



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

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

19 June 2018

Dear Mr Field and Ms Reeves,

Carillion inquiry

I write in response to your letter dated 6 June 2018.

Before turning to your detailed questions, we have set out some context and draw your attention to the Institute of Chartered Accountants in England & Wales Code of Ethics (Code)¹. All PwC partners and staff are required to comply with the Code in their business and professional activities. The Code is principles based and addresses, amongst other things, conflicts of interest.

PwC have at all times complied with the Code in providing services to Carillion Plc and its subsidiaries (together, Carillion), the Carillion pension fund trustees (the trustees) and the Government in relation to Carillion prior to the start of the liquidation process in January 2018. We also considered the Code when appointed as Special Manager by the High Court on the application of the Official Receiver. The Code is clear that PwC is able to act for different clients in the same situation provided appropriate safeguards are in place, as we have explained in evidence to the Joint Committee². We concluded there was no conflict of interest in our Special Manager appointment and the Official Receiver had the same view³.

¹ <https://www.icaew.com/en/technical/ethics/icaew-code-of-ethics/icaew-code-of-ethics>. The Code is based on the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants, published by the International Federation of Accountants

² Oral evidence of Marissa Thomas on 21 March 2018 Q1317-Q1319

³ Letter from David Chapman to Frank Field and Rachel Reeves dated 5 February 2018: "*In appointing the Special Managers, I took into account the need for a firm that was not conflicted; which had sufficient resources to undertake this complex liquidation; and that had some existing knowledge of the Carillion group.*"

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In response to the questions set out in your letter:

1. What action have you been required to take by the Official Receiver to manage conflicts of interest with your previous work for Carillion, its pension schemes and the Government on Carillion contracts?

When PwC was appointed as Special Manager, Mr Chapman was aware that PwC had provided operational contingency planning support to Carillion Plc, services to the trustees and to the Government. Mr Chapman took into account the need to appoint a firm which was not conflicted and made his application to the High Court accordingly.

PwC's role as Special Manager is to assist the Official Receiver in acting in the best interests of creditors and in ensuring continuity in the supply of essential public services. The framework for PwC's performance of this role is set out in the Special Management Protocol (Protocol)⁴ with which we have complied and continue to comply in assisting the Official Receiver.

As regards PwC's ongoing provision of services to Carillion since the start of the liquidation process, PwC continues to adhere to the Code as the Official Receiver would expect.

2. What actions have you taken voluntarily to manage your conflicts of interest?

As we have explained above, all PwC partners and staff are required to comply with the Code: there is no voluntary element to that compliance. We have not identified any services provided by PwC prior to the start of the liquidation process which could pose a conflict of interest to the Special Manager work.

PwC was providing services relating to the Carillion situation when we were appointed as Special Manager to the Official Receiver⁵. Having regard to the Code, it was appropriate that we treat each of those engagements as separate and independent from each other. In light of that, we put safeguards in place which include separation of teams and protection of confidentiality of data⁶.

We have not identified any conflicts of interest between PwC's work as Special Manager and PwC's ongoing services to the Official Receiver. We will review any new requests for services which we may receive for as long as the appointment of the Special Manager continues and against the backdrop of the Code.

3. PwC advised former directors of Carillion whose actions are now being investigated by the Insolvency Service to determine whether they constitute grounds for disqualification. What actions has PwC taken to manage this conflict of interest and

⁴ Special Management Protocol dated 15 January 2018 (amended 16 February 2018), signed by PwC and Mr Chapman and sent with Marissa Thomas' letter dated 29 March 2018 addressed to Frank Field and Rachel Reeves

⁵ Details are set out in two letters from Margaret Cole dated 2 and 23 February 2018 addressed to Frank Field and Rachel Reeves

⁶ Oral evidence of Marissa Thomas on 21 March 2018 Q1317-Q1319



ensure that PwC's work for the Insolvency Service does not jeopardise any potential disqualification action against former directors of Carillion?

As we set out in our letter of 2 February 2018, PwC's advice was to companies across the complex Carillion group structure, not to the directors personally. We do not understand the suggestion that this of itself gives rise to any conflict of interest in relation to the work we describe in the next paragraph.

