Carillion plc

MINUTES OF A MEETING OF
THE BOARD OF DIRECTORS

Held at 25 Maddox Street, London, W1
On
Thursday 26 January 2017 at 8.15 am

Present: Mr. P.N. Green Chairman
Mr. K.R. Cochrane
Mr. A.J.H. Dougal
Mrs. A.J. Horner
Mr. R.J. Howson
Dr. C.M. Powell
Mr. Z.I. Khan

In attendance: Mr. R.F. Tapp Secretary
Mr. A.R. Green
Mr. N.P. Taylor
Mrs. J. Dawson (in part)
Mr. O. Aljayousi (in part)
Mr. K. Hyland Independent Anti-Slavery Commissioner (in part)

Minute No: ACTION

2060 Directorate: Dr Ceri Powell

During the course of the meeting of the Nominations Committee which preceded the meeting, the Chairman had noted with great regret that Dr Powell had tendered her resignation from the Board with effect from 31 March in order to take up an overseas role.

2061 Minutes

The minutes of the meetings of 6, 7, and 28 December were approved.

Matters arising – 6 December:

a. Worker Accommodation. It was noted that a further update on the position would be provided in the New Year.

b. HR. It was noted that a further update on the position on apprenticeships in the UK and on the use of an apprentice-style approach in Canada and the MENA region would be provided in the first quarter of 2017.

c. Services Contracts: Nationwide. The slides had been amended and placed in the Reading Room.

All/RJH
d. **Worker Representation.** Mr Howson tabled a draft paper setting out possible options for worker representation ahead of the Green Paper. Colleagues were asked to review the paper ahead of a discussion at the next Board. Mr Howson would schedule the matter on next month’s agenda.

e. **Health and Safety: hours worked.** Mr Howson reminded the Board that the reduction in hours worked in the closing months of 2016 had seemed counter-intuitive to the increase in revenue in the period. He reported that investigations had shown that the main drop was in AFC and MENA where a number of major contracts had ended in the closing months on the year, so reducing the number of hours worked.

g. **Ready for Work placements.** Individuals on work placements were clients of Business in the Community and accordingly records were not kept by Carillion on the individuals concerned in the light of that provider/client relationship.

h. **Competitor presentation.** The position was noted.

i. **Aberdeen.** A copy of the lessons learnt paper had been distributed prior to the meeting for discussion in the CCS Report section.

j. **Finance Director’s Report – current trading.** Mr Howson noted that an update on current trading had been distributed following the December meeting. Mr Cochrane indicated that it did not respond to the questions which had been asked, and Mr Khan responded by indicating that the business had ended the year on forecast and had increased the contingency reserve – in other words trading for the final couple of months was in line with forecast. The Chairman noted that the issue raised a more fundamental point – the need for transparency and clarity, particularly if the position had deteriorated in the year, and it was imperative that Mr Khan understood that that was what was required. The Board should not be in a position whereby it had to work out the position itself from papers submitted.

k. **Finance Director’s Report – underlying pbt analysis.** Mr Khan was producing the required analysis on the underlying pbt. The Chairman asked that in addition Mr Khan should produce during the first quarter a cash plan to a given date in 2018, identifying a target debt level and the route by which it would be achieved, whether that be debt collection, cost reduction or disposals, which should each have at least a 75% level of confidence. Mr Khan should then produce an update on that position to the Board on a monthly basis.
In discussion it was noted that the plan was internal rather than something for external discussion, but it should inform the wording for the forthcoming results meetings and announcements.

m. Budget. Mr Khan would re-cut the bridge shown in the budget paper tabled in December so that in RF1 it showed the three or four key items in each business.

n. Strategic Priorities. The Strategic Priorities report was now a standing item on the agenda and a one-page report on progress would be circulated each month as part of the Board pack.

