



Work and Pensions Committee
Business, Energy and Industrial Strategy Committee

House of Commons, London SW1A 0AA

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From the Chairs

Rt Hon David Lidington CBE MP
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4 September 2018

Dear David

Carillion

Thank you for your letter of 1 August responding to our Committees' report on the collapse of Carillion. While we are grateful for your response to the concerns we have on the operation of the Crown Representatives system for monitoring strategic suppliers, we were disappointed not to receive a fuller and more direct response to the specific recommendations we made in this area.

In our report, we recommended that the Government "*immediately reviews the role and responsibilities of its Crown Representatives in the light of the Carillion case. This review should consider whether devoting more resources to liaison with strategic suppliers would offer better value for the taxpayer.*" (Paragraph 169). Your letter does not answer this recommendation directly; from this we can only assume that the Government does not accept the need for a review. It would be helpful to have a clear explanation of why you reached this decision. Your letter acknowledges that "[Crown Representatives] can only react to information given to them by the company"—in effect, that they can have the wool pulled over their eyes by an unscrupulous supplier. That is precisely what happened with Carillion. That being the case, it is difficult to understand why you see no reason to look more closely at the operation of the Crown Representatives and to learn the lessons from Carillion.

There is no question that the current system of monitoring suppliers was not able to identify or prevent the precarious state of Carillion and its decline and collapse. It is astonishing that there has been no indication of any Government action to resolve this. Your letter acknowledges that an increased number of Crown Representatives would allow wider coverage of suppliers, but gives no commitment even to examine—as we recommended—whether the current level of resourcing should be increased. We would be grateful for a more substantive response on this point.

Since our Committees reported the National Audit Office has also published its report into the collapse of Carillion, adding to our concerns about the Crown Representative system

and the Government's monitoring of strategic suppliers. Specifically: the NAO report shows no significant increase in the engagement which the Cabinet Office had with the supplier in the immediate weeks and months following Carillion's first write-down in July 2017. This was accompanied by a refusal by Government to identify Carillion as high risk because of the potential market impact of doing so, calling into question the reliability of any such ratings. We would be grateful to know what consideration you have given to the NAO's report, and in particular whether you have considered what changes might be necessary to address these concerns.

While we accept that there are limits to the information a Crown Representative may be able to access for any supplier, the relationship with Carillion and the surprise nature of its profit warning does call into question their value. Your response highlights their "important role"; however, you also claim that the lack of a Crown Representative for Carillion "did not compromise our ability to recognise Carillion's problems and construct an appropriate response". We would be grateful if you could reconcile these seemingly contradictory statements to us in your response to this letter.

Finally, we are also aware from the NAO's work that certain Government officials were able to act as 'insiders' in Carillion. It would be helpful to understand what this enabled the Government to access, what this information was or could be used for, and whether Crown Representatives were involved in this relationship in any way.

In calling for an immediate review of the role and responsibilities of Crown Representatives, we hoped to enable Government suppliers, taxpayers and Parliament to have a greater confidence in the system that is intended to ensure value for money in Government procurement. Without proper examination, it is impossible to know whether the case of Carillion was an isolated failure of the Crown Representative system, or a systemic weakness which requires significant changes to resolve. This is a matter of particular urgency in the light of difficulties being experienced by other major suppliers—not least among them Capita and Interserve.

Thank you for your continued assistance with the work of our Committees.

We are copying this letter to Meg Hillier and Sir Bernard Jenkin given their Committees' work on the Government's response to the collapse of Carillion.

With best wishes,



Rt Hon Frank Field MP
Chair, Work and Pensions Committee



Rachel Reeves MP
Chair, Business, Energy and Industrial
Strategy Committee