

## Specialist Contractors hit by £1.9 billion bad debt provision per year!

### Construction Charter - Still a Massive Flop!

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We at the Confederation read with interest the recent government white paper; 'Fixing our broken housing market'. Leaving aside the indirect admission that government housing policy has failed over many decades, we noted the reference to the 'Farmer Review' (P. 41), *"This is an important moment and we should make the most of the opportunity for industry to invest in its workforce, alongside tackling the issues raised by the Farmer Review. The larger companies need to take responsibility for ensuring that they have a sustainable supply chain, working with contractors to address skills requirements"*. Well yes, we agree! The Farmer Review highlighted how specialist contractors are unfairly treated whilst working as part of a supply chain:

- "...multiple on-costing, downward and often inappropriate risk transfer" (p.17)
- *"...The multiple and tiered sub-contracting interfaces within the industry and between industry and its clients has generated a further non-value add process whereby some businesses higher up the supply chain will use other businesses' money lower down to temporarily support and enhance their own cash flow."* (p. 24)

So, a good start to ensure a sustainable supply chain would be for Main Contractors to resolve unfair practices highlighted in the Review.

Recently, the Confederation was accused of not helping the construction industry by focusing on payment grievances by a small percentage of specialist contractors, and that it would be more beneficial if the Confederation instead highlighted good practice that is happening within the industry, such as the Construction Supply Chain Payment Charter initiative. Therefore, never to take accusations lightly, I will indeed highlight another government intervention that has utterly failed to address payment and finance issues.

In 2013 the Government published its long-term vision of how industry and government will work together to put Britain at the forefront of global construction. The vision was in the publication, Construction 25, Industrial Strategy: government and industry in partnership. The vision cited equitable financial arrangements and certainty of payment as critical success factors for the industry and proposed a need to '...create conditions for construction supply chains to thrive by addressing access to finance and payment practices.' In 2014, the government, surfing a wave of its own optimism and naivety, launched a Construction Supply Chain Payment Charter that set out eleven fair payment commitments. The idea was that clients, contractors and sub-contractors would rush to sign up to the charter. However, industry hastily erected obstacles, which soon reduced the wave of optimism into a ripple. With only nine companies signing up, including less than a third of the Construction Leadership Council's members, and with no accompanying legislation, the charter was in danger of sinking without trace. Relunched after amendments in 2016, there is now only 30 signatories out of approximately 288,000 construction businesses. Furthermore, and surprisingly, although Build UK, to their credit, promoted the charter, the uptake amongst its very own membership is tiny and extremely disappointing – overall, not the ringing endorsement of fair

practice that was hoped for. Nonetheless, the 30 signatories should be recognised and applauded for their commitment to fair payment, so use the following link to note who these companies are:

[http://ppc.promptpaymentcode.org.uk/ppc/cscpc\\_signatory.a4d](http://ppc.promptpaymentcode.org.uk/ppc/cscpc_signatory.a4d)

As for the small percentage of specialist contractors with payment grievances, it is actually rather large. The 2015 Planning for Growth Report (published by Bibby (BFS) and The Vinden Partnership (TVP)) revealed that over 70 per cent of SME construction firms had suffered bad debt over the previous three years. The average amount written off was over £30,000, equating to £1.9 billion each year across the sector.

Obtaining full payment and on time is a huge problem within the construction industry. However, specialist contractors can help themselves by methodically reading every line/clause in contracts and having clauses removed that are detrimental to their business. Sending appropriate employees on contractual awareness courses will greatly improve contract understanding which will improve businesses obtaining payment.

For over 30 years the Confederation of Construction Specialists has been supporting construction specialist companies. By providing up-to date relevant contract training courses, professional advice and contractual guidance, the Confederation of Construction Specialists enables specialist companies to optimise the ways in which they operate contractual arrangements when dealing with main contractors or clients.

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