



Work and Pensions Committee

Business, Energy and Industrial Strategy Committee

House of Commons, London, SW1A 0AA

Tel 020 7219 8976/5777 Email workpencom@parliament.uk / beiscom@parliament.uk

Rt Hon Chris Grayling MP
Secretary of State
Department for Transport
Great Minster House
33 Horseferry Rd
London SW1P 4DR

21 May 2018

Dear Secretary of State,

Carillion and Ernst & Young

On 18 May the Transport Committee published a letter in which you set out the consequences for transport of the collapse of Carillion.¹ We would be grateful if you could please answer the questions below.

Conflicts of interest

In that letter (Q8), you state:

Following the [10] July 2017 profit warning, HS2 Ltd's Finance team commissioned EY to carry out due diligence checks to ensure Carillion's financial standing remained within the limits tested at Pre-qualification stage of the Main Works Civils procurement.

On 14 July 2017, Carillion appointed EY to restructure the company. The first phase of this work involved in-depth work with company management on improving Carillion's desperate working capital, pension deficit and cashflow problems, "identifying radical cost reduction opportunities" and "ad-hoc advice to the Board in respect of ongoing discussions with stakeholders".²

In total, EY billed Carillion over £13 million for its restructuring work between July 2017 and January 2018. Of this, £10.8 million was paid, including £2.5 million on the last working day before the company collapsed.³ Lee Watson, an EY Partner, was seconded to the Carillion board of directors as Chief Transformation Officer in September 2017.⁴

1. Were you aware that EY was simultaneously advising Carillion on its finances and HS2 Ltd on the state of Carillion's finances?

¹ [Letter from Rt Hon Chris Grayling MP to Lilian Greenwood MP](#), 12 March 2018

² [EY Response to information request from the W&P and BEIS Committees](#), 25 January 2018

³ BEIS and W&P Committee, [Carillion paid out £6.4 million to advisors before £10 million taxpayer bailout](#), 12 March 2018

⁴ Carillion oral evidence, [Q1137](#)

2. If so, when were you first aware?
3. Do you consider it to be a conflict of interest?
4. What steps, if any, did you take to mitigate that conflict?
5. On what date did EY's work for HS2 Ltd commence? And when was that work completed?
6. Was the work competitively tendered for?

Due diligence

You letter to the Transport Committee (Q8) states:

The tests included: Liquidity, gearing, Interest Cover and Dun and Bradstreet thresholds. Carillion passed all of these tests.

EY's evidence to our Committees stated that it billed HS2 Ltd £197,001 for 2017 financial tests, of which "approximately £29,000 [was] attributable to Carillion's role in consortium bids in which it was involved".

7. What exactly were the due diligence tests?
8. How exactly did Carillion perform against them?
9. Were they solely dependent on published information?
10. Are you satisfied that £29,000 of due diligence was proportionate to the size of the contracts and Carillion's financial circumstances?
11. Were the tests repeated following Carillion's subsequent profit warnings?

We look forward to hearing from you. We will be placing this letter, and your subsequent response, in the public domain.

With best wishes,



Rt Hon Frank Field MP
Chair, Work and Pensions Committee



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

Cc Lilian Greenwood MP, Chair, Transport Committee