



The Hospital Company (Sandwell) Limited
c/o Carillion Private Finance
2nd Floor, 84 Salop Street
Wolverhampton
WV3 0SR

21 February 2018

To: The Chairs
Work and Pensions Committee
Business, Energy and Industrial Strategy Committee
House of Commons
London
SW1A 0AA

Attention: Rt Hon Frank Field MP & Rachel Reeves MP

Dear Sir / Madam,

Development of the Midland Metropolitan Hospital, Sandwell (MMH)

Thank you for your letter dated 14 February 2018, which has been passed to us by the Company Secretary of The Hospital Company (Sandwell) Limited ("THCS"). We welcome the opportunity to provide you with the information requested and explain the impact the liquidation of Carillion has had on THCS.

As you will be aware THCS is a special purpose company, created solely to deliver the Midland Metropolitan Hospital development project procured under the Government's PF2 framework. THCS' sole client is the Sandwell and West Birmingham NHS Trust ("SWBT") and in turn THCS entered into a design & construct contract ("Construction Contract") with Carillion Construction Limited and a facilities management contract (hard services only, the "FM Contract") with Carillion (AMBS) Limited. The performance of Carillion under these contracts was guaranteed by Carillion plc. Further, 50% of the equity funding for THCS was provided by a subsidiary of Carillion Private Finance Limited and THCS was managed on a day to day basis under a management services agreement by Carillion Construction Limited trading as Carillion Private Finance. You can therefore appreciate the magnitude of the impact the liquidation of Carillion plc, Carillion Construction Limited and Carillion (AMBS) Limited has had on THCS. We are currently in the process of identifying a replacement design & construct contractor and hard FM service provider, while at the same time we are negotiating with our lenders and SWBT to secure the additional funding required to deliver the hospital for the benefit of the people of Sandwell and West Birmingham.

You asked specific questions regarding the involvement of Carillion in our business. We set out below our responses.



1. Who was responsible for the building service design?
The design of the hospital, including the building services, was a Carillion Construction Limited responsibility under the Construction Contract. In turn, Carillion Construction Limited had engaged Aecom Limited to design the building services.
2. What delays did the delays and errors to the design cause to construction?
The delays to the building service design delayed the completion of the overall hospital design and thereby delayed the procurement of the building services installation. At the time of Carillion's liquidation, the construction was approximately 11 months behind the original schedule. THCS had in turn notified SWBT of the revised completion date of 24 June 2019 towards which Carillion had been making good progress.
3. Was the cost of any remedial works entirely covered by Carillion?
Pursuant to the Construction Contract, Carillion was responsible for the financial consequences of the delay (subject to their caps on liability). In light of the Carillion liquidation, THCS has to now procure a replacement contractor, and as a consequence that risk has passed to THCS.
4. Was there no insurance in place to cover such eventualities and, if not, is that unusual?
THCS carried a full insurance package consistent with PPP market practice. THCS passed the entire construction delivery risk to Carillion and the Construction Contract specifically required Carillion to carry professional indemnity insurance of not less than £10m, intended to cover negligence in design. In addition, the contractual route would also be for Carillion Construction Limited to claim losses for design error made by Aecom from Aecom under their subcontract should it be proven they were at fault. Aecom would have in turn sought protection from its Professional Indemnity insurers, up to the limit of liability in those policies.
5. What was the effect of the delays on payments to Carillion?
THCS was required to make payment to Carillion Construction in accordance with the Construction Contract. Compared to the expected payment profile prior to any delay, THCS' payments to Carillion Construction Limited under the Construction Contract were delayed and so lower than scheduled, reflecting their delayed expenditure on building services installation and building fit out. Prior to their liquidation, THCS' payments to Carillion were for the invoiced amount and typically paid within 14 days of invoice receipt.
6. Do you have any further comments on your experience working with Carillion?
Prior to the liquidation, there were no concerns regarding the quality of the construction and, in our opinion, it was a well-run site with a strong on-site team. Given the answers to the other questions and that THCS is owned 50% by a Carillion company (which is not in liquidation), THCS feels it inappropriate to provide further comment.
7. Do you expect another contractor to be able to complete the hospital and, if so, when?



And are you confident that the work carried out by Carillion was otherwise of adequate quality?

We are in discussion with a small number of potential replacement contractors with the intention that the construction of the hospital is completed as soon as possible with minimal impact on the local health economy and on the people of Sandwell and West Birmingham. The timing of the completion of the hospital construction is dependent on THCS entering into new construction contracts, securing the required funds to complete the project (a significant funding shortfall has arisen due to the fractured risk transfer and further delay as a result of Carillion's liquidation), the procurement route chosen and whether THCS remains a viable business or the Trust terminates the project agreement with THCS and so completes the construction itself. Prior to the liquidation, there were no concerns regarding the quality of the construction and, in THCS' opinion, it was a well-run site with a strong on site team. The Independent Tester, jointly appointed by THCS and SWBT under the project agreement, had not raised any material concerns and the lenders to THCS have their own technical adviser who has monitored the works and certified the payments made to Carillion pursuant to the Construction Contract.

Yours faithfully

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For and on behalf of the Board of Directors of
The Hospital Company (Sandwell) Limited