Carillion Public Sector Trustees Limited
Carillion House
84 Salop Street
Wolverhampton WV3 0SR

Rt Hon Frank Field MP
Chair, Work & Pensions Committee
House of Commons
London
SW1A 0AA
workpencom@parliament.uk

By email

19 February 2018

Dear Mr Field

Carillion Public Sector Pension Scheme

Thank you for your letter dated 8 February 2018. I will respond to your queries in the order raised.

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.***

Three of the five employers participating in the Carillion Public Sector Pension Scheme ('the Scheme') - Carillion plc, Carillion Construction Limited and Carillion Services Limited - entered compulsory liquidation on 15th January 2018. On this date, the Scheme's membership was:

- 145 active members;
- 521 deferred members;
- 773 pensioners (& dependent pensioners).

Since then TPS Consult Limited has also entered compulsory legislation, which we believe leaves Carillion Professional Services Limited as the last statutory employer, and we understand this company is likely to enter liquidation shortly.

The most recent triennial actuarial valuation of the Scheme was at 31 December 2013 (the Trustee had begun looking at the preliminary results for the 31 December 2016 valuation when Carillion issued its profit warning last July). That valuation had not been formally agreed at the time that Carillion plc entered liquidation.

At 31 December 2013 the funding of the Scheme was as indicated in the table overleaf.

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Results of valuation @ 31/12/13	Assets	Liabilities	Surplus / (Deficit)	Funding Level
Technical Provisions Basis	£169,100,000	£197,500,000	(£28,400,000)	86%
S179 (PPF basis)	£168,595,000	£168,519,427	£75,573	100%
Buy-out Basis	£169,100,000	£273,300,000	£(104,200,000)	62%

At 30 September 2017 the estimated funding level on the Technical Provisions basis was 75%. This estimate is based on 31 December 2013 data, rolled forward, but using market values at 30 September 2017. However, this should be viewed as a high level estimate of the updated funding position; the Scheme's triennial valuation due at 31 December 2016 would have reflected changes to both the data and assumptions since the 2013 valuation was undertaken.

Based on the Scheme Actuary's preliminary figures for the 31 December 2016 valuation, the s179 valuation basis might have decreased from 100% to circa 90% and the buy-out basis from circa 62% to 56% at 31 December 2016.

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 had a Deficit Recovery Plan in place at the date of the Carillion Group insolvency. This Recovery Plan was agreed in January 2015 following the 31 December 2013 valuation and was for deficit contributions of £2.7m per annum, payable until 31 January 2024.

There was a previous Recovery Plan in place following the 2010 valuation which was agreed in April 2012. This was for deficit contributions of £2.7m per annum, payable from 1 January 2013 to 30 September 2023 (deficit contributions of £2.3m were payable until 31 December 2012).

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? Was 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?***

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The Scheme was part of the Company's proposal in early January 2018 for a regulated apportionment arrangement (along with the majority of Carillion's other defined benefit schemes). However, the Trustee's focus remained on exploring a solvent restructuring that would keep the Scheme whole.

I do hope that the above information will be helpful to you. I would be happy to answer any further questions you may have or to clarify any points. In view of the current circumstances at Carillion, please can I ask you to copy correspondence to the Trustee's lawyers, Sacker & Partners LLP, 20 Gresham Street, London EC2V 7JE.

Best wishes,

Yours sincerely

Seumas Kerr, CBE
Chair, Carillion Public Sector Trustees Limited (Trustee of the Carillion Public Sector Pension Scheme)

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The Deficit Recovery Plans were agreed with Carillion. The Regulator was not actively involved in valuation discussions and did not meet the Trustee or attend trustee meetings prior to the July trading update.

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?***

For the 31 December 2013 valuation, the negotiations with Carillion were straightforward. While some assumptions were challenged, the Company agreed to the Trustees' Recovery Plan request and the valuation was signed off in January 2015. As the agreed Recovery Plan was for the amount requested by the Trustees, there was no concern or discussion about the Company's priorities.

There was no direct communication with the Trustee and the main Carillion Board.

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 led to the company becoming insolvent at that point? Were you similarly approached by Carillion and if so did you agree to a deferral?***

Carillion did not approach Carillion Public Sector Trustees Limited to agree to a deferral of contributions to the Carillion Public Sector Pension Scheme in September 2017.

The Trustee was, however, involved in discussions with the Company and the other Trustee Boards in looking at a 'consensual' solution to Carillion's financial problems. These discussions were ongoing when the Company went into compulsory liquidation on 15 January 2018; no firm proposal was received, nor agreement reached to any proposal, prior to the insolvency event.

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?***

The Trustee, largely through its covenant adviser, Lincoln Pensions, and lawyers, Sacker & Partners LLP, was involved in 'consensual' discussions with the Company and the other Carillion defined benefit scheme Trustee Boards in late 2017/early 2018. It was recognised by all parties that a solution that would allow the Company to restructure and retain the pension schemes whole was likely to be the best outcome for members. The Trustee understood this might involve agreeing to a deferral of contributions, although no specific proposal on this had been made by the Company prior to insolvency.

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