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FRONT DESK

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IMPORTANT FM STORIES



BUSINESS LIQUIDATION

'SEISMIC FALLOUT' FROM CARILLION COLLAPSE

WORDS: HERPREET KAUR GREWAL

Months before Carillion collapsed, a series of worrying developments were already indicating that the UK contractor was in trouble.

There had been profit warnings, the selling of contracts to competitors, the appointment of a new chief executive and the Financial Conduct Authority had opened an investigation into the "timeliness and content" of financial announcements.

But news of the liquidation was still a jolt for the industry.

Tony Raikes, managing director at Vinci Facilities, says the situation was "shocking in how they have gone immediately into liquidation" and how it was "unprecedented that a company of Carillion's size got into the position they got themselves into".

The company's debts are reported to amount to more than £1.5 billion, with a pensions deficit of more than half a billion.

Rebecca Long-Bailey, Shadow Secretary of State for Business, Energy and Industrial Strategy, criticised the

government's awarding of contracts despite Carillion's three profit warnings over the past six months.

"It is essential that shareholders and creditors are not allowed to walk away with the most profitable contracts while the taxpayer bails out loss-making parts of the business," said Long-Bailey.

Within hours of the announcement of the collapse, business secretary Greg Clark had asked the Insolvency Service to fast-track an investigation into Carillion's directors and broaden ▶



scope to include those directors previously employed by the firm.

Immediately afterwards, Carillion chairman Philip Green said the government "will be providing the necessary funding required by the official receiver to maintain the public services carried on by Carillion staff, subcontractors and suppliers".

The government has also been meeting with business and construction trade bodies, representing sub-contractors.

Within 48 hours of the collapse the Insolvency Service said all of the company's private sector service customers had been contacted "to determine their ongoing needs". The fate of these contracts is being decided over the coming weeks and months.

At the James Cook University hospital in Middlesbrough, Carillion was responsible for 900 staff working on site delivering a range of hard and soft FM services including switchboard, cleaning, portering, laundry and security.

A spokeswoman for South Tees Hospitals NHS Foundation Trust told *FM World*: "As part of our private finance initiative PFI agreement, Endeavour – the special purpose vehicle responsible for the overall operation and maintenance of the James Cook University Hospital site – stepped in to ensure all key services continued to be provided and run safely for our patients and staff. Carillion workers at the hospital are now being managed by PwC on behalf of the official receiver."

She added: "It is assumed all current Carillion staff at James Cook will transfer into the new service provider, once appointed."

The Nationwide Building Society is moving more than 2,000 employees in-house after its £350 million facilities management contract with Carillion ended.

A Nationwide spokeswoman confirmed that the bank would be bringing all services provided

Carillion's private sector service customers had been contacted "to determine their ongoing needs"

by Carillion in-house including cleaning, maintenance and waste management. About 250 Carillion employees will now be employed directly by Nationwide. Another 1,500 staff are engaged by separate third-party suppliers who work on Nationwide contracts with Carillion. These suppliers will also have their contracts directly with Nationwide.

School meals service

Oxfordshire County Council was due to terminate its contract with Carillion LGS Ltd on 1 February. It brought forward the already agreed end of the deal set for the end of June. The council made a net payment of £10.65 million to Carillion to cover work already completed as part of the final settlement to end the contract.

Carillion had provided services including school meals and cleaning, maintenance of council buildings, property services, and building work such as school extensions on behalf of the county council. The council struck the exit deal early and paid it off in December, weeks before Carillion's parent company went into liquidation on Monday 15 January.

Councillor Lorraine

Lindsay-Gale, cabinet member for property, cultural & community services, said: "We will be taking over those services to ensure continuity. Carillion's financial problems were not the original reason we wanted to end the contract. But as the scale of the company's problems became apparent we are very glad we ended the contract when we did."

"This early exit deal means we can get on with finding better ways to deliver services that Carillion provided," she added.

Carillion staff in maintained schools that contracted their services via Oxfordshire County Council will be transferred to the council under TUPE rules, and services will continue as normal. The 10-year contract was signed in 2012. Services previously provided by Carillion to the council will continue through a mix of bringing staff in-house (e.g. school meals, cleaning), continuing with suppliers (mainly catering), and working with existing sub-contractors (mainly construction and property services).

The council said it has "received assurances from PwC that Carillion and sub-contractor staff and suppliers will be paid through PwC until 31 January and the relevant Carillion and sub-contractor staff will then become Oxfordshire County Council staff".

The council will have paid about £148 million to Carillion since 2012. Like every other Carillion customer, it is now working out the most cost-effective way to complete unfinished work. The council will take over direct responsibility for commissioning construction work and services. Officers are talking to sub-contractors about the way forward.

Carillion sub-contractors and suppliers will be financially

exposed to the collapse in Oxfordshire, as is happening across the country.

The council is establishing a process to assess, on a case-by-case basis, the impact on firms in the Carillion supply chain involved in providing council services such as building maintenance.

