

Public Accounts Committee & Public Administration and Constitutional Affairs Committee

Oral evidence: Sourcing public services: lessons to be learned from the collapse of Carillion, HC 748

Tuesday 27 Feb 2018

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Members present:

Public Accounts Committee: Meg Hillier (Chair); Bim Afolami; Sir Geoffrey Clifton-Brown; Shabana Mahmood; Layla Moran; Stephen Morgan; Anne Marie Morris.

Public Administration and Constitutional Affairs Committee: Mr Bernard Jenkin (Chair); Ronnie Cowan; Mr Marcus Fysh; Dame Cheryl Gillan; Kelvin Hopkins; Dr Rupa Huq; Mr David Jones; Sandy Martin.

Questions 1-237

Witnesses

I: Keith Cochrane, Chief Executive, Carillion, (Non-executive Director July 2015-July 2017), Philip Green, Chair, Carillion, Richard Howson, former Chief Executive, Carillion, 2012-July 2017, Emma Mercer, Finance Director, Carillion, from April 2017.

Sir Amyas Morse, Comptroller and Auditor General, and Adrian Jenner, Director of Parliamentary Relations, were in attendance.

Examination of witnesses

Witnesses: Keith Cochrane, Philip Green, Richard Howson and Emma Mercer.

Chair: Welcome to this joint hearing of the Public Accounts Committee and the Public Administration and Constitutional Affairs Committee to look into the collapse of Carillion. It is pertinent that we are looking at this today: we note that the latest news headlines show us that the Carillion job losses are now at 1,370, with 230 more redundancies just announced. That reminds us of one of the reasons that this is a very important issue to look at: people are very badly affected by this. Individuals have lost their

jobs and companies have gone to the wall.

What we are keen to do today—both Committees have an interest in how the Government handle large contracts—is to look at the Government side of this. We have seen and are au fait with the evidence that you all gave to the Work and Pensions Committee and the Business, Energy and Industrial Strategy Committee at their recent joint hearing, so we do not intend to repeat that. If you stray into repeating that, I will nudge you away from that, and if members of the Committee stray into repeating that, I will likewise nudge them away from it. We want to get to grips with what the Government knew and what your relations were with the Government in this, as well as with some of the wider issues about how the company played. Assume that we know what you have said before, because we have all been prepared and read that.

I should acknowledge that there are two, maybe three, investigations into Carillion under way—by the Financial Reporting Council, the Financial Conduct Authority and potentially others along the way. We will be looking at this again, and the National Audit Office will be looking at it at some point. That is the signal from the Public Accounts Committee. I am now going to hand over to the Chair of the Public Administration and Constitutional Affairs Committee—PACAC—Bernard Jenkin.

- Q1 **Mr Jenkin:** Thank you. Thank you for coming today and suffering another ordeal in front of a Select Committee. We do appreciate your candour. I emphasise that we are very interested in what the Government can learn from this and what lessons we need to make sure the Government learn from this. To that extent, the first area I want to discuss is when the Government should have understood what the financial health of Carillion actually was, and when they first should have understood what risks the Government were carrying. Philip Green, as Chair of the business for a considerable period, what were your anxieties many years ago about the long-term sustainability of this business, and how should the Government have understood them in the way that you understood them?

Philip Green: Thank you for the question. Before I answer—this is repeating one thing I have said before, but forgive me, because I want to say it—let me reiterate what we said in terms of our deep sorrow at what has happened.

Chair: I appreciate you want to repeat that, but we also appreciate you have said it before. You have said that—thank you—so you can answer Mr Jenkin's question.

Philip Green: Fine, but it is really important to say it. I became Chair in 2014. You talk about anxieties. The principal anxiety was around the level of debt that the company had. I would say that anxiety began in late 2015 to early 2016, and the level of anxiety then gradually increased.

- Q2 **Mr Jenkin:** If the level of debt is the indicator the Government should be looking at, I would suggest that that is too late.



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Philip Green: Sorry, I thought you were asking me what anxieties I had and when they started.

- Q3 **Mr Jenkin:** No, when did you start becoming anxious about the direction of the business, the degree of risk on the balance sheet and the narrowness of the margins? When did you start thinking that it might not survive?

Philip Green: Forgive me, there are several different questions there. Right through 2017, we believed a restructure was achievable.

- Q4 **Mr Jenkin:** I am asking a much deeper question here. We are looking at the whole relationship between the Government and a set of 27 or so contractors. The Government seems to have transferred a great deal of risk to these businesses without actually understanding how much risk it has transferred and how much risk it cannot transfer. The risk, in respect of Carillion, has come boomeranging back to Government, because Government clearly did not understand those risks. Are you telling me, Mr Green, that you thought that this company was high-risk only when the debt was going up? I do not believe that.

Philip Green: The company successfully delivered many hundreds of contracts to the satisfaction of Government and all stakeholders. The company got into difficulties during 2017 because it had too much debt and its balance sheet was unable to withstand the shock from, in particular, four contracts that went badly wrong in the middle of 2017. There are lessons in that for Government and for companies. The balance sheet did not have the robustness to withstand the shocks that it suffered. One of the issues within that, which I think is one of the points that you are touching on, is the balance between risk and reward.

- Q5 **Mr Jenkin:** I would suggest that when any company is called a “construction and catering company”, as I have heard Carillion described, alarm bells should ring, because there does not seem to be a lot of synergy between construction and catering.

Philip Green: We described the company as construction, support services and some PFI—we never used the word “catering” in a headline description of the company—and we believed that there were synergies between those elements of the business. Keith and the new management team put together, at the back end of last year, a business plan based on a revised strategy, a new structure and some new people, but the basic combination of construction, outsourcing and selective PFI was part of the business plan that the board and management believed in.

- Q6 **Mr Jenkin:** Are you saying that the Government are blameless for letting all these contracts to a company that was vulnerable to four other bad contracts?

Philip Green: I am not saying that either the Government or the company are blameless. I think that there are things that both companies—

- Q7 **Mr Jenkin:** Okay. What should the Government have seen, several years



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out, about their relationship with Carillion that they might also find with other contractors, and which would mitigate the risks to the continuity of public services and the jobs of people providing public services? What are those risks?

Philip Green: I do not believe that there was a material risk to Carillion's survival several years ago. Carillion was, at that time, performing in line with market expectations. It was delivering a series of high-quality contracts and had a very good, transparent relationship with the Government. The relationship was principally between the chief executive and the Crown agent—the Crown representative. At the very top of Government, that was the key relationship.

Q8 **Chair:** Just to put it another way, if you were the Crown representative, advising the Government on Carillion, when would you have started to raise warning signs with the Government?

Philip Green: I would have said at the same time as the board, which was during 2016, when the board became very focused on the level of debt. Management put in place what we called a "self-help" plan to bring debt down. At the beginning of 2017, Richard stood up and said that by the end of that year debt would be lower than it was at the beginning of the year.

Q9 **Mr Jenkin:** When was the first time that the Government had a conversation with the company about the level of risk in the company?

Philip Green: Richard had the relationship up until July of last year with the Crown representative. I did not have those discussions.

Richard Howson: I met our Crown representative each quarter, and on an ad hoc basis in between. It was a collaborative relationship. She would phone me and others in our organisation. She did not have to route questions or inquiries through me; she had free access to my managing directors and their managing directors, so it was a collaborative relationship. When the Crown representative started to ask questions about the level of shorts in the business, which was perhaps an indicator that the market—

Mr Jenkin: The level of what?

Richard Howson: Shorting in the stock, which rose from 2012, when I think it was at a level of around 11% or 12%. It went up, ultimately, to about 23% in 2016 to early 2017. We had a number of conversations about why the City was shorting our stock to that extent. We went through the three principal reasons for that: the level of indebtedness, which was rising; the pension deficit, which was rising during that period of time; and the level of receivables that we were finding it difficult to turn into cash flow from customers. Some of those customers were in the UK; some were, as we saw in the last Committee, in the Middle East. I spoke very openly in each meeting with the Crown representative, with Mr Rhys Williams, on the occasion that I met him, and with Mr Manzoni, about the challenges we had on certain contracts in turning receivables into cash.



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We also asked for and got support from the Secretary of State to help us try to leverage receivables into cash in the Middle East during 2017.

Q10 Chair: The Secretary of State intervened with a contract for you.

Richard Howson: We briefed the Secretary of State for International Trade in April or May of '17 on an increasingly difficult situation in Oman and Qatar, asking him to help us, alongside the ambassadors in those countries, to get a fair administration of those contracts.

Chair: Thank you. It is useful to have that on the record.

Q11 Mr Jenkin: Just to confirm, did you say that the market started shorting the stock in 2011?

Richard Howson: There has been a short position in Carillion—I am working from memory—probably for the last 10 or 12 years. There is in most companies. In 2012 it was probably around 10% or 11%.

Q12 Mr Jenkin: Emma Mercer, you have been outed in the newspapers today as a whistleblower. Can you explain to us what you understand that to mean?

Emma Mercer: I have been outed in the papers this morning as a whistleblower. I would not describe what I did as a whistleblowing incident in the true sense of the word.

Mr Jenkin: That is what I rather expected.

Emma Mercer: We have a process within Carillion, which is an independent one, for whistleblowers to contact if they need to. As a senior individual in the organisation, I did not feel the need to go to an independent hotline or whistleblowing process. I had full access to management both from an executive and a non-executive level. I think the minutes refer to one of the non-executives questioning whether I had been deemed to whistleblow, but I would not necessarily describe it as a whistleblowing incident.

Q13 Mr Jenkin: And this was before you were a finance director?

Emma Mercer: I came back to the UK. I had been working in our Canadian division for a number of years and returned to the UK in April. We went over that story in the last Committee. When I returned to the UK, I raised some concerns around accounting with the executive team.

Q14 Mr Jenkin: What date was that?

Emma Mercer: I raised some concerns around accounting and the way we were accounting—

Chair: This has been covered in the previous Committee.

Q15 Mr Jenkin: But can we just ask what date it was that you first raised these concerns?

Emma Mercer: I raised concerns around some internal accounting guidelines during the middle of April.

Mr Jenkin: The middle of April 2017?

Emma Mercer: April 2017.

Q16 **Dame Cheryl Gillan:** May I just ask you a quick question? As I understand it, your revenue was declining quite steadily between 2009 and 2016, and was due to fall further in 2017. Before that, it fell by as much as 12% around 2009. In 2013, you hit a low spot of 26% below what you were expecting. Did you discuss that at all with the Crown representative, Mr Howson?

Richard Howson: Yes, and can I just explain the background to that fall in revenue, because it was by design? In 2009, in response to the global financial crisis, the board developed and approved a new strategy, which was to half the size of our construction business in the UK. It was a £2.2 billion revenue business in the UK and we planned to take it down to around £1 billion, because the Government said at that time, you will recall, that they were reducing their construction spend by between 30% and 40%. That was our response to one of our largest customers reducing its spend in the external market. The quid pro quo against reducing the UK construction business was to double the size of the Middle East business and the Canadian business, each from £500 million to £1 billion in revenue. I stopped that strategy in 2013. So the decline in revenue that you have just spoken about is the reduction in scale of the UK construction business from 2010 to probably the middle of 2014, where—from memory—our turnover dropped to around £4.2 billion or £4.3 billion.

Q17 **Dame Cheryl Gillan:** But coupled with those problems in the market and also the shorting process by the City on your position, surely that must have worried you considerably?

Philip Green: The reduction in revenue did not concern the board because, as Richard said, it was part of a conscious strategy. Yes, we were aware of the shorting. Richard and his colleagues had many communications with shareholders, and I was always available to speak with shareholders when and if asked. We believed at the time that the company's strategy was the right one. We consistently believed that we could deliver market expectations, which we indeed did for a number of years.

Q18 **Dame Cheryl Gillan:** Did you discuss that with Ministers?

Philip Green: Personally, no. The principal relationship was through the chief executive.

Q19 **Mr Jenkin:** That takes me to the next question. There were some 25 meetings once the profit warning had been issued. What information were the Government asking for?

Philip Green: Post July?

Keith Cochrane: Perhaps I could answer that question, since I took over as interim chief executive on 10 July following the profit warning. One of my first meetings was with Government, because naturally they were concerned with understanding the background to the profit warning and the write-downs that we were taking on particular contracts, as well as understanding the scope of the strategic review that we had announced, that was taking place on 10 July. It was about explaining to them the basis of the announcement, the background to it and the actions that we now planned to take over the coming weeks. I committed to going back and seeing Mr Rhys Williams and his colleagues as we progressed through that strategic review and to give them an interim update. I did that in early September, and thereafter—prior to announcing our half-year results and the results of that strategic review at the end of September—I had a further session with Mr Manzoni and Mr Rhys Williams to take them through the backcloth of our announcement at that time. So it was very focused on the strategy for the business, our plans around disposals, our plans around cost reduction and how we saw the shape of the business evolving going forward.

Q20 Mr Jenkin: How adversarial was that process?

Keith Cochrane: At that stage it was a constructive, two-way conversation. They were seeking information from us, they were seeking to understand our position, and obviously there was concern around continuity of service. There was particular interest in relation to some of our potential disposals which at that stage involved a number of health contracts to Serco, which was under way. We brought the Cabinet Office inside so that they were aware of that process.

Q21 Mr Jenkin: How much time did you spend discussing what you should show them and what you should not show them?

Keith Cochrane: I did not spend any time on that frankly. We had a very open discussion with them.

Mr Jenkin: So they could have asked for anything.

Keith Cochrane: And indeed, as time progressed, they did. As we put into place our additional financing arrangements in October, we essentially agreed with the Cabinet Office that they would get exactly the same information—including weekly cash flow information—that the banks, the pension funds and our other financial stakeholders would receive. Emma Mercer would give them a weekly update and commentary on the progress around the development of those figures.

