House of Commons
Committee of Public Accounts

Government risk assessments relating to Carillion

Forty-First Report of Session 2017–19

Report, together with formal minutes relating to the report

Ordered by the House of Commons
to be printed 14 May 2018
The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No. 148).

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- Sir Geoffrey Clifton-Brown MP (Conservative, The Cotswolds)
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Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No. 148. These are available on the Internet via www.parliament.uk.

Publication

Committee reports are published on the Committee’s website and in print by Order of the House.

Committee staff

The current staff of the Committee are Richard Cooke (Clerk), Dominic Stockbridge (Second Clerk), Hannah Wentworth (Chair Support), Carolyn Bowes and Kutumya Kibedi (Committee Assistants), and Tim Bowden (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Committee of Public Accounts, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 6593; the Committee’s email address is pubaccom@parliament.uk.
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Government risk assessments relating to Carillion

1. The collapse of Carillion plc in January 2018 raised significant concerns about the Government’s relationship with, and management of, its major suppliers, and the potential impact on the delivery of important public services. On 24 January 2018, the House of Commons debated and agreed that the Government’s risks assessments of its Strategic Suppliers should be released to the Public Accounts Committee. The Government designates a company as a Strategic Supplier if it has contracts across several Departments that generate more than £100 million per year, or it is deemed significant to a particular sector. In January 2018, there were 28 Strategic Suppliers, including Carillion plc.

Papers received by the Public Accounts Committee

2. The Cabinet Office provided the Committee with the papers relating to Strategic Suppliers, as defined in the Motion agreed by the House (the Papers). The Papers relate to Strategic Suppliers assessed with a risk rating of Amber, Red or Black for the period March 2014 to January 2018.

3. The risk assessments are compiled by Crown Representatives in line with the Government’s Strategic Supplier Risk Management Policy (the Policy). Crown Representatives are officials that sit on the Commercial Relationships Board in the Cabinet Office. Each Strategic Supplier is allocated a Crown Representative, who monitors and assesses the supplier’s performance and relevant risk factors against contracts. The Crown Representatives produce summary risk assessments every six weeks for submission to the Commercial Relationships Board.

4. The risk assessments aggregate publicly-available information such as stock market performance, media coverage and financial statements, together with the Government’s information on contract performance. The assessments also include information provided by suppliers on potential, and live bids for further government contracts. The assessments are subjective documents intended as confidential advice from Crown Representatives to the Cabinet Office.

Risk Ratings and “High Risk” Designation

5. Each Strategic Supplier is assessed on a Red-Amber-Green (RAG) scale in accordance with the Policy:

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2 Votes and Proceedings, 24 January 2018, p. 2. A Humble Address is a message from either House of Parliament to the Monarch. It allows Parliament to petition the Monarch to order a Minister to produce documents that the Government is not statutorily obliged to produce, and that are within Ministerial authority to produce.
3 Cabinet Office, Strategic Supplier Risk Management Policy, November 2012, section 2.1
4 Cabinet Office, Crown Representatives and Strategic Suppliers – January 2018, January 2018
5 Cabinet Office, Strategic Supplier Risk Management Policy, November 2012
- Red: Significant material concerns for Cabinet Office Commercial Relationships Board to consider High Risk designation
- Amber: There are material concerns with the Supplier across one or more contracts
- Green: No known issues or isolated issues being handled through the business as usual channels

6. Sections 5 to 7 of the Policy outline the grounds for, consequences of, and procedure for, designating a Strategic Supplier at a higher—Black—’High Risk’ status. The two main grounds for designation as High Risk are: serious and persistent underperformance on a contract or contracts, and financial distress as described in Section 3 of the Policy. The Papers show that Carillion plc’s July 2017 profit warning satisfied the financial distress grounds for consideration as High Risk.

7. A Strategic Supplier designated as High Risk on grounds of financial distress, must meet with Cabinet Office to discuss “plans to address the relevant issues”. The Cabinet Office will then monitor progress against these plans. Although High Risk designation does not preclude a Strategic Supplier from taking part in government procurement activities, the Cabinet Office advises that Departments, Non-Departmental Public Bodies and Executive Agencies “reduce where possible the extent to which the Strategic Supplier is given additional work under the terms of an existing contract”. However, the Policy advises that High Risk designation “is not of itself relevant to the conduct of procurement activities” although Departments and NDPBs may request the basis for designation to assess suitability of Suppliers who are bidding for work.

8. The decision to designate a Strategic Supplier as High Risk is made by the Minister for the Cabinet Office based on advice from the Commercial Relationships Board and representations made by the supplier.

Papers included in this Report

9. The Committee has considered the Papers relating to Carillion plc, which include the risk assessments from the Crown Representative and a letter from the Cabinet Office to Carillion informing them of a potential High Risk designation in November 2017. The Committee did not receive Carillion’s response to the Cabinet Office, or minutes of the Commercial Relationships Board at which the matter was discussed.

10. Much of the information included in the Papers relating to Carillion is publicly available, although some information, such as the contracts the company was bidding for, is not. A significant amount of additional evidence about the state of Carillion’s finances and governance arrangements has been published since January, particularly by select committees that have undertaken inquiries prompted by the company’s collapse.
11. The Papers show that, although Carillion had been rated Amber for a number of months owing to performance against contracts with the Ministry of Defence and Ministry of Justice, it was not until after Carillion issued a profit warning on 10 July 2017 that Government downgraded Carillion to Red. It appears that Government was not aware of Carillion’s financial distress until this point, despite the close relationship between Carillion and Government as facilitated by the Crown Representative.

