

26 February 2018

Agenda Item: 6

REPORT OF THE SERVICE DIRECTOR – PLACE & COMMUNITIES

EAST LEAKE PFI CONTRACT UPDATE

Purpose of the Report

1. The purpose of this report is to provide Members with an update on the position in respect of the East Leake PFI scheme in light of the recent financial collapse of Carillion PLC.

Information

2. Nottinghamshire County Council (NCC) has an ongoing schools Private Finance Initiative (PFI) contract with Infrastructure Managers Limited (IML). This contract accounts for the running and maintaining of three sites in East Leake:
 - East Leake Academy
 - Lantern Lane Primary School
 - East Leake Leisure Centre
3. IML subcontracts Carillion PLC to manage the day to day “hard” Facilities Management (FM) services on site.
4. Carillion also subcontracts soft FM services for these sites back to NCC’s catering and facilities management team.
5. Over the past six months Carillion has made considerable losses and has amassed a significant debt and has now collapsed.
6. IML is responsible for making alternative arrangements and for ensuring continuity of service provision as rapidly as possible. Initial indications were that ILM would procure the services direct from NCC with effect from 15 January 2018. Subsequent to this it appears that, in the short term at least, the services will be procured from PwC acting on behalf of the Official Receiver of Carillion. Assurances are being sought around this and a Letter of Commitment will be provided by PwC. There is confidence that services from Monday 15 January 2018 will be paid in full.
7. In addition NCC has also contacted the on-site occupiers at Lantern Lane Primary School, Diverse Academies Learning Partnership (East Leake Academy) and Rushcliffe Borough Council (East Leake leisure centre) to ensure that the sites remain open.

8. NCC has also confirmed that staff on site hold a set of keys and understand how to access the building (operate security/fire alarms etc.) or by agreeing arrangements with the caretaker in advance.
9. A meeting with all partners this month will provide further details of IML's ongoing contingency plans, and longer term proposals to provide an alternative service company to operate the facilities.
10. The Education Skills Funding Agency has been kept informed of our progress to monitor and assess the situation across the Country.
11. This does not affect the schools PFI contract in Bassetlaw which is run by Transform Schools, with facilities management subcontracted to Engie, and NCC providing services to Engie. If we were to ever be in the same position with Engie, Transform Schools would take the same course of action.

Other Options Considered

12. NCC has no direct contract with Carillion in the provision of the East Leake Schools PFI contract. Carillion is a subcontractor of IML with whom NCC have a contract. The only way to have removed Carillion prior to their liquidation would have been to remove IML from the contract or to cease the contract in its entirety. Both of these options would have had significant and damaging financial and legal implications for NCC.

Reason/s for Recommendation/s

13. To allow the Committee to request additional information if required.

Statutory and Policy Implications

14. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance, finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

15. Carillion operated a 'no PO – no pay' policy, however obtaining purchase order (PO) numbers from Carillion has proved difficult. Without a purchase order Carillion will reject any invoice that is sent. In addition Carillion have in the past sent PO's and even payments to the City Council instead of the County Council. Catering & FM normally raise invoices on a monthly basis, however an invoice that was raised in December covered cleaning for the period April – December. This invoice was for £140k and the delay in issuing it was as a result of not being able to obtain the appropriate PO's from Carillion to pay the County Council.
16. The monitoring of the outstanding invoices is undertaken by the Catering & FM businesses, who receive aged debt reports from the debt recovery department.

17. As at 15 January 2018 NCC had 14 invoices outstanding with Carillion with a total value of £234,982.30 (£195,818.58 net of VAT). In addition services provided but not yet invoiced at that date totalled £2,269.39 (£1,891.16 net of VAT). It is very unlikely any of this will be paid meaning a bad debt write off will be required for these amounts.
18. It should be noted that Carillion have historically delayed payment for up to 120 days, but until now have always paid. As at the date of liquidation 4 invoices were dated January 2018, 2 December 2017 and 6 November 2017. Of the remaining 3 invoices over 120 days, 1 was dated July 2017 with the other 2 older invoices being subject to an ongoing query.
19. In terms of the other key contract, Facilities are up to date with their billing to Engie for the Bassetlaw PFI contract. These invoices are paid in line with contractual terms and as at the end of January only 2 out of 12 invoices were over 1 month old (1.6% by value).
20. Sales to the private sector represent a small but important element of the business. For Cleaning, East Leake represents 1.3% of turnover (private sector 12.6%). For Catering, East Leake is 1.7% of turnover (private sector 10.5%).

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RECOMMENDATION/S

Members are invited to comment on the information presented and to advise if they would like to see any additional information.

Derek Higton

Service Director, Place and Communities

For any enquiries about this report please contact:

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Constitutional Comments (KK 14/2/18)

22. The proposal in this report is within the remit of the Finance and Major Contracts Management Committee.

Financial Comments (KRP 14/2/18)

23. The financial implications are set out in the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

- None

Electoral Division(s) and Member(s) Affected

- All