Dear Mr Field and Ms Reeves,

CARILLION LIQUIDATION UPDATE

Thank you for your letter of 27 November 2018 asking for an update on certain aspects of the administration of the liquidation of Carillion plc and the related investigation.

Recoveries

Realisations to date are £413m (including trading receipts) across the sixty-six legal entities that are in a compulsory liquidation process where I am liquidator.

A number of recoveries still expected and these will come from asset sales, insurance recoveries and debtor recoveries. These recoveries are the subject of ongoing discussion and negotiation with respective parties and until those discussions are concluded it is impossible for predict with accuracy the ultimate level of recoveries although it is estimated these could potentially exceed £50m.

It is too early to tell how much will be paid to the PPF as a dividend as this depends on the outcome of a number of the future recoveries as well as the level of creditor claims that are received and admitted in the relevant legal entity to which the PPF has a claim.
Special Managers

PwC has billed £35.3m for the work they have undertaken as Special Managers and the total costs for PwC for the first eight weeks was £20.4m.

For the period January to March PwC averaged 155.2 people per week. For the period from April to June this fell to 58.0 per week and for the most recent quarter from July to September this further reduced to 37.3 per week. The average charge out rate of the PwC staff over the period was £345 per hour. This has fallen from £368 in the first week to £317 during the last week in September as they have sought to leverage cheaper resource.

Based on existing run rates we would expect PwC’s fees for this calendar year acting as Special Managers to be in the region of £44.2m.

The terms under which the Special Managers were appointed are set in my letter of 29 March 2018 to the Committees, with the primary indicators being the overall success of the liquidation including the preservation of jobs and the continuation of public services.

The success of the overall objectives are under my control as liquidator and the Special Managers are required to provide regular reports covering a range of areas where success criteria can be measured and monitored.

In terms of the overall objectives of the liquidation, the work of the Special Managers has been very effective, with recoveries higher that had been anticipated. In any liquidation it is the responsibility of the liquidator (supported by special managers as necessary) to make all possible recoveries and as such you would not normally expect to see targets or performance indicators applied to this activity. The extent to which recoveries will translate into a return to individual creditors will depend on a number of factors, primarily the number of creditors’ claims eventually received and the identity of entity in which the recovery was possible.

You will recall that the National Audit Office Report in June 2018 stated that the expected net cost of the liquidation would be around £148 million. We now anticipate the net cost to be £72m, which primarily reflects better than expected asset realisations. As I say above, there are further complex recoveries that could be made and there will continue to be some uncertainty around the eventual outcome in terms of the net cost. The expected outcome of £72m is not expected to rise though.

Carillion employees

As at 30 September 2018 employment had been preserved for 84% of the Carillion workforce representing 15,219 jobs (13,945 transferring to new contractors and 1,274 leaving the business during the liquidation through finding new work, retirement or for other reasons). As at 30 September, 2,913 people had been made redundant and not simultaneously taken on by a new contractor.
Investigation

Because of the uncertainty that attaches to any large, complex investigation, it is not possible at present to offer a precise estimate as to when the investigation into Carillion will be complete.

At the request of the Secretary of State for Business, the investigation into the company including analysis of company records, interviews with directors and close liaison with other investigating authorities is being expedited.

The scope and scale of the liquidation of Carillion is unprecedented and that applies to the investigation where we are analysing a huge volume of accounting records, both paper and electronic, and this affects the ability to accurately provide an estimate for the conclusion of the investigation.

I hope that you find this information useful and I am happy to assist further, as required.

Yours sincerely,

DAVID CHAPMAN
Official Receiver