12. In November 2017, the Cabinet Office recommended a provisional High Risk rating for Carillion. However, following representations from the company as provided for by paragraphs 7.2 and 7.3 of the Policy, the Cabinet Office did not confirm the designation. Carillion collapsed less than two months later.

13. The Committee is aware that the risk assessments were prepared subjectively by Carillion’s Crown Representative and were not intended for publication. Nevertheless, we do not consider that the papers contain live and material commercial risks as Carillion is no longer trading. The Committee has decided to publish these papers as an appendix to this report.

**Future Committee work relating to the papers received under the Humble Address**

14. The House resolved that the Committee receive the risk assessments relating to all the Strategic Suppliers whose risk rating fell below ‘Green’ between 2014 and January 2018. A number of those suppliers have already been subject to scrutiny by the Committee and National Audit Office. In the past six months we have published three Reports that relate directly to the Strategic Supplier contracts.

15. At present the Committee has chosen not to publish the papers that relate to other Strategic Suppliers, but we have made clear to the Cabinet Office that we reserve the right to do so in future. Those papers raise concerns about Strategic Suppliers’ performance against contracts, and about the relationship between Strategic Suppliers and Cabinet Office.

16. The Committee will take evidence over the coming months to explore these issues and pursue concerns about Suppliers we have raised previously in our Reports.

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10 Cabinet Office, *Strategic Supplier Risk Management Policy*, November 2012, section 6.4
11 The Committee is publishing all of the material received that relates to Carillion with the following redactions: names of junior civil servants; names of subcontractors working with Carillion; and names of other companies mentioned in the reports.
## CRB Performance Report

### Recommendation for RAG: Move from Green to Amber status on the basis of poor performance on the MOD NGEC contract. Status will revert to Green if MoD agree that Carillion Amey has delivered the agreed Remedial Plan. Status may escalate to Red if MoD can evidence Remedial Plan or wider failure.

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<tr>
<th>Performance and Issues</th>
<th>Recent Wins and Pipeline</th>
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<td>- The Chief Execs of Carillion and Amey were called in by MOD Sec of State for a meeting on 24 Feb about the underperforming NGEC (Next Generation Estates Contracts), under JV ‘Carillion Amey’, with termination threatened by MOD.</td>
<td>- Carillion has £377m annual revenue from Central Government:</td>
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<td>- These Hard FM Regional Prime Contracts and the National Housing Prime contract have had poor performance since they began between July 2014 – Jan 2015.</td>
<td>- MOD / NGEC: £309m, 82% JV Carillion Amey</td>
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<td>- In January 2016, Regional Prime statutory compliance on Building level assets was as low as 72% in two regions (SE and SW).</td>
<td>- MOJ/ Prison FM: £46m, 11%</td>
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<td>- The National Housing Prime is c.91% KPI on a target of 95%.</td>
<td>- Other/ Land Registry: £10m, 3%</td>
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<td>- Carillion Amey admits that its performance is below its own expectations; it commits to achieving statutory compliance by end May 2016, and earlier in some regions.</td>
<td>- DCMS / British Museum: £8m, 2%</td>
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<td>- MOD has not been without fault re NGEC</td>
<td>- MOD / Pre-NGEC legacy: £6m, 2%</td>
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<td>- Performance on other Carillion contracts (Prison FM, Land Registry) is generally considered to be good, however, NGEC is 82% of their HMG revenue.</td>
<td>- The main recent HMG win is the MOJ Prison FM contract which started in June 2015</td>
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<td>- Carillion has an extension £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes Home Office FM, MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions, and Cabinet Office and Affiliated Cluster FM.</td>
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### Relevant News
- 11 Feb 2016: Carillion Amey met with CEO of MOD DIO re NGEC
- 14 Feb 2016: The Sun article, ‘Squadries in Squalor’, re Housing Prime
- 24 Feb 2016: MOD Sec of State meeting with Chief Exec
- Feb 2016: Carillion Amey inject 30 extra staff to rectify NGEC
- 29 Feb 2016: MOD accepted SE Regional Prime remedial plan, holding off from threatened immediate termination.
- 3 Mar 2016: Carillion Amey due to present remedial plans for other regions and for Housing.

### Financial Positioning
- Carillion has annual group revenue of £3.5bn.
- Carillion has been one of the most short-sold stocks in the FTSE over the past year. As of 1 Mar 2016, short selling is at 20%.
- Carillion annual results were announced on 3 Mar 2016. These have generally been well received, reflected in a share price rise of 4% (on 3 Mar 2016, time of writing)”

**OFFICIAL SENSITIVE — COMMERCIAL IN CONFIDENCE**
Government risk assessments relating to Carillion

<table>
<thead>
<tr>
<th>CRB Performance Report</th>
<th>Carillion</th>
<th>Julie Scattergood/Apr 2016</th>
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<tr>
<td><strong>Proposed RAG rating</strong></td>
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**Recommendation for RAG:** Retain Amber status on the basis of poor performance on the MOD NGEC contract. Status will revert to Green if MoD agree that CarillionAmey has delivered the agreed Remedial Plan. Status may escalate to Red if MoD can evidence Remedial Plan or wider failure.

