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Work and Pensions Committee
House of Commons
London
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Date: 20 February 2018

Dear Committee Members

Joint Inquiry into the collapse of Carillion: Evidence from the Railways Pension Scheme

Thank you for your letter of 8 February 2018 addressed to Nigel Oakley at RPMI which has been passed to me. I am the Chairman of the Railways Pension Trustee Company Limited (the "**Trustee**") which is the corporate trustee of the Railways Pension Scheme ("**RPS**"). The RPS is an industry-wide pension scheme and has in excess of 150 employers participating in more than 100 sections. The RPS operates on a shared cost basis with the funding of most sections being financed by the employer and the members on a 60:40 basis.

Your letter relates to two sections of the RPS: the Carillion Rail (Centrac) Shared Cost Section (the "**Centrac Section**") and the Carillion Rail (GTRM) Shared Cost Section (the "**GTRM Section**"). Both these sections were sponsored by Carillion Construction Limited, part of the Carillion group of companies.

Set out below are the answers to the questions which you have 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 buy out basis along with any initial assessment of the deficit for PPF purposes.**

	Centrac Section	**GTRM Section**
Total number of Members as at 15 January 2018	365	3,992
Estimated deficit on technical provisions basis as at 31 December 2016	See below	See below
Estimated deficit on a buy-out basis as at 31 December 2016	£28.3m	£257.2m
Estimated deficit on PPF Section 179 basis as at 31 December 2016	£10.8m	£133.5m

Points to note are as follows:

- The most recent available data is as at 31 December 2016 – hence the reference to this date in the above table.
- No assessment of the deficit for PPF purposes has, as yet, been made; I have consequently supplied the estimated deficit on the PPF Section 179 basis.
- At the time of Carillion's insolvency, negotiations concerning the actuarial valuation as at 31 December 2016 were ongoing. The technical provisions had, consequently, not been fully estimated pending finalisation of the inevitable and significant covenant downgrade which would have occurred following the outcome of discussions concerning cash flow, indebtedness and the position of Carillion's other pension schemes. Once these factors had been taken into account, it is likely that the technical provisions estimates would have been close to the buy-out estimates.

2 Has the scheme been 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?

Each of the Centrac Section and the GTRM Section is subject to a deficit recovery plan put in place at the time of the actuarial valuation carried out as at 31 December 2013.

The recovery plans included the following:

- Centrac Section
  - (a) Member's salary-related contributions of £13,000 per annum;
  - (b) Employer salary-related contributions of £19,000 per annum;
  - (c) Employer lump sum contributions of £17,000 per annum; from 1 January 2017 to 1 January 2026
- GTRM Section
  - (a) Member's salary-related contributions of £180,000 per annum;
  - (b) Employer salary-related contributions of £417,000 per annum;
  - (c) Employer lump sum contributions of £905,000 per annum; from 1 January 2017 to 1 January 2027
  - (d) Employer lump sum contributions of £605,000 per annum from 1 January 2014 to 31 December 2016.

All payments due under the recovery plans have been remitted by Carillion up to the date of its insolvency.

Recovery Plans had been put in place following each actuarial valuation in line with usual practice and legal requirements.

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, in line with legal requirements, agreed between the Trustee and Carillion. Such agreement was, however, reached following a prolonged period of negotiation between the Trustee and Carillion and also consultation by Carillion with the Pensions Committee of the GTRM Section and organisations representing relevant Members.

The Pensions Regulator was not directly involved in the negotiations although the deficit recovery plans, together with other required funding documents, were submitted to, and acknowledged by, the Pensions Regulator in the usual way.

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? Do you feel you had adequate communication with the Carillion board?

The Trustee is of the view that Carillion acknowledged that the provision of RPS membership and benefits were a significant component of the overall reward package offered to key rail focussed employees. It is also of the view that Carillion was concerned to maintain the affordability of the Centrac Section and of the GTRM Section, both from its own business perspective and also from the perspective of Members (as mentioned, both sections have a shared cost structure).

As evidence of this concern, and in the context of the 31 December 2013 valuation, Carillion engaged in prolonged negotiation and consultation with its employees who were building up benefits under the RPS, with their representatives and with the GTRM Section's Pensions Committee. Additionally, as further evidence of its approach, Carillion agreed, in relation to the GTRM Section, to meet all future costs and PPF levies (these had previously been met by the Section itself). It is interesting to note that the most recent PPF levy invoice dated 6 September 2017 rated the sponsoring employer as being within Employer Levy Band 1 – the PPF's strongest rating.

Despite the matters detailed above, it is fair to say that negotiations between the Trustee and Carillion have not been easy. This is perhaps best evidenced by the length of time it took to finalise the 31 December 2013 actuarial valuation; the necessary submission to the Pensions Regulator following conclusion of negotiations between the Trustee and Carillion was made some 21 months after the statutory deadline.

In relation to communication with Carillion, this had been adequate until 2017. In April 2017, and against the backdrop of Carillion's declining performance, a meeting was held with the company. This was to have been followed by a further meeting with Group CFO, Zafar Khan, in June 2017, which was postponed by the employer until August 2017, when Mr Khan advised that Carillion had engaged strategic advisers in relation to cash collections, cost reductions and capital structure. A further meeting with Mr Khan, which was due to take place after the group's interim results and strategic review announcement in September 2017, was overtaken by events.

More generally, the Trustee was of the view that Carillion was slow to provide some key items of information as its business worsened: for example, neither the Trustee nor its advisers were given any advance warning of the 17 November 2017 notice that banking covenants were to be breached. As a consequence of this, a letter was sent by the Chairman of the Trustee's Integrated Funding Committee on 28 November 2017 requesting details of restructuring plans and activities, management's view of the risk of insolvency and generally encouraging greater engagement. This letter did result in some improved communication.

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 this point. Were you similarly approached by Carillion and if so did you agree to a deferral?

We were not asked to agree to any material deferral of contributions. As mentioned, all payments due to each section were paid on time up to the point of Carillion's insolvency.

6 Keith Cochrane, interim chief executive of Carillion, wrote that the company was attempting to put together a restructuring plan in December 2017 that focussed 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?

During early December 2017, Smith & Williamson, the Trustee's financial adviser with specific insolvency expertise, was told by Carillion that restructuring plans were being prepared. The Trustee was also advised that a proposal would be put to all pension schemes which might include an employer contribution holiday, extended recovery plans and involvement by the Pensions Regulator.

Early in January 2018 Carillion confirmed that:

- it was in severe difficulty;
- returns to unsecured creditors on insolvency would be minimal;
- a restructuring turnaround plan had been prepared suggesting that annual profits and free cash flow of £150m-£200m were achievable;

- significant new monies were needed to effect a turnaround;
- financial creditors were being asked to convert debt to equity;
- trustees of Carillion other pension schemes would be asked to provide funding flexibility and possibly to enter regulated apportionment arrangements; and
- no request for a regulated apportionment arrangement would be made of the RPS Trustee owing to the significance to Carillion of its rail sector business.

In the light of this, and in response to a request from Carillion, the Trustee signalled a willingness to consider providing flexibility subject to, amongst other things, sufficient forward looking information around restructuring proposals and their likelihood of success.

I hope that the above is helpful and squarely answers the questions which you have raised. If you require further information or amplification of any of the matters touched upon in this letter, then please let me know.

Yours sincerely

John Chilman
Chairman, Railways Pension Trustee Company Limited