

Constructing Excellence Member Forum

The Payment Minefield

16 February 2016