Q22 Mr Jenkin: How much do you think they shared your view about the risk in the company?

Keith Cochrane: There was considerable concern, particularly around the issue of continuity of service. They were interested in understanding the degree of headroom and the amount of liquidity—the amount of cash—that we had in the business and our ability manage that.

Q23 Mr Jenkin: Why were they asking about continuity of service? Were they



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expecting you to go bust already?

Keith Cochrane: No, they were not expecting that.

Q24 **Mr Jenkin:** What was the context?

Keith Cochrane: The context was that in relation to a small number of loss-making contracts, there was a concern about whether we would seek to hand them back to Government as part of our restructuring process.

Alongside that, a business such as Carillion is an asset-light business. Its true asset is its people and the good work that they do. This was not unique to Government; a number of other customers expressed similar concerns about our ability to hold on to those good people and to continue to deliver on our contracted commitments going forward.

Q25 **Mr Jenkin:** This was the Cabinet Office, was it?

Keith Cochrane: I was dealing with the Cabinet Office.

Q26 **Mr Jenkin:** Did they also look at your NHS contracts and your local government contracts? Did they include them in the assessment?

Keith Cochrane: They certainly asked us questions on the healthcare contracts. As to the degree of detail that they went into them, I cannot comment. We provided a lot of detail in relation to our NHS contracts, some of our education contracts and, indeed, our prisons contract as well.

Q27 **Mr Jenkin:** Did they let you know that they were preparing for your possible demise?

Keith Cochrane: We were aware that they were undertaking contingency planning, but as I say, from our perspective in October and November, the context was very much contingency for contract failure, as distinct from failure of Carillion.

Q28 **Mr Jenkin:** My last question is, what effect did the absence of a Crown representative have on the frequency, depth, understanding and effectiveness of your discussions with the Government?

Keith Cochrane: Again, perhaps I can comment. Obviously, I did not have the experience of having a Crown representative, because essentially there was not one when I took on the post on 10 July. I dealt with the set-up and the circumstances that I found.

Q29 **Mr Jenkin:** Who were you dealing with?

Keith Cochrane: I was dealing with Mr Rhys Williams and other members of the Cabinet Office procurement team.

Q30 **Chair:** Were they people junior to Mr Rhys Williams, or did you deal with Mr Manzoni directly?

Keith Cochrane: I occasionally met Mr Manzoni. I think I had a call with him at the end of July and, as I said, I met him at the end of September—so from time to time. From my perspective, it was more to update him on strategic developments, whereas you could argue that the discussion with



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Mr Rhys Williams and his colleagues was, let us call it, slightly more transactional in terms of specific issues that were happening in contracts or specific data information requests that we had.

Coming back to your question, a Crown representative was appointed in mid to late November, from memory. They were someone who came in from outside the civil service. We did find that constructive and helpful. They were seeking to spend a considerable amount of time with my team to get into the business. They had relative freedom, in the sense that there was considerable interest in Carillion right across Government up to ministerial level—for obvious reasons—which coloured some of the debate and discussion that we had on a weekly basis responding to particular concerns or issues that were being raised. Our Crown representative was able to help us to seek to present a more rounded, bigger picture.

- Q31 **Chair:** The Crown representative and John Manzoni will obviously have provided advice to Ministers. Did they tell you what advice they were providing to Ministers about the future of Carillion?

Keith Cochrane: No.

- Q32 **Chair:** So you had no idea what the Government's policy position on this was? You were just dealing with officials at a transactional level.

Keith Cochrane: We met officials. I met John Manzoni on a number of occasions and briefed him, and we had a good open dialogue. In the last week or 10 days before Carillion went into liquidation, there was fairly intense engagement, as you can imagine. But even through that process, Government expressed some of its frustrations and its belief that we could have perhaps done things differently.

- Q33 **Chair:** At any point, did you know that the Government was considering making you a high-risk supplier?

Keith Cochrane: Yes, I was aware of that. The Government had written to us at the end of November indicating that it was minded to—

- Q34 **Chair:** That document is on record. Did you get any hints of that beforehand? Were you told in private meetings?

Keith Cochrane: I think they had told us a week or—they had phoned me saying, "There is a letter coming. This is what we've decided to do."

Chair: Okay, so it was just prior to the letter.

- Q35 **Sir Geoffrey Clifton-Brown:** In the profit warnings in July and September, you wrote down £1 billion of assets on a company that was making about £150 million. You were haemorrhaging cash at an alarming rate. When was the first time you had a discussion with Government that this company might not survive?

Keith Cochrane: Our belief was that we had a viable restructuring plan right up until the last weekend, and that was very much what we focused on. Having said that, part of that viable restructuring plan was working with all our stakeholders, including Government—that is Government very



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much in the context of being a major customer of Carillion. As I mentioned earlier, we had shared cash flow forecasts with Government. We had been asked to prepare a liquidation scenario, which we shared—

- Q36 **Sir Geoffrey Clifton-Brown:** Can I stop you there? At what point were you asked to prepare a liquidation scenario?

Keith Cochrane: That was described to me as a standard request of the banks, so it was undertaken through November and December. It was very much in the context of restructuring, so that the banks could work out and establish the best route for the company to work through. In certain scenarios that I could imagine, perhaps the liquidation scenario might have been the least worst option. What the liquidation scenario showed very clearly—this goes back to the point about it being an asset-light business—was that all financial creditors would recover no more than 1p in the pound, at best. That analysis was shared with Government pre-Christmas.

- Q37 **Chair:** Can I move on to your expectations of Government financially? I am looking at the statement that you submitted to the court for liquidation, Mr Cochrane. You talk about the continuous dialogue that you have had with the Government. On page 9, at paragraph 39, you say that the company's hope was that HMG would provide support to the company to mitigate and help manage the challenges that it faced so that it could continue to make progress in respect of its restructuring plan. You talked about meetings with advisers across December 2017 and into early 2018. Could you tell me what and who in Government gave you any indication that you could hope that HMG would provide you with support?

Keith Cochrane: First of all, I should say that the Government were seeking to be supportive. Part of our regular ongoing engagement since July was to—

- Q38 **Chair:** You say "supportive". Meetings can be supportive. Were there discussions about cash being provided?

Keith Cochrane: We discussed cash, outstanding claims, how we could move payments through the system to get paid and how the Cabinet Office would seek to do what it could. Could more have been done? Probably, yes, in hindsight, but they did seek to be supportive. In terms of the specific discussions, to come to the nub of your point, as my witness statement indicates, our banking group—. Let's be very clear: we were not anticipating seeking formal Government support beyond them paying our bills on an ongoing basis.

- Q39 **Chair:** Except that in paragraph 42 of your statement you talk about proposals. You say that you wanted to set out a request for short-term financial support from HMG, and you mention issues relating to settlement of payments. The document is littered with mentions of requests. You tell the court that you requested support from Government; it reads as though you are hoping at each stage, right up to the point at which you collapse, that the Government will either provide you with support or maybe talk to the banks about providing you with



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support. Can you tell me what actually happened?

Keith Cochrane: Let me just clarify: my point was that until the middle of December, that was the position. We recognised that there was going to be a cash shortfall in the first quarter, and the banks then said, "Look, Government are a very important party. We want your company to ask Government for specific support alongside the support that we will give you to work our way through this short-term funding need as we put together the longer-term restructuring plan."

Q40 **Chair:** So after that December point, when the banks were really snapping at your heels—it is quite clearly laid out in your statement, so I will not repeat—did the Government or any one individual in Government give you any assurance that there would be potential cash support from Government to get you over what at that point you considered a hump, to get you through to the end of the financial year?

Keith Cochrane: The Government certainly did not say to us, "Yes, we will support you." What they did say is, "Please put forward a proposal. We are prepared to consider and contemplate that proposal." As we analysed the potential ramifications of a liquidation scenario, we believed, and, frankly, I continue to believe, that the least-cost outcome to the taxpayer would have been if Government had been willing to support.

Q41 **Chair:** Philip Green, you were obviously around and involved at this time. Did you get any reassurance from Government that they might bail you out—any private assurances?

Philip Green: No, but the meetings with Cabinet Office were all led by Keith.

Q42 **Chair:** Mr Cochrane, you wrote to the Cabinet Office on 8 December asking not to be made high risk.

Keith Cochrane: That is correct.

Q43 **Chair:** Was that after you had the verbal warning? It was before you actually received the letter, presumably.

Keith Cochrane: That was after we received the letter. Essentially, we were given 10 days to make our representations before Government concluded that they were minded to make that high-risk status.

Q44 **Chair:** Just to be clear, for the record, you hoped that Government would support you. The banks hoped the Government would support you; but you are telling us categorically, here in Parliament, under privilege, that nobody in Government said "There is a prospect that we might provide you with some financial support to get you over the hump".

Keith Cochrane: Government engaged—I cannot say categorically that they said yes—I am saying that; but what I am also saying is Government was engaging with us. They asked us to put forward a proposal and as we and our advisory team looked at what we believed to be the economically logical outcome it was that, just as we see in many other instances, your major customer would participate in a process of supporting a business,



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given the potential downsides, which, regrettably, we have seen play through over the last weeks. Therefore from our perspective Government had not said no to us, but equally they had not said yes to us. We were engaged in a dialogue and a debate, discussing our propositions.

- Q45 **Chair:** Did you believe that you had reasonable grounds to hope that there would be a bail-out by Government; because you were still hoping for that right up to just before—

Keith Cochrane: We continued, obviously—a key element of our duties as directors is to test the going concern assumption on a very regular basis. Essentially the board met every two or three days to test that with its advisory group. That requires you to have reasonable prospects of seeing a way through to a successful financial restructuring. Right through to that final weekend we continued to believe, reinforced by the perspectives that our advisors contributed, that we did have reasonable prospects to continue as a going concern.

- Q46 **Shabana Mahmood:** Did the intervention you mentioned earlier in evidence—the Secretary of State for International Trade in respect of your Middle East contracts—help to give rise to the assumption or as you would say reasonable expectation that the Government would step in and help out with cash to keep the business going?

Keith Cochrane: No. I should say that I also had discussions and Government sought to be helpful during my tenure as interim chief executive in seeking to resolve the particular issues that we had in Qatar; but I think we saw that as very much independent of the broader discussions. I think that was from my perspective a very specific sort of contractual question where Government, and particularly the Ambassador, could help support us in terms of making sure that we were getting a fair hearing and we were able to try and progress the outstanding issues on that contract.

- Q47 **Shabana Mahmood:** At what point was it clear to you that your business could not continue as a going concern without support from the Government? At what specific point would you say that that was the case?

Keith Cochrane: I think we recognised in our dialogue through January—our belief was that we needed additional support.

- Q48 **Shabana Mahmood:** As late as January. Not at any time before did you think you needed support from Government.

Keith Cochrane: To be very clear, our focus throughout this period had been on achieving a viable restructuring plan.

- Q49 **Shabana Mahmood:** Which would not have involved—

Keith Cochrane: Which would not have involved specific additional support from Government—correct. We were in the process of preparing our business plan, which we had agreed with the banks. It would have been presented on 17 January. Because of events getting slightly ahead of



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us, in many ways, by late December, we pulled forward the delivery of that business plan to 10 January. We shared that business plan with the Government. There was a requirement in that business plan for a short-term loan—essentially a bridge loan—to help facilitate a longer-term restructuring.

The specific ask of the Government was to help to facilitate that, along with looking at other ways in which they could support us, in terms of a specific contract as part of our longer-term restructuring, recognising that we were talking to investors, who were doing due diligence on the business, about investing in Carillion for the long term. The business plan showed that once you got beyond the legacy contracts and the cash burn associated with them, you had a viable, profitable business that could generate cash.

Chair: We are particularly focusing on Ms Mahmood's point, which was what you expected from the Government at that point.

Q50 **Shabana Mahmood:** You mentioned the specifics of the contracts earlier, on health, prisons and so on. We know that, on prison facilities for example, when prisons are in a state of disrepair, there is more chance of riots and so on. Was there an expectation that, because the consequences—not just in terms of job losses but for the realm of the public sector—were so big, in the end, the Government would step in?

Keith Cochrane: No. We thought about it in the round. There were particular issues on the prisons contract. There were claims outstanding and there was ongoing debate about the terms of that prisons contract.

Q51 **Shabana Mahmood:** Were you hoping to get more money out of that prisons contract?

Keith Cochrane: We were hoping to get more money out of that, and we had claims on the table that we were discussing with the Ministry of Justice.

Q52 **Shabana Mahmood:** How advanced were those discussions on getting more money out of the prisons contract?

Keith Cochrane: It was a slow process.

Q53 **Shabana Mahmood:** How contingent was getting more money out of the prisons contract on your ability to keep going?

Keith Cochrane: We had not assumed that we would get a substantial sum of money out of that prisons contract as we put our cash flow forecast together.

Q54 **Chair:** It was very clear in your witness statement that it was one of the issues to help you get over the hump. "The company's proposals to HMG regarding the settlement of issues relating to certain of its contracts". Presumably that is just the sort of contracts that Ms Mahmood is discussing?



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Keith Cochrane: If we had been able to reach an agreement with the Government on that particular contract, that would obviously have given rise to a cash injection into the business, which would clearly have been beneficial. The key point here is that there are a number of different ways that cash could have come into Carillion. We could have reached a settlement with the Government on specific contract issues, or the Government could have given us a short-term loan, which, to be clear, would have been repaid out of the financing of the results of the restructuring plan that we were working through.

- Q55 **Shabana Mahmood:** Mr Green, just to pick up on one of your answers earlier, am I right in thinking that you didn't talk directly to the Government, even in the very last moments of Carillion's life, when the Government was in fact the only body that could have stepped in to prevent insolvency?