Lindsay-Gale said: "We recognise the significant impact on local companies working for Carillion that may be owed money and hope that work can continue as soon as possible. We are very grateful to Carillion staff and suppliers for helping us to deliver essential services in the short term and now want to work closely with contractors and suppliers on a longer-term basis."

Huge financial losses

In other quarters, losses are being counted. A snap poll of Carillion engineering sub-contractors shows that many companies are facing huge financial losses from the collapse.

Data obtained by the Building Engineering Services Association (BESA) and the electrotechnical and engineering services trade body ECA shows that Carillion owes about £75 million to about 80 engineering services firms that provide vital services such as electrical, plumbing, gas, fire and security, and heating and ventilation.

The overall losses are likely to be far higher, given that there are thousands of businesses operating in the industry.

"THESE FINDINGS UNDERLINE THE NEED FOR CONCERTED ACTION FROM THE GOVERNMENT AND BANKS TO PROTECT AND SUPPORT SMES"

STATISTICS

Impact of Carillion liquidation

£47.2m

VALUE OF ONGOING CONTRACTS NOW AT RISK

There is a lack of clarity with many ongoing contracts, some of which run for several years

£75m

VALUE OF OUTSTANDING PAYMENTS OWED

AVERAGE FINANCIAL IMPACT BY ENGINEERING CONTRACTOR SIZE

£98,000

MICRO: <10 employees

£141,000

SMALL: 10-49 employees

£237,000

MEDIUM: 50-249 employees

£15.6m

LARGE: >250 employees

The engineering services sector is the largest part of the construction industry by value. The ECA and BESA survey shows that contractors of all sizes have been affected by Carillion's demise.

The total value of contracts with Carillion is worth £47.2 million, which are now at risk. Micro businesses (fewer than 10 employees) are owed on average £98,000. One of these SMEs is owed over £250,000. Small firms (10-49 employees) are owed £141,000 on average. One of these contractors is owed £800,000 by Carillion.

Medium-sized businesses (50-249 employees) are owed on average £236,000. One of these firms is owed almost £1.4 million. Large businesses (250 employees-plus) are owed on average £15.6 million. This figure includes Balfour Beatty's widely reported £45 million loss from joint ventures with Carillion (see box, left).

Last week, BESA and ECA met with liquidator PwC and the government. PwC said any private sector work undertaken by Carillion suppliers before 15 January this year would be unpaid. Instead, it would be treated as 'unsecured debt', and placed at the back of the queue behind other creditors.

BESA president Tim Hopkinson said: "We knew the fallout from this seismic episode would be extremely serious, but these figures give us a clearer picture of just how hard our sector is going to be hit in terms of the thousands of pounds of unsecured debt that will be lost by ordinary hard-working small businesses, jeopardising their future and the future of their staff."

ECA director of business Paul Reeve said: "These findings underline the need for concerted action from the government and banks to protect and support SMEs in the construction and services sector. The government should also introduce legal measures to ensure SMEs are not continually exposed to upstream insolvency."

Both ECA and BESA have long called for reform to unfair payment practices within construction. Carillion was widely known to take over four months to pay suppliers, despite 30-day payment being industry good practice. To tackle this slow payment, the two trade bodies are calling on the government to pay small and medium-sized businesses directly, using 'project bank accounts'.

BESA and ECA are also supporting a bill tabled by Peter Aldous MP, which is going through Parliament. The bill would prevent clients and main contractors, such as Carillion, from using their own accounts to store money held back from suppliers in case of defects – ring-fenced, independent accounts would be used instead.



WHAT THE EXPERTS ARE SAYING

HOW THE FM SECTOR REACTED TO CARILLION'S COLLAPSE



"The news of Carillion is indeed a sad moment for all those affected. BIFM's immediate priority has been to reassure the learners from Carillion studying for qualifications in facilities management that their situation is unchanged. I want to encourage them to continue their self-development and I wish them luck. We can't change what has happened, but we must learn from this event and use it as catalyst for change. The case can and must be made to change from a model of service delivery that is driven by cost alone to one that is driven by value." **BIFM'S LINDA HAUSMANIS**

"What is unfolding at Carillion must never be allowed to happen again. Theresa May must act right now to bring Carillion contracts back into public ownership. It is the only way to safeguard the jobs and services this mess has put at risk... Merely propping up this botched shell of a company is not a secure or stable solution for our public services. It's high time we brought this vital work back in-house. Despite months of profit warnings, ministers have failed to prepare for the collapse of Carillion, which has plunged workers into crisis. Ministers should be hanging their heads in shame - it's a complete shambles." **TIM ROACHE, GMB GENERAL SECRETARY**



"This is clearly a very difficult time for Carillion, its customers and its employees. Mitie is making itself available, where it can, to help ensure continuity of service to organisations and government following Carillion's liquidation."
PHIL BENTLEY, MITIE PLC CEO



"[Carillion's] FM part in particular was not core to their main construction offer, but was, in my opinion, a sound operation with good people and systems. It is possible that bidding has been too aggressive. I think that is a problem that is widespread as businesses chase sales and market share in a relatively stagnant market. From an FM perspective, this is symptomatic of a problem with the tendering process, especially in the public sector, which still gives too much weight to price and not enough to quality or business sustainability... There are some obvious potential buyers for a business with a strong technology sector record and some interesting public sector contracts. Might a management buyout of the FM business, as a whole or in parts, be viable?"

