Carillion collapse in UK leaves pension scheme deficit of £2.6 billion

Robert Stevens
22 January 2018

The political fallout from last week's collapse of Carillion, the UK's second largest construction firm, forced Prime Minister Theresa May to write an article Sunday in the pro-Labour *Observer,* declaring, "Boardroom excesses can no longer be tolerated."

The discrediting of the private sector by Carillion's collapse prompted May to insist on "the invention, innovation and creativity of private enterprise," while promising to "set out new tough new rules for executives who try to line their own pockets by putting their workers' pensions at risk—an unacceptable abuse that we will end."

Addressing growing anger at the ruinous impact on the lives of tens of thousands of workers, she pledged, "[I]t will be the shareholders of Carillion, not taxpayers, who pay the price for the company's collapse."

May's worthless promises were made only after it was revealed that Carillion's debts and pension liabilities were almost double the amount initially cited.

An investigation by *Sky News* said its total financial liabilities, including most importantly its pension liability, were around £5 billion. *Sky News* reported that a "private analysis of Carillion's pension deficit on a Section 75—or full buyout—basis has concluded that it was as high as £2.6 billion. …

"The £2.6 billion figure relates to the cost to Carillion of paying an insurance company to guarantee all of its pension liabilities, and is significant because it is likely to be the sum claimed on behalf of the pension schemes as part of the liquidation process, according to insiders."

Carillion was a major government contractor, involved in 450 contracts in schools, hospitals, prisons and key infrastructure projects such as the HS2 high-speed rail network. When it went into compulsory liquidation, Carillion employed 20,000 workers in the UK and 23,000 overseas. Its debts were initially estimated at £2.2 billion, of which £900 million was said to be pension liabilities.

The newly estimated pension deficit of £2.6 billion is more than four times as high as the pension deficit figure of £587 million referred to by Carillion's former chief executive in a High Court witness statement reported in the firm's last interim financial results.

Behind May's self-serving statements is the reality that the public purse and all pensioners with still solvent pensions will be fleeced to pay for Carillion's collapse. Carillion operated 13 final salary pension schemes in the UK, with around 28,500 members. More than 12,000 of these are already claiming a pension.

With their pension schemes collapsed, the liabilities will be paid by the state-run Pension Protection Fund (PPF). Under PPF rules, those already receiving their pensions will be protected and receive the existing value of their pensions, but those below retirement age will face cuts of 10-20 percent as there is a cap on pay-outs to higher earners in defined benefit pension schemes.

The government and media have sought to play down the implications of the collapse of the Carillion pension scheme by citing the PPF as having a £6 billion surplus.

The Conservative government-supporting *Daily Mail* described the PPF as a "lifeboat" that "can afford to pay the bill without costing taxpayers." This was even as another columnist in the newspaper felt obliged to point out that the PPF is entirely funded by workers paying into other currently solvent pension funds. Columnist James Coney wrote, "[M]oney for these comes from a pot of cash that the PPF has acquired by charging a levy on final-salary schemes that are still up and running."

The money does not come from "anonymous pension funds—this comes from the pockets of savers, because it's their retirement pots that have to pay. Perversely, the higher the fees to run the PPF, the more strain on other pension funds. Every penny to run a final-salary pension comes from cash that would otherwise be used to boost savers' returns. The more pension schemes that go bust, the more the healthier schemes are forced to subsidise them. This in turn can put the previously solvent schemes under pressure and push more of them to the brink."

Since the PPF scheme was opened by Labour in 2005, it has served as a boon for the corporations, who have continued to reap massive dividends from pension funds while reducing the amount they pay into them to the bare minimum. Hundreds of pension schemes have been taken on by the PPF, with 230,000 members transferred into it by the end of October 2017. Of these, fully 124,705 receive pension compensation.

Total compensation paid out so far by the PPF is £2.7 billion. This is set to rocket with the Carillion pension scheme—by far the largest yet entering the PPF—along with 20,000 British Steel pension scheme workers who will enter in the spring. They will be joined by a further 2,000 former BHS workers .

The Carillion pension fund collapse is the tip of the iceberg, with many more schemes on the brink of collapse. Their total liabilities dwarf the surplus of the PPF. More than two in three of all final-salary pension schemes—3,663 schemes—have a deficit "black hole," owing a total of £197 billion.

Among the major corporations recording the largest deficits for the year ending 2016 are Royal Dutch Shell (£6.9 billion, up from £2.8 billion in 2015), BP (£6.7 billion, up from £4.2 billion), BT Group (£.6.3 billion, down from £7.5 billion), BAE Systems (£6 billion, up from £4.5 billion), Tesco (£3.1 billion, down from £4.8 billion), Unilever (£2.2 billion, up from £1.2 billion) and GlaxoSmithKline (£2 billion, up from £1.5 billion).

The pension deficits have risen, not because the corporations have no money but because they refuse to make the necessary contributions to the pension fund for what are essentially deferred wages.

Instead, they have diverted the cash to their shareholders, paying out far more in dividends to shareholders than they contribute to the pension fund, robbing their workforce of their legal entitlement.

Each year, actuarial consultants Lane Clark & Peacock produce a survey of the Financial Times Stock Exchange (FTSE) 100 companies' pension disclosures . Last year it found that FTSE companies with defined benefit schemes, which offer a guaranteed income in retirement, paid £71 billion in dividends in 2015 compared with just £13.3 billion in pension contributions.

This year's report notes, "[D]espite their persistent deficits, FTSE 100 companies were still able to pay four times as much in dividends in 2016 as they did in pension contributions."

It states that if the £4.2 billion paid by the RBS bank to its pension scheme as a one-off is excluded, dividends were more than five times the pension contributions paid: "Looking just at companies with 31 December year-ends, 39 declared pensions deficits totalling £37 billion. Those same companies paid out £39 billion in dividends during 2016."

So the corporations, the regulators and the government know this industrial scale larceny is going on and no one does anything to stop it.

This same looting operation took place at Carillion. Since its pension scheme was established 19 years ago, more than £775 million was paid out in dividends to shareholders. Every year Carillion increased the dividend paid to shareholders, which rose from 4 pence-a-share in 1999 to 18.45 pence-a-share in 2016. Even as the company was on the verge of collapse, with its annual report for the 2016 financial year showing a 5 percent fall in pre-tax profits to £146.7 million and its pension deficit more than doubling in size to £804.8 million, shareholders continued to benefit.

The financial report laid out a "progressive" policy for shareholder pay-outs, whose aim was "to increase the dividend each year broadly in line with the growth in underlying earnings-per-share."

Analysis carried out by Reuters showed that "underlying earnings-per-share rose 1 percent to 35.3 pence that year, and its dividend was also lifted by 1 percent from 18.25 pence-a-share in 2015."