Philip Green: In the middle of January, I attended a meeting, with Keith, with Mr Manzoni.

- Q56 **Shabana Mahmood:** In the middle of January? That is the only time at which you got involved? Isn't that a bit odd? Would you expect that in the normal run of things?

Philip Green: I was always available to speak to any customers and any shareholders.

Shabana Mahmood: But you didn't have any involvement with the Government until right at the death?

- Q57 **Chair:** When you say the middle of January, do you mean 8 January or 14 January?

Philip Green: 14 January; on the Sunday.

- Q58 **Shabana Mahmood:** That is right at the death. Is that not odd, Mr Green?

Philip Green: I had a lot of involvement with the Government as a customer, both post July and pre July, but the discussions with the Cabinet Office around restructuring were handled by the chief executive.

- Q59 **Shabana Mahmood:** At the death, only the Government could have stepped in to help Carillion to keep going. You, in your position, did not get involved in that until that final discussion with the Cabinet Office. I think that is a bit odd. Don't you?

Philip Green: No. My role was non-executive chairman. I was there to support and challenge and counsel management. We were a very engaged board. Keith updated us regularly—multiple times a week, on occasions—on the discussions. I was there to help and to assist if required. As we have talked about, the discussions were led by the chief executive, which I think is—

- Q60 **Chair:** Did you have any approaches from the Government outside those meetings?



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Philip Green: Personally? Do you mean if I was asked to attend?

Chair: Yes. No phone calls or anything?

Philip Green: No. Let us be very clear: if I had, I would have attended. I had two informal meetings with Ministers during the course of last year, but not on the subject of restructuring.

Q61 **Chair:** So if Mr Manzoni or someone had called you and said, "Philip, pop in for a chat," you would have done that.

Philip Green: Absolutely, I would have been there.

Q62 **Chair:** But nobody asked you, and you did not seek to—

Philip Green: No; correct.

Q63 **Chair:** I am going to ask Sir Geoffrey to come in, and then Ronnie Cowan. To summarise, Mr Cochrane, on a scale of one to 10 how high was your expectation that the Government would give you financial support? Was it a realistic expectation?

Keith Cochrane: The feedback that we had from Government to our initial request was, frankly, that there was concern that if they provided the funding, the banks would pull the rug from under us and they would be left taking the business forward.

Q64 **Chair:** On a scale of one to 10, how much did you realistically expect the Government would provide you with the financial support?

Keith Cochrane: We believed there was a logical case. On that basis, I am still somewhat perplexed that they were unable to give us that support. So actually, I felt quite confident that Government would support us, while recognising some of their concerns. Our final proposal was very much one where we managed to get the banks to commit to put additional funding in.

Q65 **Chair:** On the basis that Government were going to—

Keith Cochrane: The banks were going to put £10 million in if the Government put £10 million in in week 1. We would then have a review at the end of that week to see where we had got to with our restructuring plan. If we were making good progress—and we believed that we could move quickly to launch a restructuring—in week 2 the same thing would happen: the banks would put in £10 million and the Government would put in another £10 million. That proposal went in to Government at 7 pm on Saturday 13 January.

Q66 **Mr Jenkin:** How surprised were you when the Government did not continue with those discussions and decided to suggest that you should call in the receiver?

Keith Cochrane: I was very disappointed.

Q67 **Mr Jenkin:** How surprised were you?



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Keith Cochrane: I was surprised, because for me it was not the logical, rational decision to take.

- Q68 **Chair:** Did you think that because you were running so many critical services—Ms Mahmood laid out some of them—you basically had a gun to the Government's head so that when it came to the chicken moment, they would not give in and would give the money to ensure that the services did not end?

Keith Cochrane: We recognised, because Government challenged us around the risks that they would be taking if they did provide support and around the question of moral hazard, particularly in the context of PPP contracts and how that might be perceived across the broader issue—

- Q69 **Chair:** Just to pick up on your phrasing, they “challenged us around the risks” if they did not provide support. So you were having discussions with Government about the possibility of, on the one hand, support to get you through this and, on the other, not having any support.

Keith Cochrane: My point is that as part of those conversations, they said that they would need to think through the ramifications. Going back to this point, there was an ongoing dialogue with Government right through until that last proposal went in on the Saturday night.

Chair: I am just going to bring in Sir Geoffrey and Dame Cheryl quickly.

- Q70 **Sir Geoffrey Clifton-Brown:** Mr Cochrane, was there not a huge conflict in what you were doing with your discussions with the Cabinet Office? On the one hand you were lobbying throughout November not to be made a high-risk supplier, but on the other hand you were lobbying for Government support. How can you have it both ways?

Keith Cochrane: It is the sequence and timing. Events obviously unfolded very rapidly over the last few months of Carillion's life. During November, we were still confident at that stage that we could achieve a viable restructuring without the need for explicit Government support, other than the continuing support of existing contracts and the payments against those.

One of the key challenges of the business throughout the entire period post 10 July was retaining confidence. These are asset-light businesses, and to maintain the confidence of employees, who deliver the services day in and day out, to maintain the confidence of the supply base and to maintain the confidence of future investors, continuing to win work is very important.

Chair: We appreciate that. We understand that.

- Q71 **Dame Cheryl Gillan:** Mr Cochrane, am I correct in assuming that you are still a non-executive board member of the Scotland Office?

Keith Cochrane: I have stood aside for the period of the investigations that are under way, but I was a non-executive director of the Scotland Office.



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Q72 Dame Cheryl Gillan: So it is fair to say that you are particularly familiar with the way Government operates?

Keith Cochrane: I am aware. Obviously, the Scotland Office is a Department with its own specific needs—

Q73 Dame Cheryl Gillan: I don't want to go into the Scotland Office, but you are intimately engaged with the process of Government. Did you ever have a conversation with your colleagues, saying, "Actually, the Government's never going to let us go to the wall, because we're too big to fail and we've got such major contracts, for example HS2", because you express such surprise that I feel as if you really believed that Government was going to bail you out of what was a poor situation? Would that be fair?

Keith Cochrane: No, it wouldn't be fair. Let us be very clear: we were not looking for a bail-out. It may be characterised as such, but that was not how I viewed Government support. This was a short-term loan to help us facilitate a broader restructuring.

Just to put that in context, Government represented 45% of Carillion revenue, so it was by far and away our largest customer. We were in discussions with a wide range of our financial stakeholders and our expectation was that pensions, bond holders, the banks—it made sense for everyone to contribute to securing a successful restructuring. And Government had a role to play in part of that—

Q74 Dame Cheryl Gillan: So you never had a conversation with your colleagues that said, "Government will help us out. We're too big to fail. We've got too large a slug of Government business."?

Keith Cochrane: We certainly believed that there were strong grounds for Government supporting us, because of the breadth of contracts—

Q75 Dame Cheryl Gillan: So the answer is yes, basically?

Keith Cochrane: I recognise that—

Q76 Chair: You were optimistic that something would happen. Did you ever put in writing to Government plans for them to loan you money, bail you out, provide a cash injection—whichever way you want to put it?

Keith Cochrane: Yes, we did.

Chair: You did? Thank you very much.

Q77 Ronnie Cowan: How helpful was it to you that the Government let and extended major contracts with you after the profit warning in July 2017?

Keith Cochrane: Apologies, but I am unclear as to which contracts you—are you talking about new contracts being awarded to us?

Chair: The new ones.

Ronnie Cowan: There was more than that—there was an HS2 contract worth £1.4 billion, but there were also contracts for military sites across

the United Kingdom. So you were gaining new contracts having already issued a profit warning. How helpful was that to you?

Keith Cochrane: Going back to my earlier comment, a business such as Carillion is underpinned by confidence—the confidence of the supply chain and employees. So the fact that a major customer was continuing to award us new work was certainly a sign of confidence and positivity, and it was encouraging in terms of our discussions with banks, because it demonstrated that the underlying work that this business was doing was well regarded.

Ronnie Cowan: Okay. Mr Howson?

Richard Howson: I agree with Keith's comments. It only gives confidence to employees, to other customers and to the supply chain, so it was helpful.

Ronnie Cowan: Does Ms Mercer want to add to that?

Emma Mercer: I agree. I would just add, though, that those contracts that were awarded gave us very little benefit financially, in terms of cash into the business during the time up to January.

Q78 **Ronnie Cowan:** So was it false hope, then? As you said, this was not going to solve your cash crisis, and ultimately that's what brought you down.

Richard Howson: It was more around confidence from the stakeholders that we mentioned. The other point that is worth mentioning is that certainly in the case of HS2 and the Hestia contract, which is the defence contract that you alluded to, we had been bidding those contracts for up to three years and had spent several million pounds bidding them. Now, that doesn't mean we should be awarded them, but there had been a significant effort in joint venture in both cases—on Hestia with Aramark and on HS2 with Eiffage and Kier. Over a long period of time, significant investment had been made, in order to position ourselves, should we be competitive and offer value for money, to win. And we were lucky to win. But as Emma said, it wouldn't have brought cash flows in 2017, but it certainly underpins confidence for the future.

Q79 **Ronnie Cowan:** So, Mr Green, what would the impact have been on your share price and on your negotiation with lenders if those contracts had not been awarded?

Philip Green: I don't think winning those contracts had been factored into the share price. I think you have heard from colleagues that the benefit of winning the contracts was very much around confidence. It wasn't short-term cash.

Q80 **Ronnie Cowan:** Do you not think that that contract for £1 billion was beneficial to your share price?

Philip Green: Of course it is beneficial, but the principal benefit was the confidence it gave to employees, other customers and suppliers.



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Q81 **Ronnie Cowan:** Could those contracts, in fact, be seen as a bail-out from the Government?

Philip Green: As Richard has said, those negotiations had gone on for three years.

Q82 **Ronnie Cowan:** There were other people bidding for these contracts—other businesses also put in money to bid. They did not get those contracts, but you guys did. Tie it up any way you want: were those contracts a bail-out?

Philip Green: That is not how we see it, no. Those contracts had been won over a number of years on a level playing field. That is the information we have.

Richard Howson: Here is some context in terms of High Speed 2: a 10-year contract; £1.4 billion; a three-way joint venture; say £140 million a year divided by three. It is not a significant contract to Carillion's revenue and earnings, particularly in the next three years, so it would not have moved the share price significantly, in my view. On Hestia, there are seven parts to Hestia around the UK. From memory, I think we had already won two or three. Our target was to win two, so to win another one was very good, but that was not our expectation.

Q83 **Ronnie Cowan:** You mentioned HS2. Did the Department for Transport discuss with you your financial health before letting the HS2 contract to you?

Richard Howson: As part of the bid process on High Speed 2 there were numerous financial reviews. I did not attend any—the bid team attended them with our joint venture partners. In my memory, I seem to recall that there was a financial review during the first half of 2017, but I cannot be sure. Emma, perhaps you know.

Emma Mercer: As with all joint ventures, there is always a review of the joint venture arrangements, to make sure that if one party fails at any point, the others are capable of stepping in. That is a review that we have on every single joint venture that we go through, as a matter of course, both with Government and outside Government.

Q84 **Ronnie Cowan:** Presumably, you go into a joint venture hoping that nobody is going to fail.

Emma Mercer: Of course. It is preventive.

Q85 **Ronnie Cowan:** Did the Department for Transport do its job properly to make sure that Carillion was not going to fail?

Emma Mercer: If we think about when that contract was bid and awarded, as Richard said, it was bid far in advance of the July statements.

Richard Howson: I seem to recall that there was a review sent either in Q1 or early Q2 2017. Perhaps we can come back to you on that.

Q86 **Ronnie Cowan:** Yes, but there was a profit warning in July 2017, and you



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still got the contract after that. From my perspective, I have alarm bells ringing, and I wonder why the Department for Transport did not.

Richard Howson: I was not party to the review.

- Q87 **Ronnie Cowan:** Did the Department for Transport put anything into the contract to protect it in any way, as a result of your financial health? Did it put in any more clauses or guarantees?

Emma Mercer: I can't recall whether it did afterwards, but I can recall that these contracts would be quite watertight: if one joint venture failed, the others would be able to step in. In addition to that, if one party failed, often the client would be able to terminate the contract.

- Q88 **Ronnie Cowan:** We don't seem to be getting anywhere with that one. Could you have taken legal action against the Government, had it decided to award HS2 or the electrification contracts to your rival bidders?

Richard Howson: There is always the opportunity to challenge a decision if you lose a particular bid. In my time in Carillion I do not recall us ever challenging a decision with any customer, so I think that was highly unlikely.

- Q89 **Chair:** Mr Cochrane, would you have done, in the circumstances?

Keith Cochrane: I think it would have been very unlikely. The reality is that we were winning other contracts during this time, post 10 July, so the Government were not alone in giving us work. Equally, we were losing contracts, too. By taking legal action, you probably would have made a bigger deal of it than you might have wanted, given that we were trying to work through the restructuring process at that time.

- Q90 **Ronnie Cowan:** To what extent was there any change in the approach of your customers—local Government and private companies—during this time?

Keith Cochrane: Similar to Government, there was ongoing dialogue. I met a number of our major customers from time to time. There was real sensitivity about the financial position and each customer was seeking assurances about our ability to continue to deliver on projects.

As we moved through the autumn into November to December, it was becoming more challenging in terms of work-winning. Customers—particularly construction customers—were looking for the establishment of what are called project bank accounts where the cash flows for a particular project are essentially insulated from the rest.

- Q91 **Chair:** In summary, they were being more cautious.

Keith Cochrane: Yes.

- Q92 **Ronnie Cowan:** Were they given false hope back in July when the Government were seen to be giving you more contracts? If I were a private investor, the signal to me would be that everything was okay if



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the Government are still pumping taxpayers' money into Carillion, so I have got nothing to fear. That was not the case.