The Official Receiver has a statutory duty to investigate the conduct of the former directors⁷. He has separately (not as part of the Special Manager role) engaged PwC to support his investigation of the circumstances which led to the liquidation of Carillion, including the conduct of the directors. This work involves the identification and preservation of documents, meetings with Carillion staff and analysis of financial records. It supplements the work being undertaken by the Official Receiver's investigation team which has the primary responsibility for investigating the conduct of the former directors. PwC's work is supervised by Mr Chapman who is, in turn, able to take independent legal and other expert advice if he requires.

4. **The NAO report that you will be paid £50m for your work as special managers. Can you confirm that estimate is correct and how much you have billed and been paid so far?**
a) The report also suggests all contracts should be exited or transferred over by the end of August. Are you on course to meet that target?

The £50 million figure included in the NAO report is an estimate of the payment to PwC as Special Manager and is subject to a range of uncertainties (as explained in the report)⁸. We anticipate that the Special Manager fees could be in this region. As at today's date PwC has not submitted an invoice or been paid for any of this work. The costs of the Special Manager work are discussed each week with the Official Receiver and regular updates are provided on the Special Manager activities. PwC's fees as Special Manager will be subject to review by the Official Receiver and approval by the High Court⁹.

The anticipated timing for the successful transfer of the facilities management contracts inherited by the Official Receiver and the Special Manager at the start of the liquidation process is early to mid July 2018 but negotiations are ongoing. It is expected that the only services as Special Manager to be provided to the customers of Carillion following those transfers will be limited transitional services which are to ensure that Carillion supports the swift integration of each contract and of the services with each new provider. As at 12 June 2018, 11,954 jobs have been transferred with these contracts. This represents 65% of the Carillion workforce. This is in addition to the 1,216 employees who have resigned and found alternative employment (a further 6.7% of the Carillion workforce).

Our priority has been to support the Official Receiver in keeping public services, such as the

⁷ Oral evidence of Sarah Albon on 30 January 2018, Q17

⁸ <https://www.nao.org.uk/wp-content/uploads/2018/06/Investigation-into-the-governments-handling-of-the-collapse-of-Carillion.pdf> at para 5.9

⁹ Oral evidence of David Kelly on 21 March 2018 Q1346, letter dated 29 March 2018 from Marissa Thomas to Frank Field and Rachel Reeves



maintenance of prisons, hospitals, roads and schools, running safely across the country, minimising the disruption caused by the collapse.

5. The NAO report states that PwC are charging a 20% premium on services provided post liquidation.

a) What is the reason for that premium?

b) How much have public sector bodies been charged for this premium?

c) Do PwC receive any of that premium?

A surcharge was levied by Carillion on services provided since the start of the liquidation process. It is for services provided by Carillion and is to cover increased operational costs of delivering the contracts and seeks to recover an element of those increased costs from the parties who are directly benefiting from those services. Taking each of your questions in turn:

a) The Government was in agreement that the costs of the Official Receiver should be met by those benefiting from the continuity of services. The surcharge was one mechanism used by the Official Receiver, in addition to individual negotiations.

b) The starting point for all contracts for services was that a surcharge would be levied for service provision post the start of the liquidation process. Many of Carillion's customers accepted the surcharge and service provision continued. Some chose to terminate the contract and find other service solutions.

c) The additional charges have been levied by Carillion, not by PwC. PwC do not receive any of this surcharge as it forms part of the overall recoveries of the liquidation.

We will respond to your letter of 22 May 2018 to set out our views on the Carillion report¹⁰ and will provide a copy of this letter to the Financial Reporting Council as they have asked us to do. If you have any further questions or we may be of any further assistance, please do get in touch.

Yours sincerely,

A handwritten signature in blue ink that reads 'Margaret Cole'. The signature is written in a cursive, flowing style.

Margaret Cole
General Counsel

¹⁰ <https://publications.parliament.uk/pa/cm201719/cmselect/cmworpen/769/769.pdf>