DAVE WILSON, FORMER BIFM DEPUTY CHAIR AND NOW NON-EXECUTIVE DIRECTOR WITH CONSULTANCY MORPHOSE



"Government should learn to use all of the facilities management supply chain and not give all its work to a chosen few. Also, companies should finally learn that aggressive accounting and commercial practices will kick you in the butt eventually. Forcing your sub-contractors onto 120-day terms only provides a short-term fix to your cash problems but guarantees resentment and non-cooperation."
CONSULTANT MARTIN PICKARD

"My hope is that our competitors' management teams will be under pressure to pursue more sustainable strategies. The customer base has to change its procurement habits. Customers and the government have been guilty of pursuing low-cost solutions. And the government has been under pressure to pursue best value... It is devastating for thousands of people, particularly their supply chain. There is sadness in those stakeholder groups. You never want to see a competitor go in the way they have gone."
TONY RAKES, MANAGING DIRECTOR AT VINCI FACILITIES

"It must have been a very difficult time for those in charge to pull the plug. We've got to look after the people, we have got to protect the reputation of the industry and we have got to hope to God that this doesn't happen again... [At Tarmac] we started all the hospital PFI contracts. We were doing great things that would be good for the UK's healthcare. We have to show the world that one company has gone down, but this isn't the state of all companies in the industry. The main lessons we should learn are corporate responsibility, delivering according to the agreed contract and properly bidding on contracts."
JOANNA LLOYD-DAVIES, PRINCIPAL AT JLD CONSULTANTS AND FORMERLY AT TARMAC, WHICH REBRANDED AS CARILLION IN 1999



TIMELINE COUNTDOWN TO COLLAPSE

2016

- ▶ The maintenance and upkeep of West Sussex men's prison is described as being "a great deal of concern this year", according to a report by an independent monitoring board.
- ▶ Carillion wins a £90 million contract to provide total FM services for energy specialist Centrica.
- ▶ Carillion reports that its first-half revenue and operating margin in support services are both expected to move ahead.

2017

- ▶ Carillion reports that its operating profit in the first half of 2017 is lower than expected primarily due to phasing of the Public Private Partnerships (PPP) equity disposals.
- ▶ Group finance director Zafar Khan leaves the company in September with "immediate effect".
- ▶ Carillion Group adds to the £845 million provision for loss-making construction contracts that it announced in July with a further £200m provision in respect of 23 of its support services contracts.

- ▶ The London Borough of Hounslow terminates its contract with support services provider Carillion.

- ▶ A Croydon councillor says that if the borough's libraries service provider Carillion collapses, the council would move its frontline staff back in-house.
- ▶ Shares in Carillion sink by 30 per cent as a result of a further profit warning and concerns the company will breach its debt covenants.
- ▶ Carillion exits a long-term support services deal for the Royal Bank of Scotland two years early.
- ▶ Serco Group plc releases more details about its acquisition of a portfolio of selected UK health facilities management contracts from Carillion plc.
- ▶ Carillion's board reveals that incoming chief executive Andrew Davies will start earlier than previously announced.

2018

- ▶ The Financial Conduct Authority notifies Carillion that it is investigating the firm in connection with the timeliness and content of announcements made by the company between 7 December 2016 and 10 July 2017.
- ▶ Representatives of Carillion meet with officials of The Cabinet Office and the Pensions Regulator to discuss the firm's pension liabilities.
- ▶ Carillion Group plc goes into liquidation on 15th January.

STOP PRESS

MOJ SETS UP GOVERNMENT-OWNED FM FIRM TO DELIVER CARILLION'S PRISON FM CONTRACTS

As FM World went to press, the Ministry of Justice made the politically significant announcement that it had set up its own government-owned FM firm, Gov Facility Services Ltd, to deliver the FM services to prisons previously provided by Carillion.

The company, which will deliver cleaning, reactive maintenance, landscaping and planned building repair work, is taking on the 1,000 staff and sub-contractors previously employed by Carillion, maintaining their conditions of employment.

The services, provided to 52 prisons across the South West, South Central, Kent & Sussex, Greater London and East of England, "will continue unaffected in the transfer" according to Richard Heaton, permanent secretary to the MOJ (pictured below).

"We are implementing our contingency plan," said Heaton. "I'd like to thank all the Carillion staff moving across into the new company, and reassure them that their jobs are secure."

The company will take responsibility for the services "as soon as the formal transfer of staff has occurred. FM is a critical service for Her Majesty's Prisons and Probation Service (HMPPS). MOJ and HMPPS will work with all stakeholders to ensure a stable service which retains skilled and knowledgeable staff working on the FM contracts."

"The government has been clear that its priority is to ensure the smooth running of public services. Our contingency planning and preparations for the transition to Gov Facility Services Limited has meant there have so far not been any disruptions to prison maintenance."

