Dear Bob,

CARILLION FACILITIES MANAGEMENT CONTRACTS

Thank you for your letter of 15th January and for your kind words. I know what a valuable role the Committee plays in scrutinising the work of The Ministry of Justice and I look forward to working closely with you and other Committee members.

Please be assured that the impact to the justice system following the compulsory liquidation of Carillion Plc is of great concern to the Ministry and its Arm’s Length Bodies. The department is well prepared for this situation and has begun implementing its detailed contingency plans.

The response below answers each of your questions regarding Facilities Management (FM) contracts undertaken by Carillion for the Ministry of Justice in turn.

i) The contracts held by Carillion to deliver services to the Department, its Agencies and Arm’s Length Bodies, including their nature, geographical coverage, length, value, performance management arrangements and penalties levied to date.

Please find details in the following table:

<table>
<thead>
<tr>
<th>Contract Name</th>
<th>Nature</th>
<th>Geographical Coverage</th>
<th>Length</th>
<th>Value</th>
<th>Performance management arrangements</th>
<th>Financial Deductions levied to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMPPS Work Package G</td>
<td>Provision of FM services to the Southern prison estate.</td>
<td>South West, South Central and Kent &amp; Sussex</td>
<td>5 years (Commenced June 2015)</td>
<td>£35M per annum</td>
<td>Monthly performance reviews including monitoring performance against a range of KPIs.</td>
<td>£4,057M (for the period June 2015 to September 2017)</td>
</tr>
<tr>
<td>HMPPS Work Package H</td>
<td>Provision of FM services to the Southern prison estate.</td>
<td>Greater London and East of England</td>
<td>5 years (Commenced June 2015)</td>
<td>£40M per annum</td>
<td>Monthly performance reviews including monitoring performance against a range of KPIs.</td>
<td></td>
</tr>
<tr>
<td>East Anglia Courts PFI</td>
<td>Provision of serviced accommodation for Ipswich Crown Court Cambridge</td>
<td></td>
<td>25 years (Commenced June 2004)</td>
<td>£5.8M per annum</td>
<td>Monthly performance reviews including monitoring performance.</td>
<td>£17,349 (for the financial year 2017/18)</td>
</tr>
<tr>
<td>Contract Name</td>
<td>Nature</td>
<td>Geographical Coverage</td>
<td>Length</td>
<td>Value</td>
<td>Performance management arrangements</td>
<td>Financial Deductions levied to date</td>
</tr>
<tr>
<td>---------------------------</td>
<td>--------------------------------------------------</td>
<td>--------------------------------</td>
<td>------------------------------------------</td>
<td>------------------</td>
<td>-----------------------------------------------------------------------------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Crown Courts. Contract is with Modern Courts (East Anglia) Ltd; Carillion is the service provider.</td>
<td>Crown Court</td>
<td></td>
<td></td>
<td></td>
<td>against a range of KPIs.</td>
<td></td>
</tr>
<tr>
<td>Humberside Courts PFI</td>
<td>Provision of serviced accommodation for Courts. Contract is with Modern Courts Humberside Ltd; Carillion is the service provider.</td>
<td>Hull Magistrates Court Beverley Magistrates Court Bridlington Magistrates Court</td>
<td>25 years (Commenced November 2001)</td>
<td>£5.1M per annum</td>
<td>Monthly performance reviews including monitoring performance against a range of KPIs.</td>
<td>£55,226 (for the financial year 2017/18)</td>
</tr>
</tbody>
</table>

*NB. In addition to the above, Carillion provide a citizen helpline service to the Legal Aid Agency, alongside other providers. This is a minor contract worth £15,000 per month.

\(\text{ii)}\) The Department’s assessment of the risk associated with these contracts at the point they were let, including the capacity of the provider to deliver the services within the contract price, and the appetite for risk considering the impact of failure to deliver on critical public services.

The HMPPS prison FM contracts were let in January 2015. The Court PFI contracts for Humberside and East Anglia were let in March 2000 and June 2004 respectively. Carillion’s first announcement to the market of a profit warning was not made until July 2017.

As part of the tender evaluation process the Department conducts a detailed review of pricing submissions from all prospective suppliers. As part of this review, supplier prices are evaluated against other suppliers and any pricing anomalies are highlighted to the supplier.

All decisions to contract for services are required to follow HM Treasury’s Five Case Model Methodology. This includes a review of the strategic, economic, commercial, financial and management cases. The outsourcing of facilities management services is a model that is widely used within the UK for many public services.

\(\text{iii)}\) The Department’s assessment of the impact of the cessation of each of these contracts in the event of Carillion’s collapse.

The Government is committed to ensuring continuity of service. For the HMPPS prison FM contracts, the Department is implementing the agreed contingency plan for the event of supplier failure (recognising that we also have a contract in force with another FM supplier Amey). The assessment of risk is deemed high, given the nature of the services provided.

The Department’s assessment of risk for the two court PFI contracts is deemed minimal. The contract for these services is with the Special Purpose Vehicles (SPV) rather than directly with Carillion. A SPV is a consortium of companies that provide funding, construction and maintenance services. In these
instances, the SPV has contracted with Carillion to provide FM services. The SPVs can therefore contract with an alternative FM provider to maintain continuity of service.

The Department’s assessment of risk for the Legal Aid Agency contract is deemed minimal given that this work can be easily reallocated to other providers.

iv) The Department’s assessment of the impact that the uncertainty of Carillion’s financial position has had to date on service quality or investment in each of these contracts.

For the HMPPS prison FM contracts, I recognise that the service quality has been poor. This is due to a variety of reasons both within and outside of Carillion’s control; such as poor contract mobilisation by Carillion, increasing vandalism rates and reduced capital investment in the estate. Similar issues have also been present with the Northern prison FM contracts that are delivered by Amey however Amey is in a better operational and commercial position to deliver service improvements.

Throughout the term of the contracts, the HMPPS contract management has held Carillion to account for its contractual obligation and has required Carillion to invest in improving service delivery. This has included bolstering key management positions and investment in service improvement projects.

There has been no noticeable impact on the service provision within PFI Courts and the Legal Aid Agency contracts.

v) The Department’s current contingency plans for each of these contracts in the event of Carillion’s collapse.

Our contingency plans for the provision of FM services within prisons cover a number of scenario’s. As it currently stands we are working with the Official Receiver to determine which scenario will apply to each contract and the timing of our activation.

We have mobilised an internal team, (led by our commercial function and supported by our Agencies) as part of the wider government approach, working with colleagues in the Cabinet Office, Treasury and other Whitehall departments.

Where indirect contracts exist (provision of FM services for PFI Courts) we have worked with HMCTS, the PFI’s managing agents and the Official Receiver, which has resulted in the successful continuation of service without disruption.

Yours ever,

RT HON DAVID GAUKE MP