Keith Cochrane: I don't believe so. Back in July—

Q93 **Ronnie Cowan:** It certainly gave people more confidence.

Keith Cochrane: It does give people confidence, but my point was that we were working and believed—truly believed—that we could work our way through these challenges and create a viable and successful Carillion.

Q94 **Chair:** So in spite of those contracts, you still had jumpy customers.

Keith Cochrane: I am saying there was naturally a degree of sensitivity on the part of customers.

Chair: Okay, we will now move to a couple of quick-fire questions from Layla Moran and Dame Cheryl, and then to Anne Marie Morris.

Q95 **Layla Moran:** Mr Cochrane, as you are probably aware, Oxfordshire County Council cancelled a 10-year contract worth £148 million five years in at the end of 2017, off the back of concerns about service delivery. How many other local government contracts did Carillion carry in total and what were they worth?

Keith Cochrane: I am sorry, I do not have those numbers to hand.

Richard Howson: I think—and again, I am working from memory—we had a local authority contract with Lancashire County Council, we had one with Stockport, one with Sunderland, one with Tameside and one with Oxfordshire. We had bid for others, which we had been unsuccessful with.

Q96 **Layla Moran:** Was this information, to your knowledge, ever passed on to Government? Did the Cabinet Office know how many other contracts you had with local government and were they managing those as well?

Keith Cochrane: One of the information requests from the Cabinet Office was for details of all our contracts with public sector bodies, so we did provide those.

Q97 **Layla Moran:** Mr Howson, how many of those other contracts were under review at the time?

Richard Howson: None to my knowledge, but I would like to add that in my quarterly meetings with the Crown representative, we would talk about local authority contracts that we were bidding for and the performance on those contracts as they were being delivered.

Chair: Thank you very much; that is very helpful.

Q98 **Dame Cheryl Gillan:** Earlier on you said, on the HS2 contract that you were awarded alongside Kier and Eiffage, that all three of you in the consortium were aware that others would pick up the problem within the consortium if one of you had a problem. Did Kier and Eiffage ask for full disclosure on your financial position? Did they do any due diligence on you at all and did you do any due diligence on Kier and Eiffage before



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entering into those arrangements?

Richard Howson: All three of us considered numerous partners before coming together as a three-way joint venture. From memory, that was in 2014/early 2015. We certainly did desktop due diligence at the time on Kier and Eiffage in terms of capability, capacity and obviously balance sheet. I don't know whether they did due diligence on Carillion; I can only assume that they did.

Q99 **Dame Cheryl Gillan:** So you entered into a contract with Government without the three of you formally having looked at your financial positions and what could go on.

Richard Howson: We looked independently at Eiffage's balance sheet and at Kier and their capability and what they would bring to the joint venture. I assume they did the same with us.

Q100 **Dame Cheryl Gillan:** We are not allowed access to the contracts because they are commercial in confidence, apparently. What arrangements did you have? Did Government ask you if you were capable of carrying out the contract if Kier or Eiffage went under and vice versa? Was that interrogation carried out by Government during the contractual process?

Richard Howson: I do not know because I did not attend any meetings.

Q101 **Dame Cheryl Gillan:** Could you find out for us and let this Committee know?

Richard Howson: I can find out, yes.

Q102 **Dame Cheryl Gillan:** The last point, very quickly: on 17 July when the contracts on HS2 were announced in the Chamber, warnings were given on the Floor of the House about the financial situation at Carillion. Were you approached at all by the Government following that statement on the Floor of the House, checking up on your financial position and where you were?

Richard Howson: I had stepped down on the 10th.

Keith Cochrane: As I said, I had met the Cabinet Office a few days prior to that to give an update on the reasons behind the write-off, but I do not recall a specific request in relation to the HS2 contract.

Q103 **Dame Cheryl Gillan:** So following that statement on the Floor of the House and the warnings that were given, the Government did not follow up with you to double-check again?

Keith Cochrane: I don't recall. As I say, we were then in a process of regular, on-going discussion with Government.

Q104 **Dame Cheryl Gillan:** When did the Department for Transport know that you were facing difficulties?

Keith Cochrane: I presume that the Department for Transport knew when everyone knew—when we made the announcement on 10 July.



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Q105 **Anne Marie Morris:** Mr Cochrane, you have already said to one of my colleagues that the Government had started talking to you about contingency planning in the event of your financial failure. When did that start?

Keith Cochrane: The Government request for information, which we understood to be associated with them starting to think about contract contingency planning, was in early October onwards.

Q106 **Anne Marie Morris:** October of which year?

Keith Cochrane: October 2017.

Q107 **Anne Marie Morris:** Your challenges go back to 2009. Then under your restructuring plan in 2010, you were going to halve your construction, which would have impacted Government contracts, and develop more in the middle east and Canada. Given that, are you not a bit surprised that they did not talk to you about contingency planning much earlier than 2017?

Keith Cochrane: Mr Howson will be able to comment on the specific discussions that he had prior to 10 July. But from my perspective, the key issue in the contingency planning at that point was not about contingency planning for failure of Carillion. Rather—this was the point I made earlier—it was about contingency planning for continuity of service around the risk of loss of people and for inability to meet our commitments on a real-time basis on health contracts, education contracts and the like.

Anne Marie Morris: Mr Howson, given that going back to 2009 and 2010 is very much your territory—

Richard Howson: I was in the Middle East at that time, but okay.

Anne Marie Morris: Right. In the days when the company was going through a challenge and putting in place its new strategy—

Q108 **Chair:** Was Mr Green there?

Richard Howson: No, Philip was not on the board at that time. I will try to answer the question. Sorry, what was the question?

Q109 **Anne Marie Morris:** We have understood that the Government got involved in the contingency planning in 2017, but I am a little bit surprised, given what happened to you in 2009 and 2010, and the new strategy, that they did not get involved earlier. Mr Cochrane has talked about the positivity of transformation, but clearly there were no guarantees that was going to happen. Therefore, surely somebody in Government should have been talking to you about potential failure.

Richard Howson: From memory, the Crown representative process started around 2010 when, after the credit crunch, the Cabinet Office asked its key suppliers to reduce costs on existing contracts—a programme that, as I understand it, is still running today—to help the country with its austerity. Out of that came engagement with formal Crown representatives, either in '10 or '11. The reduction in the revenue



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of our construction business from 2009 onwards was in response to the Government's statement at the time that they were reducing their spending on construction by 30% to 40%. Naturally, there is not going to be the work in the market that we will be able to bid and win. So we decided to be proactive and reduce the size of our construction business. We also flagged at that time with Government that there would be a resultant outflow in working capital, because construction, by its nature, enjoys negative working capital, i.e. cash in advance. That is why the debt rose from 2009 to 2014.

Q110 Anne Marie Morris: If we go then to 2017 when contingency planning started, what was the nature of what the Government said to you?

Keith Cochrane: The Government asked us for specific data on names of employees, specific contracts, arrangements for pensions and the like. They were obviously creating a database to understand the essential assets and people required to deliver on those contracts. We did not see the Government's contingency plans, so I cannot comment on those. They were not shared with us, but our understanding was that they were speaking to a number of our joint venture partners, because we heard that—

Chair: We have heard from Government about that and how they planned. If you cannot tell us more—

Keith Cochrane: What we then did, when we got to early January and we recognised the need to address the cash challenge we had identified in Q1, was to appoint PwC to focus on a more broad-based operational contingency plan arrangement. PwC were obviously supporting the Cabinet Office at that time as well, but we thought it was helpful to let them almost straddle both sides as they sought to put together a framework preparing, at that point, for a possible failure of Carillion, as a sensible precautionary move.

Q111 Anne Marie Morris: Was there any indication that the Government contingency planning was being used by your creditors not to advance further support?

Keith Cochrane: It is fair to say that there was natural tension between the banks and the Government. On the one hand, the banks were sensitive to the fact that if they advanced further funding it might just give Government more time to get their contingency planning together and then be able to take contracts off Carillion. On the other hand, Government were sensitive to the fact that if they advanced the money, the banks would not, and they would be left running Carillion in its entirety. There was a natural tension throughout the process. That was why the final solution we came up with was essentially everybody collectively taking steps through the process and having a road map of gateways to go through before the next funds were advanced, to demonstrate that we could continue to move forward and deliver on our restructuring plan.

Q112 Anne Marie Morris: How joined up do you think the Government



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response was across Departments, local authorities, the NHS and other agencies? The sense I get is that you were not involved—you have said so yourself—in understanding exactly what the Government's contingency plan was. How much comfort did you have that there was any communication between the relevant parts of Government?

Keith Cochrane: The Cabinet Office expressed their frustration to us on occasion, because obviously, with the complexity of some of the contractual relationships, the establishment of PPP entities and SPVs, there were a number of different interested bodies. Certainly, my sense was that the Cabinet Office were finding it quite challenging to try to pull that together in a cohesive overall plan, albeit we were aware that they did have various meetings with groups of NHS trusts and the like.

Q113 **Chair:** To be more precise in response to Ms Morris, you said it was quite challenging. Do you think they were over the breadth? Were they managing it, even though it was quite challenging, or were they falling short in seeing the overall picture?

Keith Cochrane: That is very difficult for me to comment on, because I did not see their contingency plans. All I knew was that they were asking—

Q114 **Chair:** No, but you could perhaps just give us a flavour of the types of questions they were asking you.

Keith Cochrane: They were asking us for lots and lots of detailed data, which we assumed and understood they were using to flesh out their contingency plans. Beyond that, I personally—

Q115 **Chair:** Before you gave them that data, do you think they had an overview?

Keith Cochrane: I am not sure the Government had a complete overview of every public sector contract that we had, if I am honest, because one of their requests to us was to provide a list of every contract.

Q116 **Stephen Morgan:** Mr Green, what is your view on the Government's response following Carillion's downfall?

Philip Green: I would echo what Keith said earlier on. Right up until the very end, we were optimistic that they would be able to play a positive role. We were deeply disappointed and, to an extent, surprised when that did not happen, particularly because—to slightly repeat what Keith has said—we passionately believed in the business plan that Keith and the management team had put together. We believed, as I think Emma has already said, that that was a business capable of making cashback profits in the medium term. Therefore, we believed that liquidation was the worst outcome for all stakeholders, including the Government. We absolutely believed that, and at the meeting on the Sunday with Mr Manzoni we said that.

Q117 **Stephen Morgan:** Mr Cochrane, what is your view?



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Keith Cochrane: I would echo that. Let me put this in context: the funding we were asking for, for those two weeks in January, was essentially £10 million from the banks and some guarantee underpinning for supply chain financing arrangements, against which we would be tested through the broader restructuring plan. I do find it somewhat perplexing when one looks at the funds that Government are now having to spend on the liquidation, on Carillion, and on the guarantee arrangements that have needed to be put in place to support the supply chain. I still truly believe that the least-cost outcome for the taxpayer would have been to support Carillion as it sought to restructure the business in that difficult time.

Q118 **Stephen Morgan:** On liquidation, do you think the Government are managing the trading liquidation well?

Keith Cochrane: Sorry, I didn't catch your question.

Stephen Morgan: It was about what the Government are doing around the trading liquidation. Do you think they are managing that well?

Keith Cochrane: I left the business on 19 January, so I cannot comment. I have no visibility of current developments within Carillion.

Q119 **Ronnie Cowan:** Very briefly, you have talked about £10 million from the bank and £10 million more from the taxpayer. Bearing that in mind, do you regret paying out, in 2017, £4 million in executive bonuses?

Philip Green: We have said publicly that there are a number of decisions that, with hindsight, we may have taken differently.

Q120 **Ronnie Cowan:** Is that one of them? A bonus is a bonus; why are you paying a bonus in a company that is going to the wall?

Philip Green: I think that at the last Select Committee, Mrs Horner said that. She said, "With hindsight, we may well have taken a different decision."

Q121 **Dr Huq:** I want to ask about the Government's capability to deal with the crisis, because I am on PACAC. We have looked a lot at the civil service: how it has shrunk since 2010 and, if it is smaller and smaller, just how well equipped it is to manage these contracts that are bigger and bigger, or these overstretched public services.

First for Philip Green and Richard Howson, in the period up to July 2017 when that first profit warning was made—I want to ask this is three time shifts—how well equipped do you think the Government were in terms of capability to deal with this crisis at that moment?

Philip Green: Let me say one thing, and then Richard is far closer to the detail. Until the discussions with the Cabinet Office post July, the Government was not a homogenous entity. In aggregate, it was our largest customer but actually it is a series of separate customers. Whether it is Network Rail, the Ministry of Defence, hospitals, prisons—these are all separate customers with separate relationships. I was personally involved in visits to many of them, and I saw high quality services being delivered

and very good relations: Northwood, for example; I visited the military on Salisbury Plain; I visited two hospitals.

There were very good relationships where contracts were being successfully delivered. There were service issues on some contracts, absolutely there were. Richard and his team were focused on fixing those, but from my perspective, before it got consolidated under the Cabinet Office during the more challenging period in the second half of the year, the relationship was very much bilateral with individual Government Departments.

Richard Howson: Certainly, in the meetings I had with the Crown representative, I communicated openly the challenges we had on any Government contracts individually. Keith talked about the claim on the NOMS contract—

Q122 **Chair:** Just to be clear, the question was about the capability. You have already touched on that a bit, so you can probably give quite a short answer.

Richard Howson: I was just giving some context. We were very open: you knew the problems we had, contract by contract, the money that we believed we were owed by Government. The Cabinet Office cannot go to the Ministry of Justice, the Ministry of Defence, an NHS trust, a local authority and say, "Right, we are going to have a workshop for two days and work out whether or not Carillion really is owed £30 million." That doesn't happen because you have to work with your customer, which is your Department, to leverage that, and that takes a long time. The Cabinet Office has an overview: it understands that we have a problem on prisons; we think we are owed some money from the Ministry of Defence; we've got a claim on this; we've got a claim on that. It sees the picture—

Q123 **Chair:** Ms Huq was asking about Government; that could be individual Departments. Ms Huq, do you want to follow up?