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<td>have had poor performance since they began between July 2014 – Jan 2015.</td>
<td>- DCMS / British Museum: £8m, 2%</td>
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<td>- By end Mar 2016, of 31 targets in the Regional Primes Improvement Plan,</td>
<td>- MOD / Pre-NGEC legacy: £6m, 2%</td>
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<tr>
<td>CarillionAmey self-declared 25 as Green/Met, 3 as Amber/ 'Just Missed Target',</td>
<td></td>
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<td>and 3 as Red/ 'Major Miss'. DIO considers that good progress has been made,</td>
<td></td>
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<td>but remains concerned on missed targets.</td>
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<tr>
<td>- A further 3 targets were missed with the National Housing Prime. This contract</td>
<td>- The main recent HMG win is the MOJ Prison FM contract which started in June 2015</td>
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<tr>
<td>was 93-94% KPI on a target of 55%, up from 90-91% in January. CarillionAmey</td>
<td>- Carillon has an extension £5bn+ TCV Central Govt, NHS and Local</td>
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<td>continue to recruit and deploy emergency resourcing.</td>
<td>Authorities pipeline. This includes Home Office FM, MOD Future</td>
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<td>- 29 Feb 2016: MOD accepted SE Regional Prime remedial plan, holding off</td>
<td>- Carillon has been one of the most short-sold stocks in the FTSE over the past</td>
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<td>from threatened immediate termination.</td>
<td>year. As of 20 Apr 2016, short selling is steady, at 20%.</td>
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<td>- 18 April 2016: DIO wrote to CarillionAmey to recognise very encouraging</td>
<td>- Carillon annual results were announced on 3 Mar 2016. These have generally been</td>
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<td>progress made against the Improvement Plan, but noting 9 missed targets and</td>
<td>well received, reflected in a sustained share price rise of c. 7% over the period to</td>
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<tr>
<td>requiring explanations. DIO concluded that the end of April would be an</td>
<td>20 April.</td>
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<td>important milestone for whether MOD looks to exercise its termination rights.</td>
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<tr>
<td>- DIO are exploring with CCS the possibility of alternative sourcing options</td>
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<td>for at least one NGEC regional prime.</td>
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**Performance and Issues**
- The Chief Excs of Carillion and Amey were called in by MOD Sec of State for a meeting on 24 Feb about the underperforming NGEC (Next Generation Estates Contracts), under JV 'CarillionAmey', with termination threatened by MOD.
- These Hard FM Regional Prime Contracts and the National Housing Prime contract have had poor performance since they began between July 2014 – Jan 2015.
- CarillionAmey committed to a 3 month Remedial Plan, Mar-May.
- For May 2016, CarillionAmey project 1 of 31 targets across NGEC will be missed. 4 targets were missed in April, and 9 missed in March.
- It will take until mid-June to validate the May results and to formally close the Remedial Plan period. We anticipate that MOD will reflect favourable performance. This may merit a return to Green.
- CarillionAmey continue to recruit and deploy emergency resourcing.
- There are issues with Carillion’s contract for MoJ Prison FM; this 1 year old contract has been hampered by MoJ’s data at tender. We will continue to monitor this situation.

**Recent Wins and Pipeline**
- Carillion has £377m annual revenue from Central Government:
  - MOD / NGEC: £309m, 82% JV CarillionAmey
  - MoJ / Prison FM: £46m, 11%
  - Other / Land Registry: £10m, 3%
  - DCMS / British Museum: £8m, 2%
  - MOD / Pre-NGEC legacy: £6m, 2%
- The main recent HMG win is the MoJ Prison FM contract which started in June 2015.
- Carillion has an extension £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes Home Office FM, MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions, and Cabinet Office and Affiliated Cluster FM.

**Relevant News**
- 24 Feb 2016: MOD Sec of State meeting with Chief Exec
- 29 Feb 2016: MOD accepted SE Regional Prime remedial plan, holding off from threatened immediate termination.
- 18 April 2016: DIO wrote to CarillionAmey to recognise very encouraging progress made against the Improvement Plan, but noting 9 targets missed and requiring explanations.
- [There was no MOD reaction to April performance. And May’s results are not yet validated]
- The Public Accounts Committee have a hearing on 8 June to review Service Family Accommodation, which is likely to consider NGEC.

**Financial Positioning**
- Carillion has annual group revenue of £3.5bn.
- Carillion has been one of the most short-sold stocks in the FTSE over the past year. As of 1 Jun 2016, short selling is steady, at 20%.
- Carillion annual results were announced on 3 Mar 2016. These have generally been well received, reflected in a sustained share price rise of c. 7% over the period to 20 April.

OFFICIAL SENSITIVE – COMMERCIAL IN CONFIDENCE
Government risk assessments relating to Carillion

**Recommendation for RAG:** Retain Amber status on the basis of recent poor performance on the MOD NGEC contract. Status may return to Green if NGEC performance remains improved, however, further information is sought around MoJ/NOMS Prison FM performance.

