

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

Mowlem (1993) 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.***

The principal employer (and sole statutory employer) for the Mowlem (1993) Pension Scheme ('the Scheme') is Sovereign Hospital Services Limited ('SHSL') which entered compulsory liquidation on 2nd February 2018.

On this date, the Scheme's membership was:

- 93 active members;
- 412 deferred members;
- 591 pensioners (& dependent pensioners).

These figures are the same as the membership when Carillion plc (which was not a participating employer in the Scheme) entered compulsory liquidation on 15th January 2018.

The most recent triennial actuarial valuation of the Scheme was at 31 December 2014 (the Trustee had begun looking at the assumptions for the 31 December 2017 valuation when Carillion went into compulsory liquidation).

At 31 December 2014 the funding of the Scheme was as indicated in the table overleaf.

Results of valuation @ 31/12/14	Assets	Liabilities	Deficit	Funding Level
Technical Provisions Basis	£112.5m	£118.9m	£(6.4)m	95%
S179 (PPF basis)	£112,812,556	£133,504,587	£(20,692,031)	85%
Buy-out Basis	£113m	£184m	£(71)m	61%

At 30 September 2017 the estimated funding level on the Technical Provisions basis was 97%. This estimate is based on 31 December 2014 data, rolled forward, but using market values at 30 September 2017. On a very approximate basis, the funding level on the s179 valuation basis is expected to have increased from 85% to circa 93% and on the buy-out basis from circa 61% to 63% at 31 October 2017.

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 SHSL's compulsory liquidation. This Recovery Plan was agreed in December 2016 following the 31 December 2014 valuation and was for deficit contributions of £2m per annum, payable until 31 December 2022.

The previous Recovery Plan had been in place from December 2012 (to December 2016). This was for deficit contributions of £3.6m per annum, payable to 30 April 2018.

The Recovery Plan changed at the 31 December 2014 valuation in connection with an agreement between the employers and the Trustee to enter into a Flexible Apportionment Arrangement (FAA). The Company proposed the FAA as part of a corporate re-structuring, to allow four of the five employers then participating in the Scheme to cease to be Scheme employers, leaving a single statutory employer, the Principal Employer, SHSL.

At this time, the Scheme was 95% funded on the Technical Provisions basis and the Trustee had been carrying out some de-risking of the Scheme's assets, so that only 30% of the assets remained in a growth portfolio by December 2014.

The Trustee wanted to try and use the FAA as an opportunity to negotiate further payments into the Scheme from the employers.

The Company and the Trustee made a joint approach to the Pensions Regulator ('TPR') in April 2016 to inform TPR of the proposal for the FAA. TPR confirmed that if the FAA proceeded in line with the proposal, it would be unlikely to raise any additional questions (it is not a legal requirement for TPR to approve an FAA).

Ultimately the discussions over the FAA resulted in a delay in signing off the 31 December 2014 actuarial valuation. It was finally signed on 12 December 2016 (outside the 15 month statutory period, during which time TPR was aware and kept updated of progress). The FAA became effective on 1 February 2017.

The result of the negotiations was a revised Recovery Plan, which reduced the deficit contribution payments effective 1 October 2016 to £2m per annum but extended the Recovery Plan payment period out to 31 December 2022. The overall impact of this revised Recovery Plan was to increase the total deficit contributions due from the Company, for the period from 1 October 2016 to 31 December 2022 from £5.7m under the 31.12.11 Recovery Plan (to be received by 30 April 2018) to £12.5m under the 31.12.14 Recovery Plan (to be received by 31 December 2022) – a total increase of £6.8m.

The last deficit contribution received from the Company was on 5 January 2018.

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 Deficit Recovery Plans were agreed with Carillion. Other than informing TPR about the FAA proposal, and keeping it advised of the breach in the late sign off of the 31 December 2014 actuarial valuation, TPR was not involved.

TPR was therefore not actively involved in valuation discussions and did not meet the Trustee or attend trustee meetings.

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 2011 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 within a year of the effective date on 12 December 2012. As the agreed Recovery Plan was for the amount requested by the Trustees, there was no concern or discussion about the Company's priorities.

The 31 December 2014 valuation was a lengthier and more difficult discussion because it also involved negotiation over the FAA. At this time, the Trustee believed that Carillion's priority was to avoid inadvertently

triggering a section 75 debt as a result of corporate restructuring. The Trustee was satisfied that the revised Recovery Plan (with a greater overall quantum of contributions) was an appropriate outcome for the Scheme.

There was no direct communication with the Trustee and the Carillion Board for either valuation. However, the Trustee's covenant adviser (Gazelle) was given access to the Finance Director and key personnel in his department.

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 the Trustee to agree to a deferral of contributions to the 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 Carillion plc went into compulsory liquidation on 15 January 2018; but no firm proposal or agreement to such a proposal was reached 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, with 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 keep the pension schemes whole was likely to be the best outcome for Scheme 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.

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.

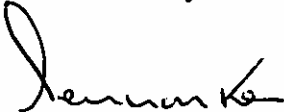
I do hope that the above information will be helpful to you. I would be happy to answer any further questions you may have or to clarify any points. In view of the current circumstances at Carillion, please can I ask you

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to copy correspondence to the Scheme's lawyers, Sacker & Partners LLP, 20 Gresham Street, London EC2V 7JE.

Best wishes,

Yours sincerely

A handwritten signature in black ink, appearing to read 'Seumas Kerr', with a stylized flourish at the end.

Seumas Kerr, CBE
Chair, Mowlem (1993) Trustees Limited (Trustee of the Mowlem (1993) Pension Scheme)