2062 Health and Safety

Mr Howson briefed the Board on the health and safety performance in 2016, noting that the high risk incident target had been achieved for the year, but the lost time incident target had not quite been met. Nonetheless, there had been a significant improvement in the two years prior to 2016 and a 7% improvement had been targeted for 2017, with leading indicators trending favourably – for example the business had achieved a score of 89% of contract leads holding NEBOSH compared to the 90% target, and don’t walk bys achieving 15.8 as against the target of 16. There had also been a reduction of 15% in falls from height in the year.

He covered in detail the two high risk incidents noted in the paper, in the Ontario roads business, and at W Hotel. He reported on the steps which had been taken following each, and on the Group’s policies in relation to voids. An experimental alternative was being followed at W Hotel whereby voids were fenced rather than covered to identify whether that achieved behavioural changes, and the position would be kept under review.

Responding to Mr Cochrane, Mr Adam Green noted that performance in the UK did appear to deteriorate in the closing months of the year, due to a combination of weather, environmental conditions and the like, although by contrast some 14000 person-shifts had been worked in the rail blockade work over Christmas and the New Year without a single LTI, which was pleasing. In January to date there had been two high risk incidents and 2 LTIs, compared to 33 LTIs in January 2016, which demonstrated progress.
Mrs Horner noted a consistent deterioration in performance in the last week of each month. It was unclear why this should be and it was agreed that Mr Rowley would be asked to review possible causes.

2063 **Sustainability**

Mr Adam Green spoke to the Sustainability Board Report, which had been circulated. He noted that the year-end target had been met for BASB, which was pleasing.

He tabled a small, fold-out format of the key sustainability messages with the strategy on one side of the page and key proof points on the other. Colleagues were asked to revert with feedback on the format, so that if desired a version could be produced for the forthcoming 2016 sustainability report.

Finally, he noted that employee nomination fund continued to be very successful, and that the appointment of Hospices UK as charity partner had been extremely well-received, with four times the volunteering hours achieved than had been the case with Barnardo’s, and almost twice the donations.

2064 **Appeals Committee Funding**

A paper had been circulated which covered the distribution of appeals funding for 2016, and review of the strategic partnership with Hospice UK.

The proposed appeals budget of £170k for 2017 was approved.

2065 **Presentation: Pensions Update**

Mrs Dawson joined the meeting. She took the Board through the paper which had been circulated and which dealt with the governance structure, pension commitments, legacy DB plans, deficit schedules of contributions, Brexit impacts, and valuation and cash flow forecasts.

Mrs Dawson also covered the work in hand to de-risk the schemes, and the steps in hand to mitigate both cost and risk in the light of the complex and substantial pension obligations of the Group, the position of the key stakeholders including the trustees and the regulators, and the need to continue the pragmatic and collaborative work which was in hand to reduce risk and control cost.

In discussion, the Board covered risk and mitigation in more depth, together with the relationship with the regulator, the recent BHS position, covenant monitoring, the balance of funding priorities of deficit as against other funding demands and the indices applicable to payment increases.
Mrs Dawson also noted that the company had entered into an agreement with the regulator which required the balance of funding priorities to be taken into account in making decisions as to dividend. It was necessary to ensure that the Board was aware of that agreement in determining future dividends.

The Board’s thanks were recorded to Mrs Dawson.

2066 Presentation: Modern Slavery Act

The Chairman welcomed Mr Hyland to the meeting.

Mr Howson added his welcome to the Board, and Mr Hyland covered a range of issues relating to his responsibilities as Commissioner, the progress of his work, the contribution of corporates and Carillion’s own position. The detail of his discussion is contained in a Confidential Note annexed to these minutes.

The Chairman thanked the Commissioner on behalf of the Board and confirmed Carillion’s strong support for his work. Mr Hyland and Mrs Dawson left the meeting.

2067 Presentation: Brexit Update

The Ethics and Compliance Report was noted. Mr Tapp drew a number of key matters to the attention of the Committee:

Supreme Court Decision. As anticipated, the Court had decided that Parliamentary approval was required to give notice for Article 50 purposes to leave the European Union. That was in hand and it was not expected significantly to delay the Prime Minister’s timetable of giving notice in March.