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**Performance and Issues**

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- These Hard FM Regional Prime Contracts and the National Housing Prime contract had poor performance since they began between July 2014 – Jan 2015.
- Carillion Amey committed to a 3 month Remedial Plan, Mar-May.
- The Remedial Plan concluded with greatly improved performance, with 33 of 35 KPIs being met. Performance in June has also been good.
- Carillion Amey continue to recruit and deploy emergency resourcing.
- There are issues with Carillion’s contract for MoJ/NOMS Prison FM. This 1 year old contract has been hampered by MoJ’s data at tender, however, MoJ/NOMS state that 51 of 54 sites are not performing. MoJ/NOMS have set targets for this number to reduce each month by month over the summer.

**Recent Wins and Pipeline**

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- The main recent HMG win is the Home Office FM (South), which commenced 1 July 2016.
- Carillion has an extension £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions, and Cabinet Office and Affiliated Cluster FM.

**Relevant News**

- 8 July: Public Accounts Committee published its report into Service Families Accommodation, following a June hearing. Carillion Amey was criticised. Carillion Amey admitted poor and unacceptable performance, but stated that performance was improving. The BBC and other press covered this on 13 July.

**Financial Positioning**

- Carillion has annual group revenue of £3.5bn.
- Carillion has been one of the most short-sold stocks in the FTSE over the past year. As of 1 Jun 2016, short selling is steady, at 20%.
**Government risk assessments relating to Carillion**

**Julie Scattergood/September 2016**

### Performance and issues

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- 25th August: NOMS steering group

### Financial Positioning

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- Carillion has been one of the most short-sold stocks in the FTSE over the past year. As of 1 Jun 2016, short selling is steady, at 20%.
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<td>• Carillion are responding by injecting 70 new staff into the contract and providing senior resource into the discussions with MoJ. From conversations with both parties, the proposed plan will take 8 weeks to imbed and 2-4 months to deliver. The Crown Representative is a member of the MoJ Steering Group and monitoring the situation closely.</td>
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<td>• The Crown Representative has been approached by NHS England to discuss possible underperformance on hospital contracts. Underperformance at Nottingham hospitals has also been picked up by the press. A meeting will be arranged between Carillion and the NHS once the performance data is available.</td>
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<td>• The Crown Representative has been approached by DfE, under the priority schools programme, regarding late delivery of handover. Meetings have been held with the MD and improvement action is awaited.</td>
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**Relevant News**

- 15 November: Carillion has signed a new seven and a half year contract with Arriva Rail London for maintenance at 81 London Over ground stations for M&E maintenance, pest control, cleaning and fabric and ground maintenance.
- 1 November: Carillion has won a JV contract worth £1.1bn with KBR for a construction and FM contract to re-base troops returning from Germany.
- Carillion's volunteering and community engagement programme allows staff to apply for 6 paid volunteering days per year.

**Financial Positioning**

- Carillion has annual group revenue of £4.6bn in 2015.
- Carillion remains a “buy” for shareholders, despite the wider impact in the sector after Mitie’s September profit warning.
Government risk assessments relating to Carillion

CRB Performance Report

Carillion

Julie Scattergood / January 2017

Current RAG rating

Recommendation for RAG: The improvement plan is in place on the MoJ/NOMS Prison FM contract and improvement is ongoing as the plan develops. Recommendation is to hold Carillion at AMBER.

Proposed RAG rating

Performance and issues

- The issues with Carillion’s contract for MoJ/NOMS Prison FM are still undergoing improvement. This 1 year old contract has been hampered by MoJ’s data at tender and poor mobilisation from Carillion. A number of sites are underperforming.
- Carillion are responding by injecting 70 new staff into the contract and providing senior resource into the discussions with MoJ. From conversations with both parties, the proposed plan will take 8 weeks to imbed and 2-4 months to deliver. The Crown Representative is a member of the MoJ Steering Group and monitoring the situation closely.
- The Crown Representative has been approached by NHS England to discuss possible underperformance on hospital contracts. Underperformance at Nottingham hospitals has also been picked up by the press. The Crown Representative is awaiting further details on this from DoH.
- The Crown Representative has been approached by DfE, under the priority schools programme, regarding late delivery of handover. Meetings have been held with the MD and improvement action is awaited.

Recent Wins and Pipeline

- Carillion has £377m annual revenue from Central Government:
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- Carillion has a £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions and a number of NHS Trusts.

Relevant News Positioning

- 29 November: Nottingham University Hospitals Trust reports they are looking to terminate a five-year £200m estates and facilities contract with Carillion amid concerns over poor standards.
- 7 December: Carillion reports slowing pace of orders as Brexit and low oil price hit, stating it did not expect to repeat its performance in the first half of the year. Reports strong performance in support services.
- 4 January: A Carillion joint venture has been awarded for a £160m contract to build two new office towers in Dubai.

Financial

- Carillion has annual group revenue of £4.6bn in 2015.
- Carillion remains a “buy” for shareholders, despite the wider impact in the sector after Mitie’s September profit warning.
- Carillion’s share price fell by 5% in early December following their announcement of orders slowing. Their share price has remained around this level since the announcement.

OFFICIAL SENSITIVE – COMMERCIAL IN CONFIDENCE
Commercial Relationships Board
Strategic Supplier Performance Report
Carillion – February 2017
Crown Representative: Julie Scattergood

AMBER

Recommendation for RAG Status
- Recommendation for RAG: The improvement plans are in place on NOMS and NGEC contracts. Improvement is ongoing as the plan develops. Recommendation is to hold Carillion at AMBER.

