The four contracts that finished Carillion

The construction giant's collapse is a disaster not just for employees and taxpayers, but for public-private partnership policy

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It was trusted to build some of the country's most important infrastructure - from NHS hospitals to much-needed new road projects - yet the foundations of construction giant Carillion were shaky enough for the group to be felled by just four contracts. Two were for much-needed new hospitals - and work on both was immediately halted as the company collapsed.

Revenues of more than £5bn - plus annual profits approaching £200m - turned out to be limited props for a company when the facade began to crumble by the summer of last year.

Back then, Carillion shares slumped by 70% in a month as it was forced into a monster profit warning following an £845m writedown.

Much of that - £375m - was blamed on just three large public private partnership

(PPP) contracts in the UK. Another £470m was dressed up as the cost of pulling out of several overseas markets.

Carillion never officially revealed exactly which deals had gone so badly wrong, but it quickly became an open secret in the market: the construction of two English hospitals - where workers said on Monday they have already begun to be laid off - one Scottish road and a development in Doha, the capital of Qatar. Together they were enough to kill off the company.

The three UK deals were Merseyside's "new"£335m Royal Liverpool University hospital, the £350m Midland Metropolitan hospital being built in Smethwick and a road project called the Aberdeen western peripheral route - all of which were beset by seemingly innocuous problems that caused more and more embarrassing delays and mounting costs.

Construction of the Royal Liverpool University hospital - a prestige project to build a new facility with 646 beds, the biggest single-bedroom hospital in England - ran into problems when workers found "extensive" asbestos on the brownfield site and cracks in the new building.

In Smethwick, delays were blamed on "the fitting of pipes and wires [taking] longer than expected".

The opening of both new hospitals has been delayed by a year. At least, those was the last estimates: no work was being carried out at the Royal in Liverpool on Monday, while local West Midlands media was reporting a similar suspension at Smethwick.

The site of the new Royal University Hospital in Liverpool, which has been delayed by a year. Photograph: Pak Hung Chan/Alamy

A worker on the new Midland Metropolitan hospital building told the BBC: "Everyone on the site got told: 'That's it, go home'. My company said, 'You've been laid off'."

"They've literally locked the gate. They've told us we can get our personal tools off the site if they're small, but that's it."

In Aberdeen, the schedule slippage was blamed on more predictable problems: cold weather during winter.

In Doha the big issue was a £200m dispute over money - cash owed on a project linked to preparations for the 2022 Fifa World Cup. Local reports suggest Carillion was not paid for almost a year's work.

The Qatar Foundation, which was backing the development, did not return phone calls to elaborate.

All of which is a disaster not just for Carillion workers, whose jobs are now under threat, and for patients awaiting new hospitals and drivers wanting another road.

It is a blow to the entire government policy around PPP, and it was possible to detect a hint of panic inside Whitehall on Monday, with the Cabinet Office stating: "For clarity - all employees should keep coming to work, you will continue to get paid. Staff that are engaged on public sector contracts still have important work to do."

Q&A

What government contracts does Carillion hold?

NHS
•Manages facilities including 200 operating theatres and 11,800 beds
•Makes more than 18,500 patient meals per day
•Helpdesks manage 1.5m calls per year
•Engineering teams carry out maintenance work

Transport
•Building 'smart motorways' - which ease congestion by monitoring traffic and adjusting lanes or speed limits - for the Highways Agency
•Major contractor on £56bn HS2 high-speed rail project
•Upgrades track and power lines for Network Rail
•Major contractor on London's Crossrail project
•Roadbuilding and bridges

Defence
•Manages infrastructure and 50,000 homes for Ministry of Defence

Education
•Designed and built 150 schools
•Services such as catering and cleaning at 875 schools

Prisons
•Maintenance and repairs at about half of UK prisons

Libraries
•Manages several public libraries in England

Energy
•Building substations, overhead cables and other works for National Grid

PPP is one of those financial inventions that was sold as being a win-win for both sides: the companies could be awarded lots of lucrative contracts to build stuff for the state; the government would get new infrastructure more quickly and without the financial risk, as private companies would bid for the work and the market would ensure taxpayer value.

At least, that was the theory. What actually happened was that companies kept bidding for projects, but tough competition meant the contracts came with skinnier and skinnier margins. So, if problems occurred, a contractor's 2% profit would not just be wiped out – huge losses could be incurred too.

Sam Cullen, an analyst at investment bank Jefferies, said: "That is why construction can be such a fundamentally horrendous business. Under pressure to grow the top line and operating on wafer-thin margins, everyone bids each other to death. It's a situation not helped when your largest customer, the government, is under huge pressure to get value for money and is more susceptible to accept the lowest bidder."

The big question is: why do companies keep bidding, if the contracts can cause so much pain?

The answer probably lies in the structure of major PPP construction deals, because they hand the contract winner a large chunk of cash upfront.

Work on construction can then begin, while contractors like Carillion may not need to start paying sub-contractors for another 120 days.

During those four months, much of the upfront payment might be used to pay other debts within the business, meaning these deals can create situations where firms have to keep winning new contracts just to keep going.

Or, as it turns out, not keep going.