Richard Howson: No, that is Cabinet Office—

Chair: No, sorry, it is the Government. Every Government Department is part of Government. Perhaps Ms Huq could probe a bit more.

Q124 **Dr Huq:** Before that first profit warning, and then after July 2017, and the period when increased monitoring kicked in, was there any heightened vigilance? Following increased monitoring, did any capability issues and how ready the Government were to deal with them change? What about after 31 December, when you made the request for financial support?

Chair: Who would you like to address that to, Ms Huq?

Dr Huq: I think all three.

Keith Cochrane: Why don't I take that? As I mentioned earlier, there was clearly a heightened degree of engagement with the Cabinet Office. My principal relationship was with the Cabinet Office, and other members of the management team dealt with individual Departments. As Mr Green has



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indicated, there were some very good working relationships with Departments, and a good level of engagement, typically with more mature contracts that had been operating for a number of years. With some of the more recently awarded contracts, it was clear that learning was still happening on both sides—the prisons contract is a good example of that, given the outstanding claims that we believed we were entitled to.

In terms of the Cabinet Office and its capability, there were some capable individuals in the Cabinet Office, but I think they were stretched quite thinly. The challenge for them regarding some of the correspondences was that they were responding to specific issues—perhaps points raised by Ministers, or by others; I am obviously not aware of that. It meant at that level that there was quite a transactional relationship, if I can describe it as such, in the sense that people were dealing with specific issues. My broader discussions with John Manzoni and Gareth Rhys Williams were, let us say, more strategic in terms of trying to paint the bigger picture.

Q125 Chair: Perhaps we could summarise it. Ms Huq's line of questioning is: were they a good customer? Were there things they could have done that would have been sharper and better at holding you to account?

Keith Cochrane: From my perspective, they sought to be a supportive customer as we worked our way through this challenging period. I really speak from a Cabinet Office perspective because that was my direct exposure to Government, as distinct from individual Departments. They increasingly became a more demanding customer in their information requests. Sometimes we were not always able to satisfy the information request, which created frustrations on both sides, but it reflected the reality of the level of detail they were looking for, or the many different challenges that we as a business were trying to deal with at that particular time. As I have said, they sought to support us in Qatar. We on the other hand enabled them to meet our pension advisers, and with banks and financial advisers.

Q126 Dr Huq: Local government is even more overstretched in some ways. Were they keeping tabs on you? How would that apply to local government contracts? You have one with my own borough.

Keith Cochrane: I didn't have any specific dialogue with any local authorities during that time.

Richard Howson: I didn't have any meetings with local authority chief executives in 2017, from memory. I did generally meet them each year, but it just happens that I didn't in the first half of 2017.

Q127 Dr Huq: There is a suspicion—perhaps this is raking over old stuff again—that the relationship between yourselves and Government looked a bit too close at times. You talked about things in hindsight. With hindsight, Philip Green, should your political views have been so closely identified, and would you do that again?

Philip Green: No. The exchanges that I had with individual Departments, whether that was very senior people at Network Rail or in the MOD—I



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would not say they were cosy. I think that for that period of time it was a good relationship for those individual Departments, and for Carillion.

Q128 Chair: Mr Green, have those relationships improved? As Ms Huq highlighted, both Committees have looked a lot at the capability of the civil service and its commercial skills. Have you seen a distinct change? Where did the Government fall short, particularly in the critical period over the last year or so?

Philip Green: From our perspective, the only area where they fell short was right at the end.

Chair: When they did not give you the money you wanted.

Philip Green: When we were surprised and disappointed with the result.

Chair: A last question from Dr Huq, then I will bring in Mr Martin.

Q129 Dr Huq: Shall we move on to the business model?

Chair: It is your last question, so ask whatever you want.

Dr Huq: There can be a suspicion, if there is too much closeness, that that is affecting the procurement process—that it is a preferred customer.

Philip Green: I didn't see that at all.

Q130 Dr Huq: On the business model—again, this relates to my local authority to some extent—was it sustainable compared with your peers and competitors, especially because you were exposed to fluctuations in construction and outsourcing risks? There is a sense of this very unwieldy thing that undercut people with unsustainable bids.

Philip Green: I am happy to answer that, but Keith will add to it. We certainly believed that the business plan we presented in January, based on a combination of construction and outsourcing, was sustainable. It was a low margin business, but there are plenty of industries that are sustainable on low margins.

Chair: You gave some of that evidence about the margins to the other Committee.

Philip Green: We absolutely believed that the business model was sustainable. It needed changing—Keith did a strategic review and a reorganisation, and he brought in some new people. There were things that needed to change to improve the probability of sustainability, but we believed the business plan was sustainable, yes.

Chair: A quick question from Sandy Martin, then I will go to Bernard Jenkin.

Q131 Sandy Martin: Mr Cochrane, one of the demanding questions that the Government started asking you was about which contracts they actually had with Carillion. Mr Green, you said that the Government are a series of separate customers. Mr Howson suggested that the Cabinet Office



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could not possibly look at all those contracts. It sounds to me as if you were not getting a joined-up message. If one part of your company had a problem with a customer, would you expect it not to speak to any other part of the company? Could you not have had a more joined-up approach with the Government to the sustainability of Carillion if the Government had been more joined up?

Philip Green: From my perspective, it was joined—the role of the Crown representative and the Cabinet Office is to bring it all together. As you heard from Richard, he had regular meetings with the Crown agent where the totality of the relationship was discussed and reviewed. You have heard from Keith about how that intensified post July. My only point in saying that it was not a homogeneous relationship is that within the Government, you had a series of different relationships, different contracts, different service requirements and different behaviours. If you are dealing with Network Rail, it is a very different situation to if you are dealing with the Ministry of Defence—that was my point.

Q132 **Sandy Martin:** My apologies, but I thought I heard Mr Howson say that he could not expect the Cabinet Office to know what all the different contracts were.

Richard Howson: No, I didn't say that. The budget holders are the Departments. In terms of the commercial relationship, if we believe that we are owed £1 million by Network Rail, my perception was that it was difficult for the Cabinet Office to facilitate the conversation that determined whether we were owed £1 million or half a million pounds or nothing. Stepping over that line to facilitate the resolution of claims, as Keith calls them, is not something that I experienced from the Cabinet Office. I very much saw my engagement, and our engagement, with the Cabinet Office—because they also engaged with the managing director of our defence business and the managing director of our construction business to look at the challenges we had with Government Departments—as a way for them to take the overview of all the contracts, opportunities and challenges that we have, in order to resolve them and monitor them in the round. That is the way that I approached it.

Q133 **Mr Jenkin:** How much do you think the Government understood that your business model was dependent on them accepting back a substantial amount of risk, which they thought they had transferred to you in their contracts?

Keith Cochrane: Perhaps if I could respond to that: as I said earlier, our specific ask of Government was in the final few weeks. Prior to that, there was no specific ask of Government.

Q134 **Mr Jenkin:** Yes, but you had accumulated all these risks on your balance sheet over a period of years.

Keith Cochrane: Yes, and indeed the company was working, managing and dealing with those risks as part of our restructuring.

Q135 **Mr Jenkin:** Looking at the sector as a whole, what sort of signal would it send to the rest of the sector if the Government afforded financial



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assistance of the kind you were hoping for to your business? What would the rest of the sector have concluded about how much risk they can carry on their balance sheet?

Keith Cochrane: That is a fair question, and indeed a question that the Government asked me specifically. Let's look at the specific circumstances in which Carillion found itself: the shareholders had essentially lost out, the banks had lost out because there was going to be a debt to equity recapitalisation, and the management team had lost out because there was a new management team running the business. The beneficiaries of any restructuring were actually the customers, the employees, the suppliers and the pensioners. They were the individuals. From an industry perspective, therefore, this was a very unique circumstance because it was not about bailing out shareholders or banks. It was about being part of a collective solution to ensure that Carillion was able to withstand it successfully.

Q136 **Mr Jenkin:** But your understanding of what the Government might do was obviously different from what the Government did. We have established that. I put it to you that it would have been the thin end of a very thick wedge indeed if the Government had given in to your demands.

Keith Cochrane: I don't agree with you, because the specifics of our proposition were that first, it was a very short-term support request, and secondly for any of our longer-term asks we were proposing to give Government value for those asks.

Q137 **Mr Jenkin:** When the profit warning was issued, Mr Howson departed. What was his departure meant to achieve, Mr Green?

Philip Green: A successful restructuring.

Q138 **Mr Jenkin:** What had Mr Howson done wrong in your view over his period as chief executive?

Philip Green: For the vast majority of his tenure, the board and indeed the shareholders had great confidence in him. In the month or two prior to his departure that confidence waned, and in very early July the board concluded that a change of leadership was in the company's best interests.

Q139 **Mr Jenkin:** What ongoing relationship did Mr Howson have with the company?

Philip Green: He remained as an executive for a few months post July to assist Keith specifically in the Middle East.

Q140 **Mr Jenkin:** So what did it achieve? You may have appeased the shareholders for a few months, but was the business better run as a result of Mr Howson going?

Philip Green: I believe that in terms of the strategic review that Keith did, in terms of the management restructuring that he did and in terms of some of the personnel changes that he did, Keith's actions in the post-July period absolutely increased the possibility of a successful restructuring.



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Q141 Mr Jenkin: So you were still taking on very low-margin construction contracts because that is what everybody in the sector does in order to try to generate cash, because construction contracts are cash-positive. Why did you stop the trading of PFI contracts? You generated most of your profits on PFI contracts from trading elements of those contracts. Why did that stop at that time?

Philip Green: You are correct. One of the recommendations from Keith was particularly to move away from fixed-price PFI contracts.

Keith Cochrane: We looked at where some of our particular issues had arisen. We were having to take substantial loss provisions in connection with construction contracts associated with PPP projects. In essence, that is because they were fixed-price contracts, and there was not the flex in the system to accommodate issues such as changes in design or issues that Carillion incurred. We sought, therefore, as a model to move away towards a two-stage procurement process, through which we were able to ensure that we had the design and the costings locked down before we committed to the contractual terms.

Q142 Mr Jenkin: So when you were doing this restructuring, what was going to be substantially different as a result of Mr Howson's departure?

Keith Cochrane: What I did as part of the restructuring was to reshape the management team, as Mr Green did. So we stripped out two divisions; we improved the line of sight of accountability for individual managers, right up to the top. I was targeting a £75 million cost reduction in the overhead of the business, because I believed there was excessive overhead and complexity as a result of that. It was very much a message of seeking to simplify the business and make it—for all that it would continue to focus on infrastructure and construction, because we did see some overlap and value in having those different skill sets across the group—a more straightforward and simpler business, with less complexity internally across the different divisions.

Q143 Mr Jenkin: How did that reassure the Government?

Keith Cochrane: We explained to the Government the process. From a Government point of view, it was going to improve line-of-sight visibility for the Government in relation to specific contracts. I do not recall any specific issues, concerns or comments being raised by the Government in terms of the reorganisation and the new business model that we were proposing; I think they very much accepted that that is what we were going to do.

Q144 Layla Moran: I want to dive into your company's motivations for how you bid for contracts. Mr Howson, were you putting in bids for work that did not fully cover the costs but also your overheads?

Richard Howson: Are you talking about construction or outsourcing?

Q145 Layla Moran: You have covered construction, so let us perhaps focus on the other side of the business.



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Richard Howson: Perhaps I could add some context before I answer the question. With outsourcing, since the credit crunch, the Government have sought to reduce their costs, as have local authorities, by bundling services and offering large outsourcing deals to the market, with the ambition of reducing costs by between 10% and 30%. There are examples where costs have been reduced by bundling, creating economies of scale and reducing costs by 30%, delivered by companies like Carillion. Those contracts are procured through the Crown commercial framework. There are a small number of providers on that framework. That number of providers reduced when Serco and Group 4S in 2013 were suspended from bidding for Government contracts—so it was a reduced competitive structure. The market for support services is competitive, even though there is a limited number of bidders. It is high risk, because the risk of maintaining assets and providing services is transferred to the private sector. And it is low margin. Low margin in services is slightly higher than construction, so it is typically 4% to maybe 5.5% at bid. As you improve your productivity through the life of the contract—5 years—we can get that margin up to 5% or maybe 6%, but then you re-bid and start again at a lower level to win. So that is the model.

The challenge that we have, and have had, on the large outsourcing schemes has been the accuracy of the asset registers. So there are examples on schemes from central Government Departments where the asset register is over 50% inaccurate, which means immediately that we are having to invest in additional resources and spend more money to maintain the estate than we bid. In terms of the length of time to administer and resolve what Keith referred to as “claims”—I don’t call them claims, because if there are two lifts in a building, we have priced to maintain one and when we arrive there are two, it is quite simple: you cannot maintain two for the price of one—the administration of that is very untimely, and certainly hurt Carillion in the last two years.

Q146 **Layla Moran:** If I may, is that not your problem? Should you not have done the due diligence before you took the contracts on?

Richard Howson: No, because the Government Departments give the bidders—Carillion, Interserve, Mitie or whoever—a list of assets, the condition of the assets and the frequency with which you want the assets to be maintained. That is your specification. We can’t walk around 58 prisons to work out whether there really are 1,500 wash hand basins or 10 lifts, as opposed to 20 lifts, because you can’t get access to the estate.

Q147 **Layla Moran:** When did you first notice that the Government was under-representing what the assets were?