Supplier Performance and Issues
- Priority Schools Programme: Work ongoing with Carillion to improve performance following criticism from DfE that delivery was late. Further meeting with DfE and Carillion this month.
- NHS Trust: Work ongoing to understand concerns raised by various NHS Trusts at the PFI Board. Meeting set with Carillion and IPM to provide feedback and further meeting with NHS Trusts planned.
- NOMS - MoJ: Much improved performance and improvement plan being met. Positive feedback of Carillion performance being received.
- NGEC - MoD: No new concerns - stable performance

News, Pipeline and Contract Wins
- Carillion’s shorting interest has gone up to 23.5%. This is the highest ever position with no sign of shorters believing that Carillion’s financial performance is going to improve.
- Annual results are to be announced on 1st March.
- Carillion has a £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions and a number of NHS Trusts.
- 24th Jan: Carillion and Nottingham University Hospitals trust co-terminated their £200m FM contract.
- 2nd Feb: Carillion have agreed to extend their framework with ST Openreach, in a deal which worth £500m, with the potential to rise to £900m after three years.

Summary Financial Information

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Share Price Comparison (YoY)
**Government risk assessments relating to Carillion**

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**Commercial Relationships Board**

**Strategic Supplier Performance Report**

**Carillion – April 2017**

**Crown Representative: Julie Scattergood**

| AMBER | ++ | AMBER |

---

**Recommendation for RAG Status**

- KPIs are now green on NGEC. Improvement is ongoing on NOMS as the plan develops and still working through performance issues on the priority schools programme and with the NHS.
- **Recommendation is to hold Carillion at AMBER.**

---

**Supplier Performance and Issues**

- **Priority Schools Programme:** Work ongoing with Carillion to improve performance following criticism from DfE that delivery was late. We have regular engagement with the department and Carillion, with a further meeting scheduled for this month.
- **NHST Trust:** Various concerns raised by the NHS Trusts at the PFI Board about performance relayed during a meeting with Carillion, OC and IPA. Carillion are working with the department to create an improvement plan which will be presented this month to the department.
- **NOMS - MoJ:** Performance has improved and the relationship is good but further work is needed to meet KPIs on the FM service, and challenges continue around projects such as escorting and communications.

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**News, Pipeline and Contract Wins**

- Carillion’s annual results were announced on 1st March:
  - Overall Revenue - £5.2bn up 14% helped by the uplift in UK construction turnover from £1.2bn to £1.5bn.
  - 33% of revenue (£1.7bn) from UK public sector.
  - Reported pre-tax profit down 5% £140.7m largely due to weakness in the Middle East construction business, higher one-off costs and negative currency movements.
  - Year-end net debt £218.9m up 20%.
  - Net pension deficit - £663.2m up 108%, impacted by AA bond yield.
  - Carillion’s shorting position has reduced slightly from 23.5% to 20.6%.
  - Carillion are targeting reductions in FY average net borrowing and a sharper focus on managing working capital for the next 12 months.
  - Announced the award of the Hestia South East region by the DfO in April to their joint venture with Aramark.
  - Announced the award of a £90m contract by the DfO to design and build a communication centre in Cyprus.
  - 12 Apr: Carillion announced as the preferred bidder to design and build phase 1 of the University of Manchester’s planned Fallowfield student village project. The contract is worth £75m.
  - 31 Mar: Reports that the opening of Carillion’s £335m Royal Liverpool University Hospital job has been delayed again following construction problems.
  - Issues are ongoing with delays to the Northern Inner Distributor Road in Taunton with reports suggesting Somerset council council are undertaking legal action.
  - Carillion has a £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions, DWP FM, DIT cluster TFM and a number of NHS Trusts.
Government risk assessments relating to Carillion
Recommendation for RAG Status
- Improvement is ongoing on NOMS as the plan develops and still working through performance issues on the priority schools programme and with the NHS.
- Recommendation is to hold Carillion at AMBER.

Supplier Performance and Issues
- Priority Schools Programme: Work ongoing with Carillion to improve performance following criticism from DfE that delivery was late. We have regular engagement with the department and Carillion and improvement work is ongoing.
- NHS Trust: Various concerns raised by the NHS Trusts at the PFI Board about performance relayed during a meeting with Carillion, CO and IPA. Carillion are working with the department to create and agree an improvement plan.
- NOMS - MoJ: Performance has improved and the relationship is good but further work is needed to meet KPI’s on the FM service, and challenges continue around projects such as escorting and communications.

News, Pipeline and Contract Wins
- Carillion’s AGM statement advises trading conditions have remained largely unchanged since they announced the 2016 full-year results in March. Carillion stated that the focus is as set out in 2016 results, i.e. rebalancing the business, managing challenging contracts and reducing the average net debt.
- 25 May: RMT Union leaders have been present with a consultation document from Carillion this week which indicates possible job cuts and redundancies on Network Rail contracts.
- 25 Apr: J.P. Morgan have upgraded Carillion’s broker rating from Neutral to Overweight.
- Carillion has a £5bn+ TOV Central Govt, NHS and Local Authorities pipeline. This includes MOD Future Overseas Procurement, 7 MOD Soft FM ‘HESTIA’ regions, DWP FM, DIT cluster TFM and a number of NHS Trusts.

