

Rt Hon Frank Field MP
Chair of the Work and Pensions Committee
House of Commons
London
SW1A 0AA

3 April 2018

Dear Mr Field

Carillion liquidation

Thank you for your letter of 26 March with regards the liquidation of Carillion plc and its associated companies. As the new Chief Executive of the Pension Protection Fund, I am grateful to have the opportunity to contribute to this important inquiry.

To answer your specific questions:

1. In the case of Carillion, it is the Official Receiver (OR) from the Insolvency Service who, as the liquidator, has primary responsibility for scrutinising the work of the Special Managers (PwC). We have no formal role or statutory powers in this regard. This is different from most other insolvencies involving underfunded defined benefit pension schemes where our rights as an unsecured creditor means we do have the ability to scrutinise the work, and fees, of administrators or liquidators. In normal insolvency proceedings, when we deem it necessary, we can and do exercise our rights to protect our interests and secure the best outcome for our levy payers.
2. As you rightly recognise, we are a very significant unsecured creditor in the Carillion insolvency, and so will rank behind secured creditors. The work of the OR, supported by the Special Managers, is to liquidate the businesses and achieve the best possible realisations for the benefit of all creditors. We, like other creditors, wish to see this work carried out as effectively and efficiently as possible. As you might expect, we have a regular dialogue with the OR and Special Managers. We fully support the OR's ongoing scrutiny of the Special Managers' work.
3. Our initial estimated range as to the aggregate deficit in the schemes on a PPF-basis remains unchanged. However, taking into account market movements, we believe the current position probably sits nearer the lower end of the range, ie. nearer to £800 million. We keep this under regular review for internal accounting purposes. It is important to emphasise that this is still an evolving picture. Not all the 13 schemes have yet to enter PPF assessment (we expect the one remaining scheme to enter assessment in April), and so we are still receiving and processing detailed scheme data. Furthermore, the roll-forward methodology applied has limitations, and market movements mean the estimate is volatile. The eventual claim on the PPF from the schemes will only truly be known when all the schemes have completed PPF assessment and we have carried calculations on our internal valuation basis. Our present expectation is that not all of the

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Protecting People's Futures

The Pension Protection Fund is a statutory fund run by the Board of the Pension Protection Fund, a body corporate, under the Pension Act 2004.

Carillion defined benefit schemes will eventually transfer to the PPF. From our initial estimate of the schemes' funding positions two schemes may be sufficiently funded to secure their members benefits at or above PPF compensation levels. This will be determined in the assessment process.

4. We have not yet received an initial estimate from either party of what the potential realisations might be, and hence what recovery might eventually come to us. As and when we do, it would likely come to us from the OR. We recognise though that this liquidation is still in its relative infancy, is complex and that important information is still being ascertained, making it difficult to accurately forecast eventual recoveries for creditors. That said, we have worked throughout on the basis the recovery to the schemes (and thereby us) will be nominal. This is based on the early indications we have received that realisations will be relatively small compared to the amount owed to creditors.
5. The costs associated with the Special Managers' work will ultimately be paid from realisations, so in effect reducing the potential recoveries we and other creditors might eventually receive. In common with all insolvencies where we are a creditor, we therefore expect these costs to be reasonable and represent good value for money.

I hope this information is helpful, and I am more than happy to assist further if you or colleagues have any further questions.

Yours sincerely,

A handwritten signature in black ink that reads "Oliver Morley". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Oliver Morley CBE
Chief Executive

CC: Rachel Reeves MP, Chair of the Business, Energy and Industrial Strategy Select Committee