Richard Howson: It has been a debate for three or four years with our Crown rep. It is a challenge with first-generation outsourcing. With first-generation outsourcing, part of our role and responsibility, as long as we were properly remunerated for it, was to ensure that when the contract is rebid in five years’ time, the asset register is more accurate and the condition of the assets is better understood so the Government outsourcing is much more effective. That is the spirit in which I and my



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colleagues entered into what we thought was a partnering relationship on the support service contracts. We didn't underbid them; we bid them at market levels. We won them in tough competitions, but it was the accuracy and the understanding of the estate that ultimately gave us problems and challenges with Government support service contracts.

Q148 Layla Moran: I see. Over time, when you were bidding, given what was going on in the company itself, was your bidding process getting more aggressive?

Richard Howson: No. If anything, it became less aggressive. We learned some hard lessons. We made some mistakes in bidding for some support service contracts in 2013-14, and we agreed to exit a couple of those contracts at a loss. Some lessons we learned will stay with me for the rest of my time. I actually think we became more conservative in our bidding, and I think that is demonstrated by the outsourcing contracts we lost in 2017—the Department for Work and Pensions, the Department for Transport, etc.—because we took a more cautious approach, based on what we learned from other contracts.

Q149 Mr Jenkin: It is striking that there seems to be a system of bidding for and letting contracts in which neither the letting authority nor the bidder really has any idea of what you are bidding for. Neither has a proper asset register or a proper assessment of the risk, so the letting authority finishes up letting a contract in which they think they have passed off the risk to you, but you don't think you have taken on much risk, because you are going to go back to the Government and say, "Hang on. There are thousands more assets than you told us about when you let the contract." Isn't this a mad system?

Richard Howson: I have a degree of empathy for Government Departments. If you think about the way those services have been delivered in the past 10 or 20 years, it is a mixture of people employed by the Government providing or maintaining the services and hundreds of companies, probably in the local area, that provide the services.

Mr Jenkin: Okay, I accept all that—

Richard Howson: The ability to properly understand the assets is very fragmented. I think that is the reason why asset registers are inaccurate. The opportunity for the Government and the private sector in bundling the services is that, at the end of it, you have an accurate asset register.

Q150 Mr Jenkin: Who carries the risk of managing those assets after the contract has been let, in your view?

Richard Howson: In my view, if the Government Department has given the provider an inaccurate asset register, the risk should be with the Government.

Q151 Layla Moran: Am I to understand, therefore, that your strategy, despite knowing for some time that the asset registers may not be perfect, was to bid anyway and hope that when you rebid you would be able to make up the loss?



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Richard Howson: No, that isn't what I said. During a support services contract, you true up the asset register. I would take you to this room and say, "Look, there are two doors. The asset register says there is one, so the maintenance of the additional door is an additional cost." There is a truing up of the register. There are examples with some Departments of where the truing up of the assets in the estate leads to an increase in price of £10 million, £20 million or £30 million per annum, but it is what it is, because there are either two doors or one door. When the contract is rebid after five years, I believe the Government Department therefore has far greater confidence that the asset register that has been priced by the private sector is almost 100% accurate, so there aren't going to be the swings in cost that have been experienced in first-generation outsourcing.

Q152 **Layla Moran:** Were there any contracts where you rebid and you weren't successful?

Richard Howson: Yes.

Q153 **Layla Moran:** Can you give an example?

Richard Howson: We didn't re-win Barts. Serco won Barts in August 2016.

Q154 **Layla Moran:** Was that disappointing?

Richard Howson: I was disappointed, yes, because we had run Barts for seven years. It was difficult at the start, but we started to make money in 2014. Philip and I visited a couple of times because it was a loss-making contract for a period.

Q155 **Chair:** Some of that was a brand-new estate, so the asset register should have reflected that.

Richard Howson: Yes, but when we started delivering services to Barts, it was a mixture of the old estate and the new estate. It was easier when it became a new estate.

Chair: Okay. We won't go down the rabbit hole of one hospital.

Q156 **Layla Moran:** Can I come to another: the MOD service family accommodation contract? I am sure you are well aware that the Committee looked into it in June 2016. The Department agreed a contract for £626 million and it saved £192 million in comparison with the previous contract. Mr Green, is that not just too good to be true? Do you think you were perhaps underbidding just to make sure that the Government would award you that contract?

Philip Green: Again, I wasn't involved in the detail of that contract.

Q157 **Layla Moran:** You weren't involved. Mr Howson, were you involved?

Richard Howson: The NGEC contract, which is the one you are referring to, was a second-generation outsourcing, so it had been let as a prime contract to three or four providers.

Chair: We have done a lot of history of the contract, so perhaps we could

cut to the chase on that.

Mr Jenkin: Does Mr Green feel he should have been more involved?

Chair: Can we have one at a time? We will let Mr Howson answer the question and then we can move on.

Richard Howson: The prime contract was a target cost contract, and we beat the target cost each year for the last three years of that prime contract, so we had confidence that we could deliver the NGEC contract at between 20% and 30% less than the target costs that were communicated to the bidders in the bid documentation, because we had run that contract for nine years. We also took a view that we could run multiple NGEC contracts—I think there were five regions—with one set of overhead, so we took that approach in our bid and we won, and we made that saving for the Government.

Q158 **Layla Moran:** In that inquiry, CarillionAmey acknowledged at the time that it was not organised to deliver the correct level of service from the beginning. I put it to you that you are sugar-coating a little what happened here.

Richard Howson: No, there were two issues on the NGEC. First, in the south-east, the asset register was inaccurate, which caused us challenges in understanding what we were having to maintain for a period of time. That took probably 12 months to resolve. The second issue was very much a CarillionAmey issue. We had planned to deploy our engineers through a new handheld computer system that gave jobs dynamically to engineers, to improve our productivity. We invested many millions of pounds in that. It should have been up and running by March 2015, when we were awarded the contracts. It didn't start working until March 2016, which meant that we worked on a paper-based system, our productivity was poor and we missed our performance targets for 12 months.

Q159 **Layla Moran:** Mr Green, given what Mr Howson has just said and the nature and size of all of these contracts, do you wish you had been more involved in some of these contracts?

Philip Green: The board was very involved at the right level, in my judgment. There was a board committee that oversaw the bidding of contracts, with two executive directors on that board. Every quarter, the board got an update report on major contracts. It reflected management judgments, but it was a detailed report on contracts. The board had the actions coming from the board committee that was looking at bidding. Every board meeting—we had about 10 board meetings a year—the chief executive gave us more of a qualitative update on the major individual contracts. All board members, except me, sat on the audit committee. I attended the audit committee but, as chairman, could not be a member. Clearly, at the audit committee we looked at exposures on major contracts. All board members did regular and frequent site visits to see some of the contracts. So there was a lot of board engagement on contracts. What there was not, by non-executives, was the operational management of the contracts—



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Q160 Layla Moran: How much was the board focusing on the end user? After all, these are public sector services. These are real people at the end of these contracts. We have had lots of evidence to show that there were a number of contracts that weren't delivered properly. How much time did the board spend thinking about the people?

Philip Green: I would just push back on there being lots of contracts that were not delivered properly. Many hundreds of contracts were delivered very well.

Layla Moran: Yes, but lots weren't.

Philip Green: There were some.

Chair: Take the CarillionAmey ones, for instance.

Philip Green: There were some, but if you take the military homes contract that you asked about, the board was very involved. Richard gave regular updates, he told the board what the issues were and what he would do about them, and he gave us updates on progress on that plan. He gave us accounts of his meetings with the Secretary of State and so on, in terms of following through on that. He kept us well up to date.

Q161 Layla Moran: In your assessment as the chair, do you feel that Carillion acted responsibly as a company throughout?

Philip Green: I do believe that. As I have said several times, of course, with hindsight, there are some decisions that we would take differently, but I absolutely believe that all the decisions were taken responsibly at the time, and that we believed they were the right decisions at the time.

Q162 Layla Moran: You were an adviser to David Cameron on corporate social responsibility. We have heard about the under-delivery of contracts, the treatment of smaller suppliers, which I am sure we will come to in a moment, and accusations of aggressive accounting. Do you not see any irony in having held that position before and being here in front of these Committees today?

Philip Green: I repeat: I believe that Carillion behaved very responsibly. Are there some things that we wish we had done differently? Of course there are. Are there some decisions that we wish we had taken differently? Of course there are. However, even the four contracts that went badly wrong were not predestined to go wrong. They went wrong for a range of different reasons, but they weren't underbid or predetermined to go wrong.

Q163 Layla Moran: There would have been a decision at some point to—"cook the books" is possibly strong—look at your accounting procedures in such a way that would make the company look more favourable. Can you not see how that would diminish the view of the company in the wider market?

Philip Green: I totally reject that sort of language. We had properly audited accounts. We had two firms advising us on both auditing and internal auditing. To the best of my knowledge, all of our accounting



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judgments were taken within accepted bands. We were complimented by third-party advisers on the quality of our internal controls.

Q164 Chair: We hear that. Ms Mercer, when you appeared before the previous Committee, you talked about a more aggressive style of accounting when you came back, and you were featured in today's media. Were you content, at every stage, with the way the bidding process went through? Mr Howson described the challenge of the register of assets and so on. Does that accord with your experience? Did you give any advice about making sure that the company was bidding at the right level in order to deliver a service to the very members of the public that Ms Moran has highlighted?

Emma Mercer: To be honest—I do not want to be unhelpful to the Committees—I did not sit on our major projects committee, which is the committee that looks at tenders. Being outside the UK, I was actively involved in the Canada bids, but not really with the UK ones leading up to earlier this year. We actually worked on very few material bids post my appointment.

Q165 Chair: So most of them were already worked up by the time you came?

Emma Mercer: That's right. I am not being unhelpful, but it is difficult for me to comment.

Chair: No, but because you are the finance person, I just thought it would be worth asking. Ronnie Cowan is going to ask a very quick, short question, and then I will move to Sandy Martin.

Q166 Ronnie Cowan: I am fascinated by the fact that you are telling me that if Carillion takes on a contract to look after 250 military houses, you don't go there and check to see what it is you are actually looking after. You believed the fixed asset register that was given to you, and there was no audit to make sure that that matched up with the contract?

Richard Howson: One of the prime contracts that we had held for seven or eight years before the next generation estates contract was the military housing contract. There were 48,000 houses, so we understood the condition of the houses very well. Of course, the condition changes because people move in and out, it is an aged estate and there was a backlog of maintenance. That maintenance is undertaken as and when funds are available. The bid for housing was therefore well understood.

The challenge we had with the housing contract really centred on the system issue, which was a Carillion issue, which I mentioned earlier. It meant that we weren't able to get the information to our engineers in that six-month to 12-month period in a timely manner, and there were jobs that took longer to do than they should have done. We apologised for that, and I apologise now for that; it isn't right and it wasn't right.

The Secretary of State met with me a number of times and challenged me very hard to get it fixed within three months, and we did that. Since that period, the dashboard—a very complicated dashboard of measures against the housing estate—has been continuously green, which means it has



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been at over 95% compliance against targets. Yes, we had a problem. We apologised. It was wrong, what we did. We didn't achieve, but it has been right since.

Q167 Sandy Martin: To what extent do you believe that Government officials are solely driven by a need for lowest cost when evaluating your bids and managing your contracts?

Richard Howson: Certainly since the credit crunch, on most bids price is the key component. That isn't margin. Don't confuse price with the contractor's margin. There is a margin in the market that you will win or you won't win. If we put a bid in with a 20% margin in construction or sports services, we just would not win. So there is a market level. There is a judgment around that. But it is about the efficiency with which you deliver the service.

Q168 Sandy Martin: Indeed, but I am trying to get at the behaviour of the Government, rather than your behaviour. When putting in bids, did you get the impression that the customer, the Government customer, understood what it was that they were actually bidding and how much it should cost?

Richard Howson: Yes. A very simple example: if you let a contract to me to clean the windows every week, a simple way of saving money in the future is for me to clean the windows every month. Part of the programme that was initiated in 2010 to reduce cost following the credit crunch was to revisit contracts proactively with providers like Carillion and agree those adjustments to scope and then pass the cost saving back through to Government.

In rebids of contracts, we saw the specification reducing, so on some contracts you had a time of 48 hours to change a boiler if it failed. In the next iteration of the contract it was five days, but at a reduced cost.

Q169 Sandy Martin: Mr Howson, in order to rebid the scope, they have to understand what the implications for the scope are. Did the Government question any of your bids on the basis that they were too low and would not be able to deliver adequate quality?

Richard Howson: There was a review of—from memory—two or three of the regions that we bid in NGEN because, as you alluded to earlier, our price, as I understand it, made a considerable saving against the old prime contract price.

Q170 Chair: So they questioned that as possibly too low, just to be clear.

Richard Howson: Yes. Because our price was lower than the old prime contract, there were two or three reviews.

Q171 Chair: But it was still awarded anyway.

Richard Howson: Yes, because we were confident in our bid.

Q172 Sandy Martin: Did you win any recent Government contracts where you were not the lowest bidder?

Richard Howson: Not to my knowledge.

Q173 **Sandy Martin:** Did you have an open book arrangement with your public sector customers, so that people could actually see what was going on?

Richard Howson: Certainly when there was excessive change, as I alluded to earlier with the accuracy of asset registers. I think that is a point that one of our competitors, Serco, raised last week about open book arrangements. When there is change it is very important that people get round the table, they look at the change and they decide whether it is a change, it is instructed, and cash flows. As a provider with a low-margin, high-risk business like Carillion, you cannot wait two years for the cash to flow while you maintain something and somebody decides whether they want to pay you or not.

Q174 **Sandy Martin:** On which of your Government contracts have you had, as a result of not getting the returns to them that you were expecting, to put in additional money—writedowns—from other parts of your business?