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Share Price Comparison (YoY)
Government risk assessments relating to Carillion

Commercial Relationships Board
Strategic Supplier Performance Report
Carillion – July 2017
Crown Representative: Julie Scattergood

AMBER ← RED

Recommendation for RAG Status
- Carillion’s recent trading update has raised serious concern from the market and HMG.
- Recommendation is to move Carillion from AMBER to RED on the basis of potential financial distress under the SSRM Policy.

Supplier Performance and Issues
- Carillion has released a trading update ahead of H1 2017 results. This update has revealed £870m in balance sheet provisions and the announcement of a business-wide strategic review. The Chief Executive has been removed with Keith Cochrane, a Carillion NED taking over as interim CEO.
- Carillion has announced that a deterioration in cash flows on a select number of construction contracts has resulted in an expected contract provision of £845m at 30 June 2017, of which £375m relates to the UK (majority three PPP projects of Aberdeen Western Peripheral, Royal Liverpool Hospital and Midland Met Hospital) and £470m to overseas markets, the majority of which relates to construction projects in the Middle East (Qatar, Saudi Arabia and Oman) and Canada.
- Net debt will now be increased against forecasts to £695m with revenue against guidance also reduced to £5bn, the company have announced that the Group remains within its covenant limits and continues to maintain substantial liquidity, with no loan maturities in the short term.
- The Board has announced that it is undertaking a comprehensive review of the business and its capital structure to reduce net borrowing as a consequence of working capital issues, with all options to optimise value for the benefit of shareholders under consideration. An update on the Board’s review of the business and capital structure will be provided at the Group’s interim results in September.
- HMG is discussing the ongoing issues with Carillion management and affected departments.
- Carillion’s share price had dropped 70% since opening of business on Monday as of 13/07.
- Analysts were unable to form a price target for the company as of 13/07 and speculate that the company may need to raise up to £900m in equity to resolve working capital issues.
- Ongoing minor performance issues remain unresolved on the Priority Schools Programme, NHS and NOMS.

News, Pipeline and Contract Wins
- On the 14th of July, Carillion announced the appointment of HSBC as joint financial adviser and corporate broker with immediate effect.
- On the 17th of July, Carillion announced the appointment of EY to undertake a strategic review of the business.
- Carillion have been awarded (along with [redacted]) - lots C2 and C3 for the 1st phase of HS2, involving the building of tunnels, worth £724m and £616m respectively.
- Carillion has a £5bn+ TCV Central Govt, NHS and Local Authorities pipeline. This includes MOD Future Overseas Procurement., DWP FM, DfT cluster TFM and a number of NHS Trusts.
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![Share Price Comparison (YoY)](image-url)
Government risk assessments relating to Carillion

Commercial Relationships Board
Strategic Supplier Performance Report

Carillion – September 2017

Recommndation for RAG Status
- Carillion’s recent trading update has raised serious concern from the market and HMG.
- A Recommendation was made at July’s meeting to move Carillion from AMBER to RED on the basis of potential financial distress. The following triggers within section 3.4 (paras 3.4.1-3.4.6) of the SSRM policy relating to financial distress were assessed to have been met at this stage. The issue by the Strategic Supplier or any guarantor of its obligations at a stock exchange. Following advice from legal the panel seeks to validate that action.

Supplier Performance and Issues
- Carillion has announced that a deterioration in cash flows on a select number of construction contracts has resulted in an anticipated contract provision of £845m at 30 June 2017, of which £370m relates to the UK (majority three PPP projects of Aberdeen Western Peripheral, Royal Liverpool Hospital and Midland Medical Hospital) and £470m to overseas markets, the majority of which relates to construction projects in the Middle East (Qatar, Saudi Arabia and Oman) and Canada.
- Net debt will now be increased against forecasts to £956m with revenue against guidance also reduced to below £5bn.
- The Board has announced that it is undertaking a comprehensive review of the business and its capital structure to reduce net borrowing as a consequence of working capital issues. EY have been appointed to undertake a cost reduction and cash collection review.
- An update on the review and the announcement of their interim results will be on 29th September.
- NHS Trust: Various concerns ongoing on the construction of the Royal Liverpool and the Midlands hospitals. Carillion are working through the issues with the construction projects.
- NOMS (MoJ): Performance has improved and the relationship is good but further work is needed to meet KPI’s on the FM service, and challenges continue around projects such as escorting and communications. Improvement is ongoing and Carillion are looking to complete their improvement plan in April.

News, Pipeline’s and Contract Wins
- Carillion’s 10th July trading update will be followed by their full year results on the 29th September.
- Carillion have chosen to withdraw from the BEIS TFM Cluster tender but are bidding of DIT, Hesita and DWP FM contracts.

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Share Price Comparison (YoY)
Commercial Relationships Board
Strategic Supplier Performance Report
Carillion - October 2017

Recommendation for RAG Status
- Following the trading update on the 10th July, Carillion released their half year results on the 29th September which updated the market as to their business restructuring plans and interim financing measures.
- Carillion have secured an additional short-term debt facility of £140m from a subset of their lenders. This has provided the company with some ‘breathing space’ to try to restructure the overall business.
- We recommend holding Carillion at Red until the restructuring plans have been worked through.

