



**FAO: Rt Hon Frank Field MP, Rachel Reeves MP**

Work and Pensions Committee and Business, Energy and Industrial Strategy Committee

House of Commons

London

SW1A 0AA

21 February 2018

Dear Mr Field and Ms Reeves

**Carillion evidence session**

I refer to your letter dated 13th February 2018.

For ease, I have set out below your questions in full and have inserted my responses to each one underneath.

You will appreciate that I do not have access to all the information I would have had at the time, having left Carillion at the end of September 2017.

Please note that the following may contain commercially confidential material which may be relevant to ongoing negotiations the Official Receiver is engaged in and therefore I would respectfully ask that the Committee considers whether such information may be published at this stage.

**Q1: Were you not insured against concrete beam failures (Q445-447)? Did you take action against your supplier?**

As is normal in such cases, before liability is determined, all the relevant Professional Indemnity insurers are notified. In this case, the insurers of Carillion Construction Ltd, TPS Consult (the structural designers), Heyrod (the beam designers) and Heyrod's sub-contractor, Freyssinet (the beam constructor) have, I understand, all been notified of the event. I am unaware of the progress of those claims.

I am not aware of litigation having being commenced against either Heyrod or Freyssinet but I would expect that claims would be brought as it would be normal for Carillion to investigate the potential for claims and to bring claims if they were considered likely to succeed.

**Q2: Could you clarify for us the payment schedule on claims for the work in Qatar?**

**(a) You said that you "personally settled claims 1 and 2, in July 2016, with the Chief Executive of Msheireb Properties. Those claims had been lodged, working from memory, 18 months earlier than I settled them". Is that timetable accurate?**

Some context before I answer the specific question raised. Carillion was a majority partner in a joint venture with Qatar Building Company (the CQBC joint venture). The Works were originally programmed for completion in two and a half years following award in 2011, based on the original design that Msheireb Properties (the Employer) went out to tender with. The Employer then issued 10,000 further drawings during 2013 and then 15,000 further drawings over time. Given the contractual process for agreeing change, Carillion following contract award and the new drawings being issued, asked the Employer to rebase the contract (which means agree new timings and new costings given the extent of the changes required by the Employer). The Employer refused and contractually Carillion was obliged to continue with the Works.

The Employer appointed and changed two architects for the Works, both of whom were stood down by the Employer. Carillion then had to produce 38,000 further drawings / revisions of drawings to support the changing requirements and the incomplete design provided by the Employer and to meet its own working drawing obligations.

The claims which I explained at the Select Committee on 6th February 2018, related to claims for the costs of variations and the costs arising from four extensions of time (EoT claims) (EoT, 1, 2, 3A and 3B) caused as a result of changes to the design made by the Employer. The mechanisms for agreeing and paying for these changes were set out in the contract. There are a number of steps to gaining payment for a change to the scope of the Works and gaining payment for an extension of time. In terms of agreeing costs given the time delay, the award of an extension was required from the Employer, in effect this was the Employer agreeing that their changes had caused a knock-on to the timetable. The Employer's Engineer had accepted responsibility for a significant proportion of the delay. The second part is then to agree the valuation in terms of cost i.e. the amount which the Employer should pay to CQBC relevant to the time award.

EoT Claims 1 and 2 were lodged with the customer in January 2014. Claims 1 and 2 were therefore negotiated over a 30 month period, not an 18 month period as I stated, and settled in June 2016 between Mr. Meshadi of the Employer and myself at a value of QR 204,000,000 (approximately GBP 40,800,000). Monies were received against this settlement during June 2016.

**(b) In Q478-483 you refer to further payment due on the Msheireb contract worth £200m, with around £180-190m due at the time the accounts were signed off. Could you confirm the accuracy of those figures, when the claims for those amounts were first lodged and whether any provision was in place in relation to these amounts in the 2016 accounts?**

For ease, I have set out a table below, which sets out the variations and extension of time claims made and the date on which such claims were made and the value of these claims as at March 2017 when I

met with the Employer (1 below) and September 2017 when I was asked to leave (2 below). I do not have the exact variation cost claimed for (2) below as at September 2017.

Date	Type of claim	External Submitted (Qatar Rials)	Claim (Qatar)	Total in GBP (exchange rate 5QR:£1)
As at March 2017	Variations owed up to March 2017	503,982,425		
31 July 2016	EoT 3A and 3B	649,638,148		
	EoT (in part 3C)	237,029,802		
(1)	<b>Sub-total</b>	1,390,650,375		278,130,075
17 May 2017	EoT 3D	79,685,763		
31 August 2017	EoT 5.1	13,452,973		
As at Sept 2017	Further Variations	[From memory around 100,000,000]		
(2)	<b>Sub-total</b>	193,138,736		38,627,747
	<b>Total</b>	1,583,789,111		316,757,822

The values in the table above are 100% values; Carillion's share of these figures was 80%.

To the best of my recollection, Carillion did not have a specific provision for the Msheireb contract in the 2016 accounts. This was because we considered at the time of the 2016 accounts that we had negotiated a reasonable outcome on EoT 1 and 2, secured an extension of time in relation to EoT 3a and 3b, which was greater than 90% of the period claimed, following which the Employer had then immediately certified QR50m on account in anticipation of further validation of costs associated with the EoT claim and we had made good progress with agreeing the variations with the Employer during 2016.

**Q3: How much please were you paid for your ongoing work in Qatar after you were removed as Chief Executive (Q484)?**

When I was asked to step down from my role as CEO by Mr. Green on the 7 July 2017 he asked me to remain as Chief Operating Officer with the existing five business unit managing directors reporting to me. On August 24th Mr. Cochrane notified me that he was re-organising the business operating structure and I would, as a consequence, be leaving on the 30 September 2017 along with the Managing Director of the UK Construction business and the Managing Director of the UK Services business. Mr. Cochrane confirmed to me verbally in that meeting he would like me to focus on four things until the end of September: (1) Royal Liverpool Hospital; (2) Midland Metropolitan Hospital; (3) Msheireb, Qatar; and (4) 'morale' in the UK construction business.

I was therefore paid 3/12 of my gross annual salary of £660,000 (which equates to £165,000 gross) plus benefits, for the period July 2017 through to the end of September 2017.

**Q4: You "thankfully" only won one construction contract in Qatar (Q526). How many did you bid for, and over what period?**

Carillion established its business in Qatar during 2010 in response to the 2009 group strategy to double the size of its MENA construction business from £500m to £1bn. Over the next three to four years, from 2010 to about 2014, we bid for 13 construction contracts, including Msheireb.

In addition, we bid and won two support contracts in Qatar in 2014-2015 which were profitable and operated successfully.

Please let me know if I can be of any further assistance.

Yours sincerely

A handwritten signature in black ink, consisting of a large, stylized loop followed by a long horizontal stroke that tapers to the right.

**Richard Howson**