

Date: 8 July 2016

Item: Railways Pension Scheme: TfL Assurance To Trustees

This paper will be considered in public

1 Summary

- 1.1 Crossrail Limited (Crossrail) participates in the Railways Pension Scheme (RPS) and the Trustees of that scheme are required to monitor the strength of the employer's continuing financial support (covenant).
- 1.2 The RPS Trustees are seeking assurance of TfL's continuing support in respect of Crossrail's pension liabilities through provision of a letter (with a update to those which have previously been provided by the Chief Finance Officer) approved by the Board.
- 1.3 The authority sought in this paper is a matter within the remit of the Board. On 17 March 2016, the Board delegated to the Finance and Policy Committee authority to approve any matter reserved to the Board from 18 March to 18 July 2016.

2 Recommendation

The Committee is asked to note the paper and, acting under authority delegated by the Board on 17 March 2016, approve the provision of the letter to the Trustees of the Railways Pension Scheme in the terms set out in Appendix 1 to this paper and authorise any Board Member to sign it on behalf of TfL.

3 Background

- 3.1 Crossrail currently participates in the 'Omnibus' section of the RPS with other employers. At the last actuarial valuation at 31 December 2013, Crossrail had 562 active members, 276 deferred pensioners and 36 pensioners. The valuation revealed a shortfall of £2.042m in the level of assets held to meet the pension liabilities. Crossrail agreed to make additional contributions over a 4 year period to clear this deficit before the end of the project.
- 3.2 Having previously agreed to close the scheme to new entrants and instead offer them membership of the TfL Savings for Retirement Plan (a defined contribution arrangement), TfL and Crossrail concluded in 2015 that Crossrail's pension assets and liabilities would be more efficiently managed if they were transferred out of the Omnibus section into a standalone section of RPS.
- 3.3 Crossrail has engaged with the RPS to implement this change with a target of completion before the end of 2016 (when the next valuation is due). As well as this prospective change to a standalone section, there is also the forthcoming

conclusion of the construction phase of the Crossrail project. These factors are relevant to RPS in seeking to update its covenant assessment.

- 3.4 The covenant is the extent of the employer's legal obligation and financial ability to support the pension scheme now and in the future. Trustees take investment and funding risks based on the ability of the employer to support the scheme. There is, therefore, a requirement to assess the covenant in determining the appropriate investment and funding strategy. This strategy in turn will influence the contribution level which is set to ensure the pension benefits can be delivered.
- 3.5 A weaker covenant assessment is likely to result in a higher contribution rate. Trustees and employers are required to work collaboratively together in the assessment of the covenant. As part of this process, TfL's Chief Finance Officer has previously provided a letter to the RPS Trustees outlining TfL's financial commitment to Crossrail as its subsidiary.
- 3.6 Following discussions with the RPS, a new form of words for the letter has been agreed in principle, which is acceptable to both parties, and is set out in Appendix 1. In agreeing to this wording, the RPS Trustees have additionally asked that the letter is approved by the Board and signed by a member of the Board.

List of appendices to this report:

Appendix 1: Form of letter to Railway Pension Scheme Trustees

List of Background Papers:

Previous correspondence between the Chief Finance Officer and Railway Pension Fund Trustees.

Contact Officer: Stephen Field, Director of Reward and Pensions
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Mr Chris Hannon
Chairman Benefits and Funding Committee
Railways Pension Scheme

Dear Mr Hannon

Proposed Crossrail Shared Cost Section of the Railways Pension Scheme (“Crossrail section”)

I write further to previous correspondence between Transport for London and the Railways Pension Scheme Trustee (most lately the letters from David Goldstone dated 13 May 2013 and 8 January 2013, copies attached); and also following more recent correspondence between Valerie Todd and RPMI in relation to a proposed new Crossrail section of the Railways Pension Scheme. The delivery of the Crossrail railway, for which Crossrail Limited is responsible, is now reaching its end stage and is due to move into its operational phase in stages starting in May 2017, with full operational service being due in December 2019. Crossrail Limited is a wholly owned subsidiary of Transport for London and Transport for London is currently making appropriate arrangements for the transition of Crossrail into its operating phase and, while Transport for London currently has no plan to wind up Crossrail Limited, it is inconceivable that it would not make appropriate arrangements for Crossrail Limited’s liabilities were it to be wound up.

Yours sincerely