Supplier Performance and Issues
- The debt facility comes with some significant caveats and is repayable in two phases; £40m in April 2018 and £100m in December 2018.
- Key to Carillion’s restructuring plans is the disposal of its Canadian business and its UK healthcare business. They anticipate generating £300m from these activities.
- Carillion have stated publicly they were operating within their covenants at the half year point and believe this will remain the case at the end of the year. This is despite revealing a £1.15bn loss and declaring losses extend beyond their construction contracts, into support services.
- Carillion plans to reduce its costs by £75m over the next two years and cut its pension deficit by £120m.
- NHS Trust: We are working with IPA and the NHS trusts in relation to the sale of the business and the ongoing construction of the Royal Liverpool and the Midlands Met hospitals. Carillion are working through the issues with the construction projects.

News, Pipeline and Contract Wins
- Carillion have chosen to withdraw from the BEIS TFM Cluster tender. Carillion were unsuccessful on their bids for DFT FM and DWP FM contracts.

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Share Price Comparison (YoY)
AGENDA

Agenda Item: Consideration and decision regarding the provisional designation of Carillion PLC (and its associated companies within the group) (Carillion)

Decision to be taken

The CRB is required to consider whether or not to provisionally designate Carillion as a “High Risk” Strategic Supplier in accordance with the SSRM policy and consider and agree the grounds for such designation.

Recommendation

I recommend that the CRB provisionally designate Carillion as a “High Risk” Strategic Supplier. The CRB is then to invite Carillion to make representations in response to this provisional decision.

Need for confidentiality

This part of the meeting is to take place on a confidential basis, and no part of our discussions are to leave the room. The consequences of the CRB’s recommendation may have repercussions for the supplier’s share price. It is therefore essential that no one does or says anything that may put sensitive information into the public domain in advance of the FSS’s ultimate decision, and that decision being conveyed to the supplier.

Numbered copies of the papers have been made available to the meeting, which will be collected at the end of the meeting.
Commercial Relationships Board

Provisional Designation of Carillion PLC and all companies within the group (Carillion) under Strategic Supplier Risk Management Policy (SSRM)

1. This paper provides the relevant information to allow the Commercial Relationships Board (CRB) to fully consider whether to provisionally designate Carillion as “High Risk” under the SSRM policy and consequently to invite representations from the supplier in response to this.

Recommendation

2. I recommend that the CRB provisionally designate Carillion as a “High Risk” Strategic Supplier. Carillion will then be invited to make representations in response to this provisional decision. Under the SSRM policy, recommendations for designations are made by Crown Representatives. In the case of Carillion, I am making this recommendation due to the yet to be finalised appointment of a new Crown Representative for the company.

Background

3. The goal of the Government’s SSRM policy is to drive all strategic suppliers to deliver Value for Money public services to a high standard. In line with best practice, serious and persistent under-performance by suppliers must be proactively managed and financial distress triggers identified and monitored. The Crown as a whole must be aware of any risks to enable it to take adequate measures to manage it.

4. According to the SSRM policy, a Strategic Supplier may be designated as “High Risk” on the basis that:

4.1. it is considered to have seriously and/or persistently underperformed on one or more contracts with Government and its under-performance has not been resolved in the course of “business-as-usual” contract management; or

4.2. one or more of the triggers of financial distress listed in the SSRM policy have occurred.

5. The CRB is invited to consider the provisional designation of Carillion under the grounds of financial distress.

5.1. The following trigger within section 3.4 of the SSRM policy relating to financial distress has been assessed to have been met: paragraph 3.4.3 - The issue by the Strategic Supplier or any guarantor of its obligations of a profits warning to a stock
exchange. Carillion’s release of a profit warnings on 10 July, 2017; 29 September, 2017 and 17 November, 2017 satisfies this ground.

6. The attached proposed letter (Appendix A) provides the evidence for the designation.

Consequences of provisional designation

7. Carillion will have ten days to make written representations in response to a provisional designation decision. The CRB will consider such representations before reaching a final decision of whether to make a recommendation to the First Secretary of State in his capacity as Minister for the Cabinet Office.

8. If the recommendation and ultimate decision is that Carillion is designated as high risk, the consequences include:

8.1. In-scope organisations should reduce where possible the extent to which the supplier is given additional work, either under an existing contract or on future/new contracts, so as to contain or minimise the risk to the taxpayer.
Dear Mr Cochrane,

Provisional Designation of Carillion plc and all companies within the group (Carillion) under Strategic Supplier Risk Management Policy (SSRM)

The Commercial Relationships Board (CRB), which I chair, met on 28 November, 2017. The Board has reached a provisional decision to recommend to the First Secretary of State, in his capacity as Minister for the Cabinet Office (MCO), that Carillion be designated as “High Risk” under the Strategic Supplier Risk Management (SSRM) policy. This is on the basis that one or more of the triggers for financial distress listed in paragraph 3.4 of the SSRM has been met. The relevant trigger is set out at paragraph 3.4.3: “the issue by the Strategic Supplier or any guarantor of its obligations of a profits warning to a stock exchange.”

The detailed grounds considered by the CRB are attached to this letter as Annex A. The CRB will consider any representations you choose to make before reaching a final decision on whether to make the recommendation to the MCO.