Richard Howson: If I say maintaining that lift costs £100 for each visit, but actually it costs me £200, and I have made that mistake, I have to stand by that mistake. We accept that and we understand it. If there are two lifts in the building rather than one—you have told me there is one and there are actually two—then that is not our mistake and we expect to be paid for it. It is as simple as that.

Q175 **Sandy Martin:** Do you believe that if there was more expertise in the delivery of services in the civil service, they would be able to offer you a contract that more accurately reflected the service that you were being asked to provide?

Richard Howson: I don't think, in my personal opinion, that the civil service needs to add expertise. I think it needs to work with the Departments more collaboratively with suppliers, because it is in the interest of the providers who provide that expertise to have that accuracy for their certainty of cash flow.

Q176 **Kelvin Hopkins:** A question for each of you. How willing will other firms be to take over your contracts?

Chair: Mr Cochrane, perhaps we could start with you, although obviously you have stepped aside now.

Keith Cochrane: If one looks at it from the perspective that the vast majority of Carillion's contracts were profitable, and indeed a number of offers were made to me to buy parts of the business—as you can imagine, during the period post 10 July, we were potentially attractive to other companies—I think the answer has to be yes. For the vast bulk of the contracts, there would be a ready range of buyers or individuals. Of course, one of the challenges of the liquidation scenario is that many of these contracts either had step-in rights, so that effectively another party could just step in, or the ability to negotiate and leverage best price through selling out that contract where it disappeared.



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Q177 Kelvin Hopkins: Are your joint venture partners strong enough to take on the additional burdens? We have seen that Capita has had some difficulties in the last year, of course—a profit warning, and so on. Are they strong enough to take on these contracts?

Keith Cochrane: Again, I go back to my point that to the extent that these are profitable cash-back contracts, in theory our peers should be able to do so. I think the interesting dynamic—this is the broader question, and I do not think it is entirely clear yet what the longer-term ramifications of Carillion's demise will be—is about the signal. We talked earlier about the signal that Government supporting us would have given us, but actually there is a signal that Government, as a customer, has given us by not supporting us. Does that mean that Government as a customer will not support continuity of service when you get yourselves into difficulties? What does that mean for banks and other financial undertakings and their willingness to support the sector going forward? I think there are some broader questions, and only time will tell how they play out.

Q178 Kelvin Hopkins: What about PFIs? What will happen to PFIs currently under construction?

Keith Cochrane: One of the real concerns we had as a consequence of liquidation was essentially that our two big PFI projects—the two hospitals in Liverpool and Birmingham—were already delayed, and those delays would be extended. The big challenge of getting another contractor in to finish the job is that they are not going to stand behind Carillion's work; they are not going to support the warranties, and almost inevitably they will ask for more money to finish the job, given that they are picking up a half-complete job.

Q179 Kelvin Hopkins: Will the situation be complicated by existing disputes about poor performance? You mentioned the successful contracts, but quite a lot of them are not performing well.

Keith Cochrane: As I say, a small proportion of contracts were loss-making, either on the construction side of the business or in support services. This goes back to our dialogue with Government and the Cabinet Office towards the back end of 2017: there was a recognition that if those loss-making contracts were handed back to Government, additional funds would inevitably be required to secure a new home for them going forward.

Q180 Kelvin Hopkins: For the security of the contracts, for the service users, for employees and for the public purse, would it not be sensible for quite a high proportion of these contracts simply to be handed back to the public sector in one way or another?

Keith Cochrane: No, I don't believe so. To get back to my point, the vast bulk of project contracts were profitable and were working well. Yes, there can be specific issues—I think Mr Howson has commented on that—but equally there are some very good examples of outsourcing working very effectively, both for Government and for the supplier.



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Chair: I am aware of time. I want to alert Members and witnesses that we could do with short, sharp questions and short, sharp answers. We will interrupt people if it is going on a bit too long. Dame Cheryl Gillan will set an example.

Q181 **Dame Cheryl Gillan:** I have some short questions that follow on from that point. In your opinion, can Kier and Eiffage deliver on the HS2 contract that you were party to, within the financial envelope? Will they be coming back to Government for more money?

Keith Cochrane: I can't comment on the specific circumstances—I am sorry.

Dame Cheryl Gillan: What is your opinion?

Keith Cochrane: My belief is that they are both well established, capable organisations, so I would anticipate so, but I really have no basis for saying anything—

Q182 **Dame Cheryl Gillan:** May I ask each of you—not Mr Cochrane, but each of the other three witnesses—when did each of you realise that Carillion was a failing business?

Philip Green: Right up until the middle of January, we believed—

Dame Cheryl Gillan: So in your case January 2018?

Philip Green: January this year, yes. We believed there was a reasonable prospect for a successful outcome of the restructuring.

Emma Mercer: I support what Philip has just said; notwithstanding that, there are always lessons to be learned and things you could do differently, and we were in an active process of evaluating some of those lessons learned throughout '17 as management teams changed.

Q183 **Dame Cheryl Gillan:** But I understood that—if you were reported correctly—you said it was evident that the company was in financial difficulty by mid-2016?

Philip Green: Sorry—I said that during 2016 we were increasingly aware that our level of debt was too high. Absolutely, I said that—

Q184 **Dame Cheryl Gillan:** But I'm asking Ms Mercer—sorry. You were reported as saying—?

Emma Mercer: I was reported as saying—

Q185 **Dame Cheryl Gillan:** Did you think that the company was failing then?

Emma Mercer: No, because it's a different—what I was reporting during the early part of '17 was that I didn't think we were internally reporting the performance of contracts as well as we could, not necessarily that we were failing or were in the financial difficulty we are.

Q186 **Dame Cheryl Gillan:** So you hadn't made that assessment at that stage?



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Emma Mercer: I had not. And as I said, throughout 2017 the debt levels were high and we needed to restructure, but I was confident that we could achieve that.

Q187 **Dame Cheryl Gillan:** Mr Howson, when did you realise it was a failing business?

Richard Howson: We had a strategy to—

Dame Cheryl Gillan: When did you realise? I just want a—

Richard Howson: We had a strategy to reduce the debt and we were working that strategy in order to avoid failure—

Dame Cheryl Gillan: What date?

Richard Howson: So I didn't know it was going to fail—

Q188 **Dame Cheryl Gillan:** You never knew it was going to fail?

Richard Howson: I didn't think it was going to fail, no.

Q189 **Dame Cheryl Gillan:** May I just say that in the evidence to the Business, Energy and Industrial Strategy Committee and to the Work and Pensions Committee it was said that some investors were withdrawing money from 2015. Did any of you see that as a sign of things to come?

Richard Howson: Shareholders reduced some big holdings in '14 and '15—plus or minus 10%, which is quite unusual. But some shareholders communicated that they were uncomfortable with the level of debt, the level of receivables and the pension deficit, which was the reason for the shortfall. And as Philip said earlier, we initiated a process of reducing debt through cost reduction, disposals, etc. through '16, and in '17 we stepped that up with the proposal of a rights issue or a recapitalisation.

Q190 **Dame Cheryl Gillan:** May I just finally ask how much you borrowed on the Schuldchein market? I hope I'm pronouncing that correctly; Ms Mercer will probably know. It was reported—I think by Schroders—that it was €400 million and then you took out €112 million in January 2017. Is that accurate?

Emma Mercer: It is about €100 million, but I would need to confirm the precise number, because—

Q191 **Dame Cheryl Gillan:** Can you let us know? And what was the purpose of going to that market for your borrowing?

Emma Mercer: It was before I was back in the UK, so again—I'm not being helpful—

Q192 **Dame Cheryl Gillan:** Mr Howson, we know, would be able to answer that, because I understand that this particular type of borrowing means that you don't have to produce an audited prospectus, or it doesn't affect your credit rating. Was this an attempt to conceal your level of indebtedness?



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Richard Howson: No. From memory, there were two facilities which matured during 2017. One of our competitors—I can't remember who—had successfully raised funds in the Schuldchein market in the months leading up to the end of 2016 and we chose to explore that market through our brokers, to try and get the funds before the other two facilities dropped off.

Q193 **Dame Cheryl Gillan:** This is a highly unusual move for a company, as I understand it; it is very rare for a company of your size, and certainly for a British company. And I gather that this facility was placed by HSBC and Bayerische Landesbank. Did the Government at any time know that you were borrowing money in this way?

Richard Howson: I can't remember whether we discussed it with our Crown rep or not, and I wasn't aware it was an unusual way of sourcing finance—

Q194 **Dame Cheryl Gillan:** Isn't it fair to say that borrowing in this fashion could be interpreted as your being desperate for unrated funding, with less public disclosure, even before your profit warnings?

Emma Mercer: It was fully disclosed when we raised the finance. There was no attempt to conceal the fact that we had raised the finance at all; it was fully disclosed and it was fully disclosed in our 2016 annual report as well.

Q195 **Dame Cheryl Gillan:** Could you let us have the details of your full exposure in that market, and exactly how it operated?

Emma Mercer: Yes.

Q196 **Dame Cheryl Gillan:** Could you also see in your records if you did, in fact, disclose it to Government, and whether Government raised any questions about it?

Emma Mercer: Yes.

Q197 **Bim Afolami:** Mr Green, could you explain for the Committee how it is possible to go from £730 million net assets in December 2016 to net liabilities of £405 million within six months?

Philip Green: Clearly, the bulk of that is the two provisions that we took and our writedown of some goodwill. Those would be the three: the provision we took in July, the additional provision we took in the autumn and the writedown of—the adjustment to goodwill.

Q198 **Bim Afolami:** Do you think that it was appropriate timing for the adjustment of goodwill to happen that late, as opposed to earlier on?

Philip Green: Clearly, goodwill is reviewed every year as part of the audit process. Therefore, the board was satisfied that at the last audit, the right judgment had been made.

Q199 **Bim Afolami:** Ms Mercer, do you have anything to add?



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Emma Mercer: The valuation of goodwill is assessed by looking at the future cash flows of any income stream. We disclosed during our September statement that we had decided to make the withdrawal from the PPP, and that that would impact on future construction revenue. We also addressed the fact that cash flows would be impacted by some of those contracts we had taken provisions for—that is, reducing the receivables and therefore reducing the cash in. As a direct consequence of those two things, we took the decision at that point to make a re-evaluation of the goodwill.

Q200 **Bim Afolami:** Mr Green, at any point at the board did you discuss why your accounts consistently showed that there had been quite a long time between the profit being recognised and then cash coming in? This is not an accusatory question; it is just helpful for us to understand that difference in timing.

Philip Green: There was a lot of board focus and discussion around cash, as you might imagine, through 2016 and 2017. Pretty much at every board meeting there was a discussion on cash, what the forecast was and where the various elements of the cash flow were going.

Q201 **Bim Afolami:** But specifically on the difference between when you are booking the profit for something and seeing the cash coming in—that distinction.

Philip Green: Yes, the annual results presentation and the half-year results presentation had always focused on the percentage of profits that were cash backed—that is, the relationship between profit and cash.

Q202 **Bim Afolami:** Looking back, do you think you made those judgments correctly?

Philip Green: Which judgments?

Bim Afolami: The series of judgments that you are discussing. The difficulty is that people who look at this say that you were booking large amounts of profit with considerably less amounts of cash relating to that. They look at that in comparison with your competitors and they say, "These judgments were not made correctly." Do you agree with that criticism? If not, why not?

Philip Green: I believe all the judgments that were made at the time were believed to be the right judgment. This business is based on judgments into the future. I believe that management's judgments were made with the best of intentions. Of course, some of them can be challenged in hindsight.

Q203 **Bim Afolami:** Going on to the business plan, you have spoken a lot today about how effective you thought this business plan could be. You put that case very clearly to Government. Walk us through how you would have ever brought this unsustainable debt burden down in the business plan. How would you have done that?



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Philip Green: The restructuring plan was based on swapping debt for equity. That would have transformed the balance sheet and dramatically reduced the debt.

Q204 **Bim Afolami:** It is interesting that your 2016 accounts show £219 million debt at year-end, but an average debt of £587 million throughout the year. Again, to a layperson looking at this, it looks as though you were trying to aggressively massage those numbers to show that you have as low a debt as possible. Is that a fair assumption?

Philip Green: I will let colleagues comment. My answer would be that it was an attempt at greater transparency, because of course in any account you have to put the spot debt at the year end, but we chose in addition to that to give the average net debt, which gave another perspective on the debt. I would argue that putting both numbers was an attempt to increase transparency.

Q205 **Bim Afolami:** Ms Mercer, bearing in mind your criticisms of the overall aggressiveness of the accounting policy, do you agree with that?

Emma Mercer: Yes. Publishing an average net debt number was far more relevant for the reader of the accounts than one spot number at a point in time.

Q206 **Bim Afolami:** Mr Cochrane, you have talked a lot about how you feel that the Government effectively made what you believe to be an error in not accepting this restructuring plan. Why do you think the Government did that, bearing in mind that, according to Mr Green, you had a very easy, straightforward way of bringing down the debt? If it was so obvious and so good, why did the Government not accept your proposal?

Keith Cochrane: All I can comment on is what the Government said to us. The Government expressed concern at the precedent that would be established by supporting us, but also at their perspective on the viability of the business plan. They did not have, as they said to us, the confidence in our ability to deliver on the business plan we had outlined.

Q207 **Bim Afolami:** One last question: bearing in mind that last point you made, do you really believe that Carillion's business model was as sustainable as those of your competitors? Do you believe that that was the case?

Keith Cochrane: I do, because one of the things I did when I took over as interim chief executive was to do a bottom-up review of individual contracts to assess their profitability and ability to generate cash. There were a lot of very attractive contracts. There was a lot of cost that needed to come out of the business. We had to take overhead out of the business. We needed to sort out some of the legacy contract positions that were causing our cash burn and our write-down, but once we got beyond those legacy contracts—most of which would have finished in the first half of 2018, with I think only one going into 2019—we essentially had a far cleaner business that we believed was viable and would be able to generate cash and support Carillion going forward.

