

CYNGOR SIR POWYS COUNTY COUNCIL

**County Council
24th January 2019**

REPORT AUTHOR: County Councillor Phyl Davies, Portfolio Holder for Highways, Recycling and Assets

SUBJECT: Question from County Councillor Elwyn Vaughan

In recent months we have seen a major outsourcing company, Carillion, going to the wall. In recent weeks we have seen another company, Interserve, in severe difficulty.

At the same time a listed government contractor has been hit by delays and cost overruns on a major NHS project. Its average net debt is rising and the reported number does not include hundreds of millions of pounds of supply-chain finance just to pay the bills. It has been making acquisitions and booking the goodwill at a higher value than the price paid. Yet it keeps increasing its dividends for shareholders.

No, it is not Carillion, the outsourcer that collapsed. It is Kier. Kier also reported a 17 per cent rise in average net debt to £375m — which excluded £185m of supply-chain finance owed at the year end, and reported separately as “trade creditors”. Carillion’s net debt figure of £900m excluded £500m of similar financing to pay suppliers.

Kier’s most recent acquisition, the building group McNicholas, had a price of £26m but the company booked £43m of goodwill in its accounts. Carillion also bought businesses and wrote up goodwill of more than 100 per cent of the purchase price, building up its intangible assets.

In view of this consistent pattern, can we as an Authority which has a joint venture with Kier, have:

- the assurance that Kier is still a viable entity?
- what risk assessment has been done to minimize the liabilities to Powys Council?
- clarification of the steps that would be undertaken should Kier follow the path of Carillion and Interserve?

Response

Further to the Right’s issue announced by Kier, Cabinet members and Senior officers have received a briefing on Kier’s position from their Chief Operating Officer. We have also received assurance from their Executive Director that the group remains confident that it will meet its trading expectations. Kier’s Future Proofing

programme, launched in June, is also making good progress and they are on track to deliver on the targets set out for this financial year.

The rights issue will allow Kier to accelerate its debt reduction programme and increase the strength of its balance sheet.

Kier state that the position has been viewed positively by other stakeholders including the Cabinet Office for whom Kier are part of the Strategic Supply Programme.

The HOWPS contract details termination events and exit management and the associated procedure that must be followed if a termination event did occur. In addition, Powys and HOWPS have produced a joint Exit Plan, which set out in detail the requirements to ensure that the transition of responsibility for the provision of the current services from HOWPS to Powys County Council or a replacement supplier can be achieved with the minimum of disruption.