If the CRB does decide to make a recommendation to the MCO to designate Carillion as “High Risk”, the MCO will be advised of the grounds on which the recommendation is made and be provided with the relevant evidence as well as your representations. If the MCO accepts the recommendation, you will be notified accordingly. The notification will set out the reasons for the decision, including a response to any representations you may have made. If the MCO does not accept the recommendation, you will also be notified. Crown Representatives and In-Scope Organisations will also be notified of the outcome as appropriate. The consequences of designation as “High Risk” are set out in Section 6 of the SSRM.

Under the terms of the SSRM, a copy of which is attached to this letter at Annex B, you are invited to make written representations regarding this decision within 10 working days. I look forward to receiving your response to this letter, including your representations by [xx December 2017].

Yours sincerely,

[Signature]

on behalf

of the Government Chief Commercial Officer

Financial Distress

CRB considers that there are clear grounds for designation as high risk on the basis that one or more of the triggers for financial distress listed in paragraph 3.4 of the SSRM policy are met:

Carillion has issued three profits warnings in the last five months, 10 July, 2017; 29 September, 2017 and 17 November, 2017 the latter announcing that it is expecting to breach covenants at 31 December, 2017.

Conclusion

In the circumstances CRB considers that Carillion has met the financial distress trigger event at paragraph 3.4.3 of the SSRM policy: “the issue by the Strategic Supplier or any guarantor of its obligations of a profits warning to a stock exchange.”

Annex B

Government risk assessments relating to Carillion

Commercial Relationships Board
Strategic Supplier Performance Report

Carillion – January 2018

| RED | RED |

**Recommendation for RAG Status**

- Carillion is continuing its work and planning for a restructuring. Their business plan for 2018 is due to be presented to their lenders on 10th January. Lenders need to agree to this plan and agree any additional funding requests that it may contain.
- Carillion’s negotiations with its lenders seeking consent to delay the covenant test date until April 2018 was successful and announced ahead of Christmas.
- It was decided on the 15th December at a supplementary CRB meeting that Carillion would remain at RED status and would not be moved to HIGH RISK. After considering Carillion’s representations on the matter, we considered that it would not be beneficial to the UK Government to allocate a HIGH RISK rating at this time.
- Carillion continue to cooperate and work collaboratively with the UK Government and remain updated on the financial position of the company and the completion of the internal company business review.

**Supplier Performance and Issues**

- The M&S team met with a firm who are advising the 5 principal lenders. FTI provided an update on the lenders’ perspective and the fact that they are taking a sanguine view of the current situation. They are working towards a debt for equity swap to restructure the balance sheet. This will proceed barring two challenges, the Pension Trustees and shareholder consent. The latter being the most straightforward to overcome. Most of the lenders’ exposure is pari passu which facilitates creditor negotiations and is more likely to lead to a constructive outcome.
- Carillion will provide its lenders with the first cut of its Business Plan for 2018 on 10th January 2018 and the lenders are required to agree to this proposal in order for Carillion to move forward with this plan.
- For the majority of the phase one contracts we received contingency plan submissions from the departments. Updated plans from the NHS were received on the 21st December.
- We are continuing work with departments supported by the Civil Contingencies Secretariat, UKGI and our advisers. The aim is to have robust contingency plans across the board with a plan for roll out across all departments.
- UK Government is retaining PWC to develop a XGov negotiation strategy in the event of insolvency.

**News, Pipeline and Contract Wins**

- 06 January: Sky News and wider publications report on Carillion’s financial issues and the urgency of the situation with their lenders.
- The new CEO Andrew Davis is to join the company on the 22nd Jan, earlier than originally planned.
- Carillion have announced that the FCA are investigating the timing and content of their July profit warning.
- The construction of the Royal Liverpool Hospital is delayed further to April 2019.
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**Summary Financial Information**

**Share Price Comparison (YoY)**

*ILC1LN – Carillion PLC*

*XLON - London Stock Exchange*
Glossary

CCS: Crown Commercial Service
DIO: Defence Infrastructure Organisation
JV: Joint Venture
NOMS: National Offender Management Service
TCV: Total Contract Value
IPA: Infrastructure and Projects Authority
CO: Cabinet Office
TFM: Total Facilities Management
CRB: Commercial Relationships Board
FM: Facilities Management
SSRM: Strategic Supplier Risk Management
Formal minutes

Monday 14 May 2018

Members present:

Meg Hillier (in the Chair)
Sir Geoffrey Clifton-Brown Gillian Keegan
Chris Evans Anne Marie Morris
Caroline Flint Lee Rowley

Draft Report (Government risk assessments relating to Carillion) proposed by the Chair, brought up and read.

Ordered, That the draft Report by read a second time, paragraph by paragraph.

Paragraphs 1 to 16 agreed to.

Appendix agreed to.

Glossary agreed to.

Resolved, That the Report by the Forty-first of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report by made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 16 May at 2.30pm]
### List of Reports from the Committee during the current session

All publications from the Committee are available on the publications page of the Committee’s website. The reference number of the Government’s response to each Report is printed in brackets after the HC printing number.

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Twenty-Second Report  The monitoring, inspection and funding of Learndirect Ltd.  HC 875

Twenty-Third Report  Alternative Higher Education Providers  HC 736

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