to members of the ESPS at the time of privatisation under the Electricity (Protected Persons) (England and Wales) Pension Regulations 1990. It is important to note that around 85% of the Scheme's liabilities relate to so-called " Protected Persons". A Regulated Apportionment Arrangement would have been unlikely to be practical for the Scheme, as it would not have discharged Carillion's obligations to Protected Persons under the Protected Persons Regulations. Moving the scheme into the PPF under a Regulated Apportionment Arrangement would have still left Carillion having to fund the portion of the benefits not provided by the PPF on a basis similar to section 75, which would have defeated the purpose of a Regulated Apportionment Arrangement for the Scheme.

Please let us know if you require any further information.

Yours sincerely

[Signature]

Judith Maguire
Chair of the Trustees of the Carillion Group of the ESPS

And

[Signature]

Edward Dowler
Former Chair of the Trustees of the Carillion Group of the ESPS