

Report of Director of City Development

Report to Scrutiny Board (Infrastructure and Investment)

Date: 24th January 2018

Subject: City Development - Carillion

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. On Monday 15th January Carillion plc, Carillion Construction Limited, Carillion Services Limited, Carillion Integrated Services Limited, Carillion Services 2006 Limited and Planned Maintenance Engineering Limited (“the Companies”) entered into an insolvency process known as compulsory liquidation. Price Waterhouse Cooper (PWC) has been appointed as Special Managers to assist the Official Receiver.
2. This report provides an update on the position between Leeds City Council and its recent contractual relationship with Carillion Construction Limited.

Recommendations

3. Scrutiny Board members are requested to note and comment on this report.

1 Purpose of this report

- 1.1 This report updates the position between the Council and Carillion Construction Ltd.

2 Background information

- 2.1 At the time of entering insolvency on the 15th of January 2018, Carillion Construction Limited was employed as the Main Contractor to deliver the city centre phase of the cycle city ambition grant (City Connect 2). Funded by the West Yorkshire Combined Authority tenders were invited in March 2017, and the award to Carillion was made on the 3rd of October 2017 at a value of approximately £4.1m.
- 2.2 Carillion Construction Ltd was also the preferred tenderer, in a consortium bid with the consultant Ove Arup, to construct the first phase of works that relate to the East Leeds Orbital Road (ELOR). Funded by the West Yorkshire Combined Authority this sees works to improve a number of existing highway junctions on the outer ring road between Alwoodley and Roundhay.
- 2.3 Recently Carillion Construction Ltd have completed a number of Civil Engineering contracts for Leeds City Council, namely the Inner Ring Road A58(M) tunnel repair and refurbishment, and both park and rides at Elland Road (Phase 2) and Temple Green. All of these contracts were delivered to time and within budget.

3 Main Issues

3.1 East Leeds Orbital

- 3.2 Six consortia of Contractors and Consultants were invited to tender for this initial phase of work on the ELOR, with the subsequent potential to exclusively bid for a later phase to deliver the new orbital road itself.
- 3.3 The six invited ventures had to competitively pre-qualify to be invited to tender, with notice of such intention published to the market on the 23rd November 2016 under the Official Journal of the European Union (OJEU) gazette.
- 3.4 The invitation to pre-qualify closed on the 21st of December 2016. Tenders were then invited of the qualified list of six on the 15th June 2017, and subsequently returned for assessment on the 30th August 2017.
- 3.5 The formal procurement assessment process ended in October 2017. Under the tendering criterion that reflects a 60% qualitative & technical consideration and a 40% financial submission Carillion Construction Ltd offered the most economically advantageous tender.
- 3.6 Carillion's submission offered the best quality. They were not the lowest cost tenderer.
- 3.7 The initial £8m contract was split into two preliminary phases, followed by a potential third to build ELOR should progress on Phases 1 & 2 have been satisfactory.
 - Phase 1 Construction of Outer Ring Road Improvements (£7m)

- Phase 2 Development of Detailed Design for the East Leeds Orbital Road (£1m)

- 3.8 A recommendation was sought to award to the preferred bidder of Carillion Construction Ltd (with Ove Arup as the consulting partner). (Appendix One).
- 3.9 The financial position of Carillion plc has been closely monitored by government offices since profit warnings in July 2017. A strategy in the event of the contractor going into liquidation has been in place within City Development since March 2017. This sees any contract being potentially awarded to a visibly market-strained organisation being subject to an insolvency bond, financially protecting public funds.
- 3.10 The on-demand insolvency bond required by the council before this contract would have been awarded was to be in the sum of 10% of the contract value.
- 3.11 Due diligence was being undertaken by the authority which included regular credit search checks (Appendix Two) and exploring other UK organisations interactions and contract awards with Carillion plc (Appendix Three).
- 3.12 A pre-contract meeting was held with Carillion on the 3rd of January, and subject to provision of a suitable insolvency bond, together with the outcome of Carillion plc's meeting with its creditors (10th January 2017) the programmed date of any prospective contract award was scheduled for the 3rd of February 2018.
- 3.13 On the 15th of January together with five other companies under the Carillion plc group ownership Carillion Construction Ltd went into liquidation. This ended Leeds City Council's interest with Carillion in relation to ELOR.
- 3.14 The Council is now looking at options available regarding the future procurement strategy for ELOR.

4 City Connect 2 (City Centre Cycle Scheme)

- 4.1 Funded by the West Yorkshire Combined Authority, the contract to construct the city centre cycle scheme known as City Connect 2 was awarded to Carillion Construction Ltd on the 3rd October 2017. The tendered value was approximately £4.1m.
- 4.2 Before award of the contract an insolvency bond was required by the authority to guard against any financial failure of Carillion Construction Ltd. This was provided to the Council, whereby it can call in payment of the on-demand bond, in the sum of £450,000 and within seven working days.
- 4.3 The bond was provided by HSBC.
- 4.4 By the 15th of January (the date of liquidation) overall progress on the scheme was measured at approximately 20% with the completion programme standing at late summer 2018.

- 4.5 Although the site was staffed between the 15th and 19th of January by Carillion employees there was no further material progress, as the organisation is no longer able to satisfactorily provide plant, labour and materials. The time was spent making a number of work areas safe and tidy.
- 4.6 The Official Receiver has been advised that as the company has entered receivership that Leeds City Council are Terminating the Contract.
- 4.7 The mechanism to execute the provisions of the on-demand insolvency bond has begun. The Financial Guarantor has been made aware that as the Contractor has suffered an insolvency event and Leeds City Council are to call in payment of the on-demand bond.
- 4.8 Highways & Transportation's Direct Labour Force and Term Contractor are continuing to make the open work-areas safe and undertake any works that will afford the reopening of public highway.

5 Recommendations

- 5.1 Scrutiny Board members are requested to note and comment on this report.

6 Background documents¹

- 6.1 There are no specific background document relating to this report.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.