PM’s Brexit Keynote Speech. Theresa May delivered her keynote Brexit speech on 17 January, setting out the Government’s approach to Brexit and outlining its key objectives. The nature of any future deal is still subject to a degree of uncertainty, but a 12-point plan had been set out to define negotiating objectives. The two key implications for Carillion would be on people and the supply chain.

People. The various UK Carillion entities employed more than 20,000 people, of whom just over 700 had have declared they are EU nationals. More than 6000 had not disclosed their nationality, and as such the number of EU nationals employed is thought to be significantly higher than the declared proportion. Additionally, significant numbers of workers in the supply chain would also be EU nationals.

Mr Tapp explained that if Government applies the current tier-2 skilled worker visa programme for EU workers after the UK leaves the EU, the job must be a graduate-level role with a salary more than £20,800. Most of our EU workers in the construction and other services industries, and those of our subcontractors, would not meet
those requirements.

As such, it was imperative that we continued to lobby on the issue, perhaps for sectoral exemptions or similar, and to engage with Government whilst at the same time identifying mitigating measures for the future.

Supply Chain. Materials from Carillion’s EU-based suppliers and from UK based suppliers utilising materials and/or labour from outside of the UK are likely to bear increased tariff charges post-Brexit. The Group needed to plan for the possibility of those charges.

Responding to Mr Cochrane, Mr Howson noted that the Group is monitoring the issue carefully and lobbying through CBI and other forums, as well as considering other routes.

After discussion, the position was noted and Mr Al Jayousi left the meeting.

2068 Finance Director’s Report

Mr Khan spoke to his paper which had been circulated. He noted the year-end position, subject to audit, showed cash at £218.9m, and cash conversion of 115%.

Mr Howson noted that cash owed would have been available from Mshereib but on unacceptable terms – an advance payment bond which was inappropriate and would have brought further risk. He described current negotiations on Mshereib for the Board. He also noted that no advance payment had been received from Nationwide, and Mr Taylor described the circumstances and Nationwide’s change of policy on the point.

The German bond issue had been completed, with funds due to flow during the day at an equivalent of £112m, denominated in sterling, euros and US dollars. Mr Dougal noted the congratulations of the Board on completing the issue.

Mr Khan noted that sector rivals continued to have issues around performance, management and reporting, with Mitie having issued three profit warnings, Balfours, Capita and Serco continued to suffer from their ills of the past two years.

The work winning report, MPC approvals and management accounts pack were noted.
Preliminary View on 2016 final dividend

Mr Khan spoke to his paper which had been circulated. He noted that it was customary to give the Board an opportunity to consider possible dividend levels prior to discussion in a month’s time.

His paper proposed the possibility of holding the final dividend in the light of the desire to conserve cash and reduce debt. In discussion, concern was expressed at the messaging given by that action in the light of the company’s dividend policy of progressive dividend over the 17 years since demerger, and that it was necessary to be very mindful of the signal to the market. Mr Dougal felt that the reaction could be extremely negative, although Mr Cochrane noted that it may be appropriate to send a message to the market about debt reduction at the right time – however he noted and appreciated the point regarding messaging.

The position would be reviewed further at the February board, and the view of brokers would be obtained.

Mr Khan also noted that the paper contained an error and that the average expectation stood at 18.7p per share rather than the 18.2p per share noted in the paper.

The Chairman asked that Mr Khan should report on his first impressions and priorities over the first quarter, either in a Board meeting or at a Board dinner.

Carillion Historical Performance

Operations Reports: Carillion Construction Services

Mr Adam Green spoke to the report which had been circulated. He covered the safety performance of the business in the period.
Operations reports: Carillion Services

Mr Taylor noted the position on the NGEC, RBS, NOMS and Nottingham University Hospital contracts, confirming that a consensual exit from the Nottingham contract had been agreed, and identifying the terms for the Board.

