



The Insolvency Service

Delivering economic confidence

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Rt Hon Frank Field MP
Work and Pensions Committee
Rachel Reeves MP
Business, Energy and Industrial Strategy
Committee
House of Commons
LONDON
SW1A 0AA

Reference:

e-mail: Carillion.Correspondence@insolvency.gsi.gov.uk
Date: 29 March 2018

Dear Mr Field and Ms Reeves,

PwC's ROLE AS CARILLION SPECIAL MANAGERS

Thank you for your letter of 23 March 2018 regarding the above matter. I am very pleased to have been able to help the Committees with their inquiry into the collapse of Carillion.

The role of the special managers is perhaps best described in the terms of the court orders appointing them in respect to the Carillion companies. I have enclosed a copy of the order appointing PwC as special managers in the liquidation of Carillion plc. Substantially similar orders exist in relation to the other 26 Carillion companies that are in liquidation and I am happy to provide copies of these if required. I have also enclosed a copy of the Special Management Protocol ('the Protocol') which, amongst other things, sets out the range of tasks that PwC have been engaged to carry out in relation to the liquidations and the governance that will apply. I hope that these documents will help explain the role of the special managers.

In response to the questions that you have raised:

1. The liquidation team within my office are assessing the work carried out by PwC, including the costs incurred in carrying out this work and no payments have been agreed to date. You will see from the attached Protocol that the special managers are required to provide monthly breakdowns of their time costs and disbursements which are in line with the Statement of Insolvency Practice 9 ('SIP 9'). The special



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managers' adherence to SIP 9 ensures that I as office holder have visibility of the costs to assess the fairness and reasonableness of the work in line the objectives and progress of the liquidation.

In terms of the overall objectives, my priority is to ensure the continuity of public services while securing the best outcome for creditors and employees. Ultimately, success will be judged by the achievement of these headline objectives, albeit, it is difficult to set hard timescales or numerical targets due to the immense range and complexity of the liquidation and, critically, the very many third party dependencies.

PwC were one of only a small number of firms in the UK who could have deployed sufficient resource quickly and effectively to ensure that the priorities were achieved and I should report that I was able to agree a discount on their standard rates for carrying out this work.

To ensure control over their activities, PwC are required to provide regular reports on progress on a daily and weekly basis that include certain performance metrics that are used in evaluating progress of the liquidation and whether PwC's work is meeting the overall objectives. These include:

- Special manager and legal costs – weekly review of liquidation costs, including an analysis by entity, functional area, grade of staff and overall hourly cost.
- Financial – provision of cash management reports, including receipts, payments and cash balances.
- Employees – provision of reports on the numbers of staff transferred, made redundant or currently retained.
- Contract performance – a confirmation of the level of service being provided by each contract; reports relating to contract transfers and exits. Provision of reports relating to post appointment run-rate invoices and pre-appointment balances.
- Health and safety – provision of reports setting out numbers of incident, type and operating division.
- Communications – provision of reports setting out the number of emails and calls received to the helplines, and the response rates; the number of unique visitors to the information websites set up and maintained by PwC.

There are daily meetings between me and the key individuals at PwC at which the contents of these reports are discussed, updates provided and operational issues resolved.

In addition, there are periodic meetings between me, the Cabinet Office, HM Treasury and the special managers which focus and report on the ongoing provision of public service contracts and the financial status of the liquidation process.

I am so far pleased with the work that has been carried out by PwC when considered against the overall measure of success. Around 9,000 jobs have been preserved and it is hoped that the majority of those who continue to be employed by the company will similarly transfer to new employers. Important public services such as the delivery of school meals and medical services have continued seamlessly and with suppliers being paid on time.

2. No invoices have been issued, as yet. As stated above, PwC provide a weekly summary of the costs incurred by them in carrying out their duties.

3. As indicated above and in answer to question 4 below, there is an ongoing process of evaluation of PwC's remuneration. Once this has been completed an application will be made to court for payment of sums due up to that point. I am not yet in a position to say when such an application will be made, though there are no immediate plans to do so.

4. The special manager's remuneration will be fixed from time to time by the court as and when I am satisfied that I am in a position to make application. During that process the remuneration claimed will be under close scrutiny by the court. As I have indicated above, scrutiny of PwC's costs is also being carried on within my liquidation team for which there is a dedicated resource.

In terms of creditor involvement, I should say that there are no liquidation committees when the official receiver is liquidator but I and the special managers have already met with key creditors, including financial institutions and the Pension Protection Fund and intend to continue this level of engagement which, of course, includes discussions around the costs of the liquidation.

5. The order of priority in a compulsory liquidation is set out in rule 7.108 of the Insolvency (England and Wales) Rules 2016. The legislation provides that the remuneration of special managers ranks behind any expenses incurred by me as liquidator in preserving, realising or getting in any of the assets of the company, or in the preparation, conduct or assignment of legal proceedings relating to the company, and also ranks behind the statutory fees payable to me as Official Receiver (see answer to question 6 for further detail on the statutory fees).

6. In any compulsory liquidation, the official receiver receives statutory fees totalling £11,000, known as the administration and general fees, and also a fee equivalent to 15% of all sums received from the realisation of company assets, after deduction of sums due to secured creditors or amounts paid out in carrying on the business of the company. This is known as the 'liquidator fee'. These fees are provided for by The Insolvency Proceedings (Fees) Order 2016. To date I have charged £297,000 in respect of the administration and general fees (£11,000 x 27 liquidations) though nothing has been charged for the liquidator fee to date.

7. To the extent that the costs of the liquidation, which include the costs of employing the special managers, are irrecoverable from the assets, the shortfall will be a debit balance on the Insolvency Services Account. Government will underwrite any shortfall.

8. It remains difficult to say at this stage when PwC's role as special managers will come to an end. I know that you appreciate that this is a large and complex liquidation, and it is not possible to say when all matters will be finally concluded. Litigation in relation to the company's contracts is, in particular, likely to continue for some time – possibly for years. Internally, we are working on a planning assumption that all ongoing trading activity by the company will be concluded by 30 June 2018. If that remains the case, PwC's role in relation to the liquidation would be expected to reduce significantly by that date. I should stress however that that date is a planning assumption only and as things change may have to be revised. You will note that there has already been a significant reduction in the numbers of staff deployed by PwC from around 200 at the date of liquidation to around 100 currently. Numbers would be expected to continue to reduce at a similar rate as work streams are concluded.

I hope that this information assists the Committees' inquiry but am very happy to deal with any queries arising.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'D. Chapman', with a stylized flourish at the end.

DAVID CHAPMAN
Official Receiver