Written evidence from Dr Ken Nicholson (PPF0120)

AEA Technology Pension Scheme

The AEA Technology Pension Scheme was wound up in November 2012, to the extreme detriment of its members, to precipitate an insolvency event and allow AEA Technology to undergo a pre-pack administration. This allowed the component businesses to operate under new ownership (but the same management) without any historic pensions liabilities. As an example of the detrimental effect, I stand to lose half my pension in real terms (based on annuity costs).

I have difficulty in providing written evidence to the Work and Pensions Select Committee’s inquiry into the Pensions Regulator and PPF, because the parties involved in the pre-pack administration, including the trustees, PPF and Pensions Regulator, have refused to disclose details of their negotiations prior to the precipitated insolvency event. The reason given is one of ‘confidentiality’, although they have repeatedly declined to elaborate which party or parties may be compromised and on which grounds (bearing in mind the component businesses have long since been sold). What is evident is that these three parties, along with the company, agreed to the process around a year earlier, when they also agreed that the pension scheme should be taken over by the PPF. The scheme members were kept completely in the dark about these intentions until an announcement by the trustees in August 2012, which failed to mention the loss of index linking on pre-1997 service (note that AEA Technology was formed by privatisation in 1996, meaning that index-linking was lost on all transferred government service). The scheme manager, an employee of AEA Technology, was named as the contact for enquiries. She ignored correspondence until the pre-pack administration had taken place. It is probably significant also that the final Annual Report for the pension scheme listed a single figure for liabilities of £500 million (without any supporting calculation). This was later said to be the scheme deficit (I understand that for pension schemes, the deficit can sometimes be referred to as a liability), justifying the scheme wind up. The deficit published in AEA Technology’s annual report was around a third of this figure, however. ITS (also involved in the BHS pension scheme) were appointed as professional independent trustees by AEA Technology shortly before the scheme wind up. Note also that ITS are on the advisory panel of the PPF. Additional information of note is that some scheme assets were sold as part of a de-risking strategy (increasing the deficit), immediately before the trustees wound it up, thus increasing the deficit further.

Recommendations:-

1) There must be openness, transparency and honesty when trustees and scheme managers correspond with scheme members, and it should be disclosed immediately when there is a possibility a scheme entering the PPF and the impact it would have on pensions.

2) In a case where a pension scheme is involved, all information regarding a pre-pack administration should be made public.
3) The sole responsibility of the trustees must be to the scheme members and not to the PPF or the Company.

4) The trustees should be held accountable if they deliberately put the interests of others before those of the scheme members.

5) The use of professional trustees who have no vested interest in a scheme should be questioned.

6) The Pensions Regulator must be held accountable and any acceptance of a scheme into the PPF must be justified.

The Pre-pack administration of AEA Technology

Much play was made by KPMG (the scheme administrators) about how AEA Technology and/or its pension scheme had collapsed and that the pre-pack administration had saved jobs. In fact, the UK component of the business was profitable and actively recruiting, and nearly all staff were working on government contracts anyhow (so the contracts would have remained, even if the business had not). The UK based business of AEA Technology was bought by Ricardo plc, the share price of which almost doubled the following year. Meanwhile, immediately before the pre-pack administration, one of AEA Technology’s US businesses announced that it had won a £100 million contract, yet the business was sold back to a former owner at a far lower price than paid for it only two years earlier.

You have referred to the adjournment debate presented by Geoffrey Clifton-Brown in March 2015. The saving of jobs was stated by Steve Webb as an incorrect reason for the pre-pack administration. There are also other errors in Mr Webb’s response, in that he alleged there was no protection for other privatised pension schemes and he cited BT as an example. This is incorrect on both counts. Mr Webb also became confused over the scheme deficit, citing a figure that matched neither the company’s nor the trustee’s valuation. Mr Webb did not respond when these points were raised with him after the debate, for the simple reason he soon lost his seat in government. His successor, Baroness Altmann, declined to comment.

There is an issue in that scheme deficits are calculated in a number of ways. The PPF, for example, seems to use annuity costs to ensure all future payments, while the assets appear to be taken at face value. At current market rates, this results in a much larger deficit than would actually exist. The calculation procedures are not transparent, however, and this is one reason why huge deficits seem to appear out of nowhere on balance sheets.

There is an issue in that the Pensions Regulator has the dual responsibilities of protecting scheme members’ benefits and minimising the demands on the PPF. In regard to AEA Technology, there is some suggestion the Pensions Regulator approved the wind up of the pension scheme just in case its deficit increased. This puts a totally different emphasis on the role of the Regulator, since the goal should be to minimise the demands on the PPF by minimising the number of schemes accepted. This practice of winding up schemes in
advance of their failure is, I understand, something the committee has already discussed with Steve Webb (the Pensions Minister at the time of the pre-pack administration) when he was giving oral evidence into the roles of the Pensions Regulator and the PPF.

I think the situation surrounding AEA Technology pension scheme needs proper investigation because it is impossible to present hard facts, thanks to the secrecy surrounding the pre-pack administration and the inconsistent information provided by the various parties.

Yours sincerely

Dr Ken Nicholson

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