He also described in detail his D3 process to improve cost and competitiveness across the business.

Chief Executive's Report

Mr Howson presented his paper which had been circulated. He spoke in detail to the key actions described in his paper, which were noted. The Chairman asked that he should revert to the Board with an updated list each month, possibly including traffic lights.

The Your Say pulse survey results had been returned and were very pleasing. The main survey would be run in May/June 2017 and would include culture survey questions agreed with Deloitte to allow them to report on culture as part of the internal audit plan. Dr Powell congratulated the executives on the excellent result in the pulse survey.

Mr Dougal asked if there were further cost-saving opportunities in procurement, particularly in relation to Services businesses. Mr Taylor confirmed that there were significant opportunities and described the processes in hand as part of his D3 project to reduce the number of suppliers and to improve the use of preferred supplier arrangements already in place, noting that there were some 6000 suppliers in Services and only 60% of spend allocated to preferred supplier arrangements.

Strategic Priorities

A paper was tabled, which highlighted the current position in relation to a number of potential opportunities which were discussed in detail.
Mr Howson reported on the progress of each, on meetings in hand or proposed where appropriate, and on the position regarding the proposed IPO of Project Austria.

With regard to Project Freedom, he had it in mind to put an outline proposal to the contact for discussion. Mr Cochrane noted that if that proposal were to constitute an offer, it would be necessary for the Board to approve, which Mr Howson noted was the case. It was agreed that Mr Dougall and Mr Cochrane would discuss the proposal further with Mr Howson on an informal basis. 

He noted also that a further possible project, Project Gravesham, was under review and he described the business and possible opportunity to the Board.

After discussion, the paper was noted.

2075 Acquisitions and Disposals Update

The paper had been distributed and was noted.

2076 Governance

(a) Proposed 2017 AGM Business

The business proposed for the Annual General Meeting on 3 May was noted and approved.

(b) Audit Committee Terms of Reference

The proposed changes to the Audit Committee Terms of Reference were notad and approved.

(c) Review of Committee Membership

The current membership of the primary committees of the Board was noted and confirmed. It was noted that the position would need to be further reviewed following the forthcoming resignation of Dr Powell on her appointment to her new role.

(d) Power of Attorney: Delegation of Authority to sign documents

It was resolved that the Powers of Attorney be renewed with effect from 5 February 2017 on terms that Messrs. George, Herzberg, Maffei, Mills, Tomlinson, Lewin, Tapp and Ms. Curry and Ms. Ramsay would be the Company’s attorneys for general purposes.

It was further resolved that the Powers of Attorney be executed by any director.

(e) Timing of Announcement of Interim Results
The paper had been circulated and was noted. Colleagues were asked to provide feedback to Mr Khan as to the feasibility of the proposal.

2077  Project Cherry 12

Mr Khan spoke to his paper which had been circulated, which proposed the disposal of the equity interest in a number of PFI investments.

After discussion, the disposals were approved in principle. Each disposal would come to the Board for approval in detail in due course.

2078  Review

The coverage of issues was felt to be satisfactory, with the presentations on Pensions, Modern Slavery and mergers and acquisitions being particularly well-received.

2079  Next Meeting

The next meeting would take place on Tuesday 28 February 2017 at 25 Maddox Street, London.

2080  Any Other Business

The Chairman asked that a report on the matters identified in the 2016 Board review, and in relation to Mr Ziehn, be brought back to the next meeting of the Board.

Annexure: confidential note of discussion with Mr Kevin Hyland, Independent Anti-Slavery Commissioner.
Presentation: the office of the independent anti-slavery commissioner

Confidential note of a discussion forming part of the Carillion plc Board meeting – 26 January 2016

Mr Hyland, the Independent Anti-Slavery Commissioner, joined the meeting.

Mr Howson welcomed Mr Hyland to the meeting and explained the purpose for Mr Hyland to join the Board meeting. Mr Howson explained that he first met Mr Hyland as part of a key Government supplier roundtable around modern slavery which had been very productive, and he felt it would be desirable for Mr Hyland present to the Board around his role and the Modern Slavery Act 2015 ("the Act").

Mr Hyland introduced himself and the role of his Office. He noted that he appreciated the efforts that Carillion is making and the steps being taken to tackle modern slavery. He explained that his office has been working with the Group Compliance Manager and was happy to continue to do so. He noted that he and his office had had as much engagement with Carillion as with any corporate, which was to be commended.

It was noted that culture is key to compliance with the Act - having the right culture is most important tool for ensuring compliance. Mr Howson explained the Group’s culture around health and safety is very strong, and the Commissioner noted that the construction industry’s learning over the last 20 years on health and safety could be easily transferred to fighting modern slavery. Ultimately both aimed to protect people. The Chairman noted that culture is often discussed at the board table because it plays such an important role in compliance, and because ethical culture is what Carillion stands for.

Mr Hyland explained that the Act is intended to tackle modern slavery by consolidating various offences relating to human trafficking and slavery. It also includes a provision for transparency in supply chains that will require all businesses with an annual turnover of £36 million or more to disclose in an annual slavery and human trafficking statement on their website what steps they have taken during the financial year to ensure their business and supply chains are slavery free. Mr Hyland highlighted the powers the Act gives the Secretary of State. He noted that the Secretary of State may seek an immediate injunction through the High Court in case businesses breach the Act, but that that was in reality the only sanction in relation to reporting. The aim was to bring corporates to compliance through education, peer pressure and an understanding of the issues and the role which they could play in defeating modern slavery.

Amongst the issues raised in discussion were:

- Mr Hyland stressed the importance of the role that private sector companies like Carillion play in eradicating modern slavery both in the UK and overseas.

- Mr Hyland explained that he wanted to work with business that are identifying slavery within their supply chain and would want to fight it rather than ignore it.

- Mr Hyland spoke about the Sports Direct case where two brothers who trafficked 18 people from Poland to work in Sports Direct in the UK and conned and threatened them have been jailed.
Mr Hyland explained that fighting modern slavery is a top priority for the Prime Minster and her Government. Mr Hyland explained that he is part of the Parliamentary task force to fight modern slavery.

Mr Hyland spoke about the importance of businesses engaging and joining forces with the Chief Constables and local authorities locally in order to identify any issues around modern slavery.

Mr Adam Green asked a question around the processes that Carillion could use to engage with local police. Mr Hyland confirmed there is no well-defined process in place at the moment and it formed part of his plan for this year. However, he urged Mr Green to engage with local authorities in case a risk of modern slavery has been identified. He also mentioned that the Home Office has dedicated circa £8.5m in 2017 for local police to fight modern slavery.

The Chairman explained that the Board is fully engaged with the issue around modern slavery and received a presentation from the team in the Middle East during the Board’s visit last November. The Chairman stressed that the team has presented the issues and problems faced in the region as well as the good practices that are taking place. Mr Hyland commended Carillion’s approach and stressed the importance of compliance as the reputational damage that business could suffer in the event of problems could well be significant.

The Chairman thanked Mr Hyland for his positive feedback and asked where Carillion might improve or take further steps? Responding, Mr Hyland explained that it should consider publishing its good practice through case studies and good practice guides, perhaps by working with one of the Universities.

Mr Hyland also encouraged the Board to continue to ensure the business plays a significant part towards promoting best practice across the industry through various forums.

Mr Hyland encouraged the Board to look at the UN Sustainable Development Goals. Mr Howson and Dr Powell explained that Carillion has reviewed its sustainability policies and strategy to incorporate these goals.

The Chairman thanked Mr Hyland for his valuable time and reinforced the importance of continuing the engagement with Mr Hyland and his office in the future which was welcomed by the Commissioner.

RFT 26 January 2017