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10 April 2018

Mr Nigel Dennis  
Chairman  
Regulation, Audit & Accounts  
Committee

Dear Nigel,

**Actions taken on the Carillion profit warning announcement**

Thank you for your letter following the RAAC meeting on 26 March 2018. I can advise that the following actions were undertaken:

The County Council worked successfully with Carillion Energy Services, a subsidiary of Carillion PLC, between 2014 and 2017 to deliver a number of energy efficiency and renewable energy projects including the construction of Tangmere solar farm, solar PV installations on buildings and low-energy lighting upgrades. The company was chosen as the delivery partner for the Your Energy Sussex programme following an OJEU-compliant procurement in 2013. Carillion Energy Services was also the lead contractor for the Westhampnett solar farm project, the contract for which was signed and approved in May 2017 after the scheme had been considered by Select Committee and was subject to a Key Decision taken by the Leader in March 2017.

**July 2017**

The first Carillion profit warning was issued in July 2017. At this point Carillion announced a company restructure and a review of all its contracts both in the UK and abroad, leading to a delay announcing their half yearly profits to September. Officers were aware of these changes and remained in dialogue with the company throughout. The Cabinet Member for Environment and Directors were made aware of these issues and advised that the County Council's Commercial Finance team were undertaking their own company checks on Carillion. At this point in time, it was noted that the share price had fallen but company information available, including an audit report undertaken a few weeks before by KPMG, showed that Carillion were still solvent.

**End of Sept 2017**

At the end of September 2017, Carillion announced a further profit warning on the release of their delayed half-yearly figures. The County Council took a number of precautionary steps at this point:

## **1. Liaison with Market Analysts at the Cabinet Office**

Officers sought guidance on a number of occasions from Senior Commercial Analysts at the Cabinet Office. As a Strategic Supplier to Government, the relationship between Government and Carillion was managed at a senior level within the Cabinet Office. The Cabinet Office had proactively emailed Chief Executive Officers in all Local Authorities with the offer of providing information and support.

The Cabinet Office advised officers that the Government was doing all it could to support Carillion's continued operation and facilitate meetings with banks, however there was some concern about the company's long-term future.

The County Council was verbally advised by the Cabinet Office to continue with any 'live' contracts with Carillion, but not to take on any new ones. All new work with Carillion was put on hold as a result of this advice and officers updated the Executive Director of EIE, the Chief Executive and the Cabinet Member of Environment accordingly.

## **2. Westhampnett solar farm - security of equipment on site and in-transit**

In relation to its sole 'live' contract with Carillion, the County Council put in place a number of measures to safeguard its position following the mid-term announcement. As part of the commercial contract to build Westhampnett solar farm, officers had put in place a number of 'vesting agreements' and an executed 'Transfer of Ownership' document which confirmed all equipment on site and in-transit as the property of the County Council.

In addition, officers ensured that all equipment on site and in-transit was clearly marked "property of the County Council". This was checked on site by our Contract Administrator, acting on behalf of the County Council, and photographs of all equipment were taken. Additional security measures were also put in place at the Westhampnett site by Arun Construction to safeguard all County Council-owned assets.

The County Council's litigation lead was informed of the situation and officers also notified the County Council's insurance company, who were provided with an equipment log and schedule.

### **Early October 2017**

#### **1. Meetings with sub-contractors**

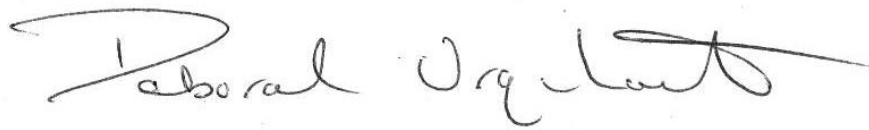
In early October officers held initial, confidential meetings with the sub-contractors about the possibility of them completing the solar farm should Carillion cease trading. At this stage it was confirmed that Arun

Construction would be willing to step in as principal contractor to complete the scheme should the contract with Carillion be terminated.

At this point in time officers also re-examined the contract with Carillion to see if it could be directly novated to Arun Construction, however it was clear that this could only happen should Carillion Energy Services become insolvent or if 6 contract breaches had been incurred. The contract was eventually terminated on 18 January on the insolvency of Carillion Energy Services.

I hope that the above information answers your questions.

Yours sincerely

A handwritten signature in black ink that reads "Deborah Urquhart". The signature is written in a cursive style with a large initial 'D' and a long horizontal flourish at the end.

Deborah Urquhart  
Cabinet Member for Environment