Q208 Chair: Before I move on, Ms Mercer, are you content, given that these investigations are under way with the FRC and FCA, that nothing will be found wrong with Carillion's accounting policies?

Emma Mercer: These are huge judgments that we were raising on individual contracts all the time.

Q209 Chair: I think it became clear through the evidence of the previous hearing that a lot of it was about judgment.

Emma Mercer: If I could add something, especially given the press this morning, these are all judgments at a point in time. With hindsight, you can look at all of them and take different views. What I flagged during the first quarter of 2017 was that some of the internal reporting could have been improved to allow us a faster assessment that some of these contracts were in difficulties. That meant that we tackled some of the operational issues a bit later than, in my view, we could have if we had seen that earlier. But as far as policies go, I don't think so.

Q210 Chair: I will bring in the Comptroller and Auditor General.

Sir Amyas Morse: Just to understand that, am I right in thinking that the thing you were concerned about was writing down and reducing creditors rather than booking to debtors? Is that about right?

Emma Mercer: That's right.

Sir Amyas Morse: Okay. Given that one of the strategic objects of the company was to reduce the debt, is that just chance, or was it a deliberate attempt to reduce the level of debt that was being reported in the company? Which of those was it, would you say?

Emma Mercer: I don't think it is anything to do with the debt, because the debt is classified as pure borrowings and things, not including our trade creditors as such. It was the trade creditors that we were talking about.

Sir Amyas Morse: So what was behind it?

Emma Mercer: We debated it at the board quite a lot, and we undertook a contract review. The debate with this is that these contracts where we had significant reductions in creditors were where we had true claims against people working for us, rather than necessarily the customer. That would be claims against a particular subcontractor or against an adviser. Therefore, poor accounting within the contracts reduced the amount that we owed to those creditors, rather than necessarily saying, "We have got to go after them and claim something against them which would be receivable."

Q211 Mr Jones: Mr Cochrane, as you know, the Public Contracts Regulations 2015 provide that companies in the position that Carillion was in should pay undisputed invoices within 30 days of submission. Did your contracts have such a schedule for payment written into them?



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Keith Cochrane: What I can say—Ms Mercer will be able to give you some of the specific detail—is that post 10 July, the period for which I had executive responsibility for the business, no instruction was issued to change supply or payment terms. If anything, in part of our dialogue with Government, we recognised the importance of continuing to pay suppliers—back to this point of confidence I raised earlier.

Q212 **Mr Jones:** Forgive me, but I did not ask about changing the terms. I asked whether those terms were included in the contracts in the first place. Maybe Ms Mercer can help on that.

Emma Mercer: A complete mixed bag.

Mr Jones: A mixed bag?

Emma Mercer: A mixed bag. Some contracts specified payment terms, and other contracts did not; but with the prompt payment code we had a strategy around payment terms with our suppliers.

Q213 **Mr Jones:** What strategy was that?

Emma Mercer: For all public sector suppliers we followed the prompt payment code, where we were paying within specified terms—

Q214 **Mr Jones:** Thirty days?

Emma Mercer: Thirty days—sometimes, if we had agreed with the suppliers, 45 days. Then we had a series of agreements with suppliers on specific terms. If they were part of our long-term strategic procurement then we would arrange terms with them separately.

Q215 **Mr Jones:** But the 2015 regulations are perfectly clear that payment should be made within 30 days.

Emma Mercer: That is correct.

Q216 **Mr Jones:** Why were some of your contracts longer than that, in terms of payment?

Emma Mercer: If they were not our public sector customers and we had agreed with the supplier that those were reasonable terms for them, that was accepted.

Q217 **Mr Jones:** Is it the case that you started offering an early payment facility to subcontractors instead of honouring your prompt payment obligations?

Emma Mercer: Yes. At the last Committee I went through the explanation of the early payment factoring facility; but that ability was still there for suppliers to take as soon as the invoice was signed on the system, which could have been five or 10 days.

Q218 **Mr Jones:** Were the Government aware that in some cases you were not strictly adhering to your obligations to pay within 30 days?



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Emma Mercer: The Government would look at supplier terms on a regular basis and we would talk them through the early payment factoring facility, yes.

Q219 **Mr Jones:** What was the response of Government? Were they content with that?

Emma Mercer: They were always challenging of anything that fell outside of the average payment terms, and they gave us a lot of questions and pressure around payment terms and making sure that we were adhering to our commitments.

Q220 **Mr Jones:** But you did not respond to that pressure in every case, did you?

Emma Mercer: We did; we went through it at the last Committee, but there were several instances where our payment practices fell outside the 30 days, but for genuine reasons—we had disputes with suppliers and so on—but they did give us a lot of pressure around making sure there were reasons.

Q221 **Mr Jones:** The code relates to undisputed invoices, doesn't it?

Emma Mercer: Yes.

Q222 **Mr Jones:** So where there is a dispute, it might be legitimate for longer payment to be made. Tell me, did the Government put any pressure on you to increase your use of SMEs as subcontractors?

Emma Mercer: They measured proportionately how much of our supply base were SMEs and they measured us compared to lots of different Government suppliers; and we were put in a ranking against those. I cannot recall off the top of my head, on that specific measure, where we were, but I think we were—

Richard Howson: 30%.

Q223 **Mr Jones:** And the Government were encouraging you to use SMEs; and about 30%, you say, were.

Richard Howson: It was always a dichotomy here, for me, because we were seeking to use local suppliers and SMEs and they are not necessarily the same; so I liked to report—if you look at our annual report I used to report SMEs and local, which was 55% of our UK supply chain, but pure SMEs was around 30%.

Q224 **Mr Jones:** According to some estimates, your subcontractors have lost around £1.2 billion as a consequence of Carillion's failure. Do you feel that there was anything you could have done to mitigate that loss to your subcontractors?

Keith Cochrane: I think back to some of my earlier comments. That is deeply, deeply regrettable, and that is why we were so focused on having a viable restructuring.

Q225 **Mr Jones:** I appreciate that it is regrettable, but was there anything you



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could have done to mitigate those losses?

Keith Cochrane: Other than a successful restructuring, no, because that is the way that we would have been able to continue paying our suppliers as they fell due.

Q226 **Mr Jones:** Did you have a dialogue with your subcontractors whereby you informed them of your difficulties and that they may possibly lose large sums of money as a consequence of your failure?

Keith Cochrane: I don't believe—I know we had a number of conversations. There was obviously a lot of media interest, so there were a lot of conversations and questions coming in from our supplier base, which we sought to debate. Did I have any conversations with suppliers? No, I did not.

Emma Mercer: There was a balance to strike. Had we gone out and briefed every single supplier that they may have been at risk of us moving into a restructuring proposal, I am sure that there would have been a huge run on us and that that would have caused a liquidation. There was a balance to be struck between ensuring that we were paying people on time, which we continued to do, even through the tight credit that we had during November and December—we did not change payment terms in that period. We did not suddenly start hugely stretching creditors on the basis that we were in tight credit at all. We continued to pay them; we did not use them as an extra source of credit through that period.

Q227 **Sir Geoffrey Clifton-Brown:** Ms Mercer, I wonder if we could clear up a factual issue about the Qatar contracts. I think you said this morning that Carillion was not paid for the Qatar contracts for 18 months—

Chair: A lot of the evidence in the last session responded to that.

Sir Geoffrey Clifton-Brown: Yet we have had correspondence from the Qataris that says you were paid. Could you clear that up for us?

Richard Howson: I wrote a letter to the Work and Pensions Committee, which I believe to be factual.

Chair: We haven't seen that.

Richard Howson: On the Qatar contract, they slowed down our payments in October and November 2016. They made a payment of 500,000 riyals, from memory, in January 2017, but that is tiny—we were asking for far greater sums at that point.

Q228 **Sir Geoffrey Clifton-Brown:** What were you asking for? What did you think you were owed at that point?

Richard Howson: That is in the letter I wrote. We then moved to a consultancy service to support their third-party contractor. We received one or two consultancy fees in June or July, which were very small as well.

Chair: So some payments were being made.

Richard Howson: Very small. Relative to what we believe we were owed, they were insignificant.

Chair: So both positions could be true. We'll pursue that with our sister Committee.

Q229 **Sir Geoffrey Clifton-Brown:** Can I move on to you, Ms Mercer, and ask what preparations you were making for the implementation of IFRS 15, which was due to be implemented by 1 January 2018? What effect would that have had on your reporting to the stock exchange?

Emma Mercer: Yes, as you can imagine, we had done a lot of preparation in the years preceding—the discussion around the standard has been out there for some time. Zafar Khan, my predecessor, made an evaluation during 2016 about the size of the IFRS number. In September, we announced that at the end of 2017, as at 1 January, the estimated impact would be between £125 million and £150 million—the impact to reduce our receivables by that much—and that revenue would be recognised in future periods.

Q230 **Sir Geoffrey Clifton-Brown:** So you were making profits of only about £160 million, and this was going to have the effect of reducing your profitability by between £120 million and £150 million?

Emma Mercer: It was not going to reduce profit, no. Effectively, the standard would take out between £120 million and £150 million of historical revenue that we had traded, and put it into future years. I don't know if you want me to go into detail about how the standard would have had an impact on Carillion—it is quite complex—but effectively, £120 million to £150 million is an estimate of the revenue that we have taken previously that would not necessarily be cost in the future, and therefore you cannot equate one directly to profit.

Q231 **Sir Geoffrey Clifton-Brown:** Mr Green, in 2016, you had £467 million in cash. By the date of liquidation on 15 January, you had run out of cash. In corporate history, I doubt that there has ever been such a drain on cash in a company. You have today relied very heavily on the restructuring plan that you had. If that was not attainable—if you were not able to come to accommodation with your creditors, and if you were not able to renegotiate your covenants with your banks, when did it occur to you that this was not an ongoing business?

Philip Green: As I have said several times this morning, we believed right up until the middle of January that the restructuring plan had a reasonable prospect of success. We genuinely believed that. We had had detailed conversations with potential investors, with multiple stakeholders, and we really did believe that that restructuring plan was viable and in the best interests of all stakeholders.

Q232 **Sir Geoffrey Clifton-Brown:** You must, as a prudent businessman, have considered the possibility that it would not work. Therefore, did you consider, or take any advice, at any point prior to 15 January that this was not an ongoing business?



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Philip Green: Let us be clear. We took lots of advice, from our lawyers, our auditors, our bankers—detailed advice, on occasions more than once a week, in the period from July onwards. No, no, we took a lot of advice and we followed the advice. What I am saying to you is that it was only in the middle of January that we concluded that the restructuring was not going to be viable.

Q233 **Sir Geoffrey Clifton-Brown:** Given the haemorrhaging of cash and your possible position, did it ever occur to you that you were trading as insolvent at any point prior to 15 January?

Philip Green: No. And the board consulted actively—our lawyers attended most or many of our board meetings and we were very aware of our obligations, both on trading and disclosure. We took what we believed was the best available advice, and followed it.

Chair: Mr Jenkin?

Mr Jenkin: I have nothing further to ask.

Q234 **Chair:** We have heard throughout this hearing the belief that the Government should have bailed you out—should have provided you a loan or cash to make you able to implement your policy. It seems—you might have picked up the mood around the table—delusional that you would assume or believe that the Government would use taxpayers' money to prop you up at that point. Do you not think that part of the reason the Government did not back you may be that you have frightened them off with the number of financial write-downs, the internal accounting issues, the high level of debt and the surprises coming at Government even after the first profit warning on 10 July last year?

Keith Cochrane: Undoubtedly, we were in a fast-moving environment and there were a number of changes and challenges that we had to deal with post 10 July. In that sense, I can understand why Government might view that circumstances were changing through that period. Let us be very clear—the company, in other words the board and the management collectively—that this is not the fault of Government. I want to make that point. As a company, we collectively got ourselves into this position. But we genuinely believed—I genuinely believed—that relative to the other options, which were essentially the liquidation scenario, this would be the least-cost outcome with the least impact, particularly in the context of customers, suppliers, employees and pensioners. That is what gave us the basis to continue, working alongside our pension funds and our banks, with coming up with a collective solution.

Q235 **Chair:** So while the Government were in play, Philip Green, that meant you could keep talking to the banks and others, because the Government were there as the big opportunity to provide the financial cover that you needed. But you said you didn't know—you repeated it several times—until the middle of January that it really wasn't going to stack up. Did you not have a naive belief, frankly, in Government being the solution, and taxpayers' money coming in to bail out Carillion? That was essentially what you were hanging it all on at the end, was it not?



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Philip Green: As we said, we do not accept or recognise the bail-out. We believed we were trying—

Q236 **Chair:** It was a loan to a company in difficulty. It would only have been a loan if you had recovered enough to pay it back. It was a very big risk.

Philip Green: But the immediate ask in the middle of January was £10 million for one week, to take us to the next stage.

Q237 **Sir Geoffrey Clifton-Brown:** Mr Green, wasn't the real answer that you considered yourself too big to fail—that the Government would have to bail you out because you were too big to fail?

Philip Green: That was not the view of the board; that was not what we believed. We really didn't.

Chair: We may beg to differ on that. I thank you for your time. We have managed to probe a bit about how the Government worked with you, which is what we wanted to get out of today, compared with what has happened in other Committees. The transcript of this hearing will be available on the website, but uncorrected, in the next couple of days, so please do look through whether there is anything that you need to correct. We are then discussing, jointly and separately as Committees, what we do with this evidence. To alert you again, the National Audit Office will be looking at the issues around Carillion in due course and the Public Accounts Committee will be taking that forward.