



Rt Hon Frank Field MP
Work & Pensions Committee
House of Commons
Westminster SW1A 0AA

Rachel Reeves
Business, Energy and Industrial Strategy Committee
House of Commons
Westminster SW1A 0AA

29 March 2018

Dear Mr Field and Ms Reeves

Carillion inquiry

I write in response to your letter dated 23 March 2018 in which you asked for information about PwC's role as Special Managers appointed to assist the Official Receiver in the liquidation of Carillion Plc and certain of its subsidiaries. We are keen to assist the Joint Committee and have set out below our responses to your questions. Six named partners in PwC LLP were appointed as Special Managers to the various companies within the Carillion Group. Those partners are supported by other PwC partners and staff. References to PwC's appointment should be read in this context.

- 1. Could you provide us with the contract that PwC signed with the Official Receiver setting out the terms of engagement as Special Managers on the Carillion Group liquidation?**

PwC's appointment as Special Manager in the liquidation of Carillion Plc was made by the High Court on the application of the Official Receiver, Mr David Chapman, in his capacity as liquidator. We enclose a copy of the Order of Appointment to Carillion Plc dated 15 January 2018 which lists the functions of the Special Manager. To date there are 26 Special Manager Orders of Appointment which have been made for other Carillion entities in liquidation. These have followed the same format and we would be happy to provide copies of those Orders if that would be useful.

PwC and the Official Receiver have signed a Special Management Protocol dated 15 January 2018 (and amended on 16 February 2018) which sets out the framework pursuant to which the Special Managers are required to perform their functions under the Orders on behalf of the

PricewaterhouseCoopers LLP, 1 Embankment Place, London WC2N 6RH
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7822 4652, www.pwc.co.uk



Official Receiver. We enclose a copy of the Protocol.

2. **Could we have a copy of PwC's charge out rates for this work across all your different grades? If these vary, could you please let us know the (a) average and (b) highest charge out rate for each grade?**

We attach at Appendix 1 PwC's average negotiated charge out rates for all grades of staff who have worked to support the Official Receiver in his role as liquidator. We have also set out the highest charge out rates per grade which are for our specialist pensions staff. PwC has multiple teams performing a range of specialist roles in supporting the Special Manager work which include specialists in corporate finance, health and safety, IT, pensions and tax.

3. **Can you provide copies of all invoices and/or breakdowns for the monies billed by PwC for this work to date?**

We have yet not raised any invoices or produced any bills for our work as Special Managers to Carillion Plc and its related subsidiaries in liquidation. Any such invoices will only be raised once an application to the High Court has been made and approved.

As Mr Kelly indicated in his evidence to the Joint Committee, the cumulative costs in terms of PwC's fees for the first 8 weeks of the liquidation have amounted to £20.4 million. This represents 57,500 hours (approximately) at an average rate of £356 per hour. We discuss our costs weekly with the Official Receiver.

4. **Who is scrutinising PwC's work to ensure it is value for money and is not detrimental to potential recoveries for unsecured creditors?**

The Official Receiver has been appointed as liquidator. In that capacity, Mr Chapman has a responsibility to act in the best interests of the creditors and to ensure the continuity of the supply of essential public services. One of the liquidator's obligations is to supervise the activities of all of his professional advisers to ensure that the work that is performed represents value for money for the creditors and that the activities of those professional advisers and agents appointed in order to support Mr Chapman in the discharge of his statutory duties as liquidator are not detrimental to the potential recoveries for unsecured creditors.

PwC's work as Special Managers is scrutinised in the following ways:

4.1 it is reviewed and challenged by the Official Receiver and his team at the Insolvency Service: in this regard, PwC provides regular updates on activity and achievements which have been made across the 16 work streams which are currently in progress and details of the costs incurred;

4.2 prior to any formal application by the Official Receiver to the High Court, PwC will prepare a report for the Official Receiver in accordance with the principles and requirements of the



Statement of Insolvency Practice 9 (the industry standard setting out the information that should be provided to those charged with the approval of fees to enable an informed assessment of the value delivered for the time cost incurred) the purpose of which is to permit the Official Receiver to review and challenge the work undertaken by PwC;

4.3 an application by the Official Receiver will be made to the High Court. The Practice Direction - Insolvency Proceedings in the Civil Procedure Rules sets out a clear set of criteria to be applied by the Court in determining whether or not to approve a fee application;

4.4 there may be review of the liquidator's expenses (which include the Special Manager fees) by the material creditors to the individual Carillion entities which are insolvent. The material creditors are expected to be the Pension Protection Fund (in respect of some of the material operating entities) and also the lenders (only in respect of Carillion Plc).

5. **How is your performance being monitored, what performance indicators and targets are being used, and what has been your performance against those indicators so far?**

In this case, the key objectives of the Official Receiver are:

- To ensure continuity of supply of essential public services seeking to secure the best outcome for creditors and employees; and
- To act in the best interests of all creditors.

Every insolvency is different and there are no prescribed performance indicators for a compulsory liquidation. In practical terms, the Official Receiver's objectives were to be met by stabilising the business on appointment by retaining the support of the staff and key suppliers. Thereafter the focus has been on meeting the contract performance standards, seeking to novate contracts to new providers and identifying and realising the assets of the companies in liquidation.

Our performance is monitored by regular meetings with and reports to the Official Receiver and his staff. To date we have reported the following key metrics:

Hospitals - 7 acute and 4 non-acute hospitals have continued to operate and have not been closed down as a consequence of disruption of the service provided by Carillion;

Medical centres - 64 medical facilities, including a sensitive mental institution outside Manchester, have continued to operate;

School services - meals and other services have been **provided to 200 schools** in the East of England: in the first 8 weeks of the insolvency our work led to **the continued provision of 768,000 school meals**;



Facilities Management services - our work has led to the continued provision of these services to **52 prisons** in the South of England and to the provision of ongoing transitional services after the Ministry of Justice took a role in the contract;

Military homes - our work has led to the continued provision of essential Facilities Management services to **over 45,000 military homes** throughout the UK: in the first 8 weeks of the insolvency **1,500,000 meals were served to military personnel**;

Motorways - maintenance services on some **key motorways have been maintained** including the A40 and A13;

Railways - Network Rail has been able to **maintain repairs and essential maintenance** services to the rail network; and

Military installations, Courts, police stations - provision of vital Facilities Management services which have ensured that some of the **most sensitive military installations have remained operational**, Courts and police stations have remained functioning and the British Museum and the Land Registry have remained open.

In addition, we have supported the Official Receiver in the realisation of assets of the 27 legal entities over which Mr Chapman is appointed as liquidator. This has involved running a sales process for those entities which continue to trade and that process has resulted in the sale of 6 trading businesses in the UK and negotiations for the sale of a number of other businesses continue.

We have also assisted the Official Receiver in realising value from the sale of various UK and overseas joint ventures and other equity interests. We expect these sales in aggregate to generate £100m (approximately) for the various liquidation estates.

We have also supported the Official Receiver in transitioning other contracts to new providers. To date, 116 contracts (both public and private sector) have been migrated or terminated and we are working to migrate the remaining 148 contracts. By migration we mean the transfer of these contracts to new counter parties to allow for continued service provision and employment. We have ensured that all these contracts have remained operational.

We continue to employ 6,423 members of Carillion staff, 9,073 members of staff have transferred with the contracts which have been migrated, 976 have resigned and 1,705 have been made redundant.

As noted above, we report and discuss the progress in our Special Manager work with the Official Receiver and his team on an ongoing basis. Each week we discuss our costs with the Official Receiver. These discussions provide an opportunity for the Official Receiver to monitor, review and comment on our performance and to assess that performance in the context of the cost incurred.



6. If there are insufficient recoveries from the liquidation to cover the cost of PwC's fees, is there an agreement in place as to who will cover the costs?

PwC's fees as Special Managers form part of the liquidator's expenses in the same way as payroll costs, supplier payments and other costs for services to sustain the ongoing trading operations of Carillion and its subsidiaries. The liquidator's expenses will be paid out of the assets of each of the 27 legal entities which are in liquidation (these will be allocated to each of the legal entities to which such costs relate). To the extent that there are insufficient proceeds to meet the liquidator's expenses, these would be payable from the Insolvency Service Account which is maintained by the Official Receiver.

The Financial Reporting Council has asked that we provide them with a copy of this letter which we will proceed to do. If you have any further questions or if we may be of any further assistance, please contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Thomas', with a horizontal line underneath it.

Marissa Thomas
Head of Deals

Encs:

Order of Appointment of Special Manager to Carillion Plc dated 15 January 2018
Special Manager Protocol dated 15 January 2018 (and amended on 16 February 2018)



Appendix 1

Average charge out rates by grade

The table below illustrates the average hourly rates charged overall across all PwC grade categories for Special Manager work from 13 January 2018 to 11 March 2018 (based on PwC's time report as at 22 March 2018). This period represents the first 8 weeks of work undertaken by PwC as Special Managers. The time cost consists of 57,534 hours at an average rate of £356 per hour. All rates are shown net of a discount negotiated with the Official Receiver.

Grade	Average Hourly rate (£)
Partner	648
Director	559
Senior Manager	406
Manager	334
Senior Associate	260
Associate	166
Support	92
Client Account Support	63
Other	54

Highest charge out rates by grade

Of the 57,534 total hours stated above, 13,656 of these hours have been charged by specialist staff who have been required to assist PwC's restructuring staff due to the complexities of the work involved. These 13,656 hours have a time cost of £5,368,901 at an average rate of £393 per hour. The highest charge out rates are by our pensions specialists. The table below highlights the average hourly charge out rates for our staff by grade in this specialist team.

Pensions specialist grades	Average hourly rate £
Partner	1,156
Director	1,060
Senior Manager	816
Manager	482
Senior Associate	412
Associate	162
Grand Total	657