UK: Carillion collapse threatens jobs and pensions, exposing plunder of social assets

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Carillion, Britain's second largest building company and a major government contractor, went into liquidation Monday.

The jobs and pensions of 20,000 workers it employed in the UK (and a further 23,000 internationally) are at risk, along with those of tens of thousands of subcontractors and small businesses. With its significant involvement in the public sector, key projects have been placed in jeopardy.

Carillion was responsible for delivering 32,000 school meals daily, managing nearly 9,000 school buildings, and providing services for 11,800 hospital beds, 200 operating theatres and 50 prisons.

Its construction arm was responsible for building maintenance at the spy centre, GCHQ, and the British military's Permanent Joint Headquarters. Key building projects include the £1.4 billion contract (along with partners Kier Group and Eiffage) on the HS2 high-speed rail project, the largest infrastructure contract in Europe, the Aberdeen Western Peripheral Route and the new Royal Liverpool University Hospital.

Carillion entered liquidation after emergency talks with the government over the weekend failed. Its lenders include 18 banks, which were being coordinated by Barclays, Santander, Lloyds Banking Group, Royal Bank of Scotland and HSBC, and 14 pensions' funds, of which 13 are in the UK.

The banks had refused to provide £300 million of new funding to the firm without the back-up of taxpayers' cash. In a repeat of the "too big to fail" mantra of 2008, when the financial institutions were bailed out to the tune of almost £1 trillion, Carillion's lenders argued the firm was too integral to the public sector to be allowed to fold. They not only sought taxpayer guarantees for the company's debt, but also to offload pension liabilities onto the state-run Pension Protection Fund.

The company's shares had crashed by 94 percent, as its market capitalisation collapsed from £2 billion to just £61 million. With a £650 million pension deficit (estimated to actually be in excess of £800 million) and £586.5 million debt (in 2016), the firm was worthless.

The government decided that it was too politically risky to be seen directly stumping up the guarantees demanded by the banks—especially given that the company secretly took measures to protect £4 million bonuses of executives prior to details of the financial crisis breaking.

According to the *Daily Mail*, pay policy wording was changed earlier last year to make it more difficult for executives to lose their bonuses in the event of a financial crisis. This was after Carillion issued a profit warning in July, the first of three, writing down £375 million on three public-private finance partnerships in the UK, and £470 million overseas.

This led to shares falling by 39 percent and chief executive Richard Howson quitting his post. Howson, who remained with Carillion as chief operating officer, made £1.9 million in cash and share bonuses during his eight-year tenure and took £245,000 bonus in cash and shares and a £346,000 long-term incentive award in 2016.

Then finance chief Richard Adam received £2.6 million in additional cash and shares during his 11-year tenure, and a £140,000 bonus and long-term incentive awards of £278,000, before quitting in December 2016.

There are reports of banks shifting Carillion off their balance sheets over the last months in anticipation of its inevitable folding. Workers, however, were left in the dark, and jobs, pensions and essential social provisions hang in the balance.

The government indicated that "some" of the 450 public sector contracts held by Carillion might be taken in-house, while other subcontractors were expected to take over projects. With many of them facing unpaid bills, it remains to be seen how this will work.

Some 28,000 members of Carillion's pension schemes have been told they must rely on the dwindling government Pension Protection Fund—a subvention for companies to avoid their responsibilities. Those not yet retired will lose at least 10 percent.

The impact was underscored by Defence Minister Gavin Williamson telling Parliament Monday that an emergency Cobra meeting—convened at times of national crisis—would be held to discuss Carillion. This was denied by Downing Street.

Carillion's fragile state had been known in ruling circles for months. It kept going so long only because the government continued to pump taxpayers' funds into it, despite the risk. Just one week after Carillion posted its first profit warning on July 10, the Conservative government awarded it two major contacts—the £1.4 billion HS2 joint venture and a £158 million contract to manage catering and accommodation facilities at more than 230 military facilities.

When it posted its second profit warning on September 29, announcing a half-year loss of £1.15 billion, Carillion was rewarded on November 6, with a £62 million contract from Network Rail. Just 11 days afterwards, when the firm issued its third profit warning, it was handed a £12 million school building contract from the Education and Skills Funding Agency.

At the start of this month, the Financial Conduct Authority (FCA) announced it was investigating the "timeliness and content" of Carillion's statements from December 7, 2016 to July 10, 2017.

Political calculations account for the decision to keep handing Carillion money. The company is the embodiment of the privatisation agenda carried out by successive Tory and Labour governments through the Private Finance Initiative (PFI) and Public-Partner Partnership schemes.

Through such means governments have effectively handed public funds over to private corporations, their lenders, shareholders and CEOs to run essential social provision, on astronomical rates of return. Britain also exported such schemes abroad, to countries such as Canada, India and Eastern Europe.

According to The People Vs PFI website, companies like Carillion effectively functioned as "shop fronts for the big banks, who use PFI as an infrastructure financing mechanism to dump billions of pounds of debt and toxic hedging instruments on the British Taxpayer, who ultimately underwrite the PFI deals."

It estimates that such deals have incurred *a minimum* liability for public funds of £240 billion over the next 40 years. PFI/PPP contracts can return an "extreme profit margin," in some cases as much as 70 percent per annum. While public funds are locked into financing private infrastructure projects at grotesque levels of interest, the corporations themselves are risk free.

Earlier this month, the government handed Richard Branson's Virgin Trains East Coast (Vtec) nearly £2 billion by allowing it to get out of its contract three years early. In the case of Carillion, its subsidiary Clinicenta was paid £53 million in 2013 by the government to escape its contract to run a National Health Service Treatment Centre in Stevenage, after clinical failings that included three patient deaths. This was just two years after NHS London paid it £8 million to terminate a similar contract due to an inquiry into avoidable deaths.

This is only the tip of the iceberg. Four Seasons Health Care, which provides for 17,000 elderly and vulnerable people, is in trouble. Owned by US investment firm H/2 Capital Partners and private equity group Terra Firma, Four Seasons took over from Southern Cross Healthcare when it collapsed in 2011.

There was huge public shock and anger after the Grenfell Tower inferno, which killed 71 people. In addition to the lack of any safety provision for its working class residents, there was a complete absence of any centralised assistance for the victims—many of who remain in temporary accommodation.

The catastrophe that has developed in the NHS in recent weeks shows that Grenfell was not a "localised" tragedy. The NHS has cancelled non-emergency operations due to a severe funding shortage, in which PFI contracts have played a major role.

Carillion's collapse underscores the extent to which Britain's ruling elite has looted and pillaged vital social assets in pursuit of the selfish concerns of their super-rich paymasters.