

AUDIT AND GOVERNANCE COMMITTEE – 25 JULY 2018

UPDATE ON THE CARILLION RECOVERY PLAN – PROJECT ATHENS

Report by the Director, Capital, Investment & Delivery

Introduction

1. Following concerns about under-performance and the structure of the property contract with Carillion, Oxfordshire County Council (OCC) started negotiations with Carillion at the beginning of 2017 to review the contract.
2. Agreement was reached to terminate the contract, with the various elements proposed to finish at different times during 2017/2018, with the entire process to be completed by July 2018. The transfer of functions to OCC started in the Summer of 2017.
3. However, the collapse of Carillion in January 2018 meant that the transfer process had to be accelerated very rapidly.
4. Project Athens forms the first strand of OCCs response to the demise of Carillion. The initial phase of the project was focused on the activities required to complete legal termination of the contract and mobilise an operational service from 1 February 2018, including the transfer of staff and functions to OCC. This was achieved with minimal disruption for customers and clients.

Background

5. The focus for Project Athens is now on the Recovery Plan, which has three phases (following Phase 1 – Transition):
6. **Phase 2 - Stabilisation** There are several operational issues that require resolution, mainly relating to HR issues. Actions to resolve these are underway;
7. **Phase 3 - Assessment of Carillion Legacy Issues** Following an initial assessment of the issues in relation to facilities management and completed/part-completed construction projects, more detailed technical assessments and audits have been commissioned;
8. **Phase 4 - Implementation** The full implementation plan will include workstreams to address the construction and FM compliance issues identified from the technical assessments and audits in phase 3. Where urgent action is required e.g. in relation to part completed projects, immediate resolutions are being put in place.
9. Work on Phase 3 is well advanced and is summarised in this report.

Detail

10. **Phase 3 - Assessment of Carillion Legacy Issues** There are several immediate and critical legacy issues, including:
 - a) getting replacement contractors in place to complete part finished projects;
 - b) rectification of known defects with completed projects;
 - c) treatment of latent defects (defects not known at this point that could emerge over time);
 - d) the assessment of the estates compliance with statutory and health & safety requirements.
11. **Incomplete Projects** Replacement contractors are now in place for all projects (listed in Appendix 1) and all have started work. The OCC Property Service has maintained regular contact with clients to ensure they are aware of the replacement arrangements, including the timescales for completing works.
12. **Rectification of Known Defects** To determine the nature and extent of the defects on completed projects, detailed assessments were undertaken in June, including consideration of the optimal solutions for rectification. These are now being costed and will be considered initially by the Athens Board in late September and then by Cabinet and Council in the autumn budget setting process (It will be available for member scrutiny at Cabinet in October). Consideration should be given as to whether the Audit Committee should have a further update in October in advance of Cabinet.
13. It is important to note that while correcting the defects is essential and will be undertaken as soon as possible, none of them present health and safety risks so do not require immediate action.
14. **Treatment of Latent Defects** This phase of work is considering how to manage the risks/costs that might arise from building defects that are not known about at this point but could occur in the future. These latent defects are usually covered through standard contractual arrangements, but these are not applicable in the context of Carillion's liquidation.
15. Discussions with the council's insurance brokers indicate that it would be very difficult to get insurance cover for latent defects and even if available it would be very costly.
16. Other options being considered include an approach to other parties in the OCC/Carillion contract to assess the extent of any continuing liabilities. Proposals for managing the costs of latent defects will be included in the report to Athens Board in September and then through the Autumn Budget setting process, with councillors able to scrutinise the figures at Cabinet in October.

17. **Estates Compliance** The audit programme to assess and identify improvements to the statutory and operational compliance of the non-schools estate is due to complete at the end of October 2018. A remedial programme will then be defined and costed, for consideration in the budget cycle 2019/2020. The aim is to agree the programme by November, for completion by April 2019.
18. Maintained schools compliance is overseen by the Schools Health & Safety Team, who undertake an annual visit to all 121 maintained schools. Schools are also required to submit a range of returns covering e.g. fire safety, gas safety, asbestos management etc. A review of these compliance monitoring arrangements is underway to assess their effectiveness.
19. It should be noted that as compliance considerations are identified they are RAG rated and action taken in line with the timeframes relating to the RAG ratings. This ensures a timely and appropriate response to specific issues.

Financial and Staff Implications

20. Costs relating to the first three phases of the project fall into three areas:
 - additional staffing resources to ensure continuity of service, as well as the development and delivery of solutions to the Carillion legacy issues;
 - funding for the detailed assessment of the project and operational legacy issues
 - costs related to the resolution of staffing legacy issues
21. **Additional Staffing Resources** There are additional costs associated with the transition of the service, largely related to the employment of interim managers and the costs of TUPE. It is highly likely that the current service staffing costs, including the current cost of interim managers can be funded through: the base staffing budgets; the relevant funding transferred from what were Carillion contract payment budgets for Maintenance and Cleaning services; and trading income from schools for Catering services.
22. **Assessment of Carillion Legacy Issues** The costs relating to the assessment of legacy issues are shown below. Please note these costs only relate to the cost of undertaking the assessment, not the legacy itself.

Table 1: Assessment of Carillion Legacy Issues

Activities	2018/19 £000s	Funding
Technical assessment of project defects	450	Agreed through the capital programme
Audit of statutory and operational compliance	1,250	Originally through CLT, but it is proposed that the overspend be reported as part of the routine Finance Monitoring Reporting process #

Total	1,700	
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NB There was no original base budget for these costs, and at this point in the budget cycle it is not clear what property related costs will come through the revenue funded reactive and planned maintenance budgets. It is therefore proposed that the best route is to report the overspend as part of the Finance Monitoring Reporting and, depending on the projected outturn position later in the year, for funding to be decided as part of that process.

23. **Staffing Legacy Issues** The costs of the additional HR resource are contained within the Property Service budget. The costs relating to pay parity for Catering staff will be funded through the income recovered from schools as paid of a traded service, the smaller amount for Cleaning staff will be funded through base budgets.
24. **Phase 4 Implementation Costs** There are likely to be substantial capital costs resulting from the necessary rectification work. Until the detailed assessments and audits are completed it is not possible to give a clear view of the extent of these further financial liabilities.

Equalities Implications

25. None directly related to the project.

RECOMMENDATION

26. The Committee is recommended to:
- (a) consider and comment on progress in implementation of the Recovery Plan;
 - (b) note that there are likely to be substantial rectification costs relating to a range of legacy issues, which will be more fully quantified following completion of the assessments and audits now underway;
 - (c) note that these costs will be considered within the council's annual budget cycle and processes for 2019/2020.

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Background papers: None

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APPENDIX 1 – LIST OF PART COMPLETED PROJECTS

Projects	Academies N/Y
Capital	
Marcham Primary School	N
Matthew Arnold School	Y
Chilton Primary School	N
Sutton Courtney Primary School	N
Repairs & Maintenance	
Hook Norton Playgroup	N
Adult Day Centre - Banbury Redlands	N
Adult Day Centre – Bicester	N
Adult Day Centre - Abbey Centre (Abingdon)	N
Adult Day Centre - Oxford (Slade)	N
Adult Day Centre – Didcot, The Meadows	N
Adult Day Centre - Wantage Charlton Centre (Charlton)	N
East Oxford Children and Family Centre	N
Roundabout Children and Family Centre (Oxford Barton)	N
Bicester Children and Family Centre	N
Didcot Children and Family Centre	N
Abingdon Children and Family Centre	N
Fir Tree Junior- new roof (Wallingford)	N