

Open letter to Government on industry challenges

3 years ago



Chris Barber, Co-founder of Prosper and C-Link, has penned an open letter to Nusrat Ghani MP, which goes further into detail about the issues the construction industry faces today and what PBAs can do to solve those issues.

A digital-led approach towards PBA's will bring transparency, compliance, and sustainable economic growth to construction and help build a better future for the industry.

The letter states:

Dear Minister,

I am writing to express my concern about the construction industry's cash flow and insolvency issues and propose a solution that could significantly reduce these problems, stimulate economic growth, reduce mental health issues arising from late payments, and ultimately save lives.

As you are well aware, the construction industry is one of the most critical sectors of our economy, contributing 7% to our GDP. However, it is also one of the most vulnerable to cash flow and insolvency issues, which has a detrimental effect on the industry's overall output, thus impacting our economy. Here are some worrying statistics for the UK construction industry:

- Insolvency: The number of insolvencies in the construction sector in Great Britain soared in 2022 to the highest number in over a decade, with 4,332 companies becoming insolvent, which is staggeringly 58.5% more than in 2021 (2,733 companies).

In the first quarter of 2023, 1,236 construction companies have become insolvent, meaning we are on target to hit the 6000 insolvencies forecasted for this year. As a sector, construction is the most significant contributor to insolvency and contributed to 19% of all company insolvencies in 2022 – this is 27% more than the next biggest contributing sector, wholesale and retail.

- Late payments and bad debts: Two-thirds (65%) of UK construction companies have reported issues with late payments. Payments in the construction sector often take 75-90 days, which is well above the standard 30-day payment terms. This has resulted in 73% of construction companies utilising debt via credit cards and loans to facilitate payments and cash flow, significantly increasing the industry's financial exposure and the likelihood of more insolvencies.

It is estimated that the bad debt within the UK construction industry could increase from £300m to £1bn by the start of 2024, and Subcontractors write off an average of £16,149 each year.

- Mental health: The mental health of UK construction workers is a serious and growing issue – two people working in construction commit suicide daily, and the latest data indicates that the rate of suicides has increased by over 30% in the last 7 years.

Construction workers are four times more likely to take their own lives than other sectors, and more than four in five UK tradespeople (84%) say they've experienced some form of mental health problem.

Unfair payment practices and insolvency cause significant mental health issues and discord in the industry, with one report finding 90% of construction bosses have suffered from mental health problems due to late payments, with 10% experiencing suicidal thoughts.

Clearly, the industry is in a dire state, and this cannot continue.

The Solution

The best possible solution to this problem is the introduction of mandatory project bankaccounts (PBAs). I propose this legislation is for projects of a total construction value over£1 million. A PBA is a separate account that holds all payments for a particularconstruction project. This means that payments are ring-fenced and cannot be used forother purposes.

The funds in the account are controlled jointly by the client, the maincontractor, and the subcontractors, ensuring that everyone involved in the project is paidon time and in full.PBAs have already been successfully implemented within the UK, but only for large public contracts, where they have significantly reduced cash flow issues.

This is because PBAs ensure that subcontractors are paid promptly, which reduces their reliance on borrowing,thus reducing the risk of them becoming insolvent.Whilst PBAs have been deployed to great success on many projects, these have beenexclusive for large public contracts, accounting only for 27% of the UK's total constructionoutput.This means that 73% of the industry misses out on ethical payment practices via PBAs.

Therefore the majority of the industry is at the peril of clients paying on time – and we know only 35% of

clients actually pay on time. In addition to being the fulcrum of solving cash flow, insolvency, and mental health issues, PBAs also have a range of other benefits. For example: Transparency: PBAs offer full transparency up and down the supply chain.

The client, lender, main contractor, and subcontractors have a complete visual of payments being made on the project – the transparency will breed trust between the stakeholders, which will significantly help improve the relationships in the industry.

- Compliance: Construction companies will need to improve their operations and processes to execute the PBA – key contractual and operational documents such as orders, tenders, quotations, payment notices, and applications for payment will need to be submitted on time and to the correct standard.
- Relationships and culture: prompt payments are ethical, and with transparent on-time payments and improved compliance from all parties, disputes will be significantly reduced, which means more collaborative and long-term relationships will be built, thus reducing discord and the mental health issues associated with late payments and disputes.
- Improved lending: with transparent mechanisms and improved compliance, the lending risk will reduce as lenders have a complete visual of how and where their money is being spent. This means lower rates and more lending for construction projects.
- Stimulating sustainable economic growth: with fewer insolvencies and increased lending, more companies and projects are contributing to the sector, boosting the output.

With increased output, the construction industry will significantly contribute to a UK economic recovery. Given these benefits, I believe it is time for our government to consider the introduction of mandatory PBAs for all construction projects over £1 million.

Along with a digitally-led approach, this would be a significant step towards improving the cash flow for SMEs and increasing the overall construction output, thus resulting in a positive economic outcome and growth for the country.

I have shared a link below for our petition for mandatory project bank accounts.

<https://www.change.org/Make-PBAs-Mandatory-In-UK>

I urge you to support our case, consider this proposal carefully, and introduce mandatory PBAs to avoid the industry collapsing and impacting our country's economy.

Thank you for your attention to this matter.

Yours faithfully,

Christopher Barber

Construction Link Limited

[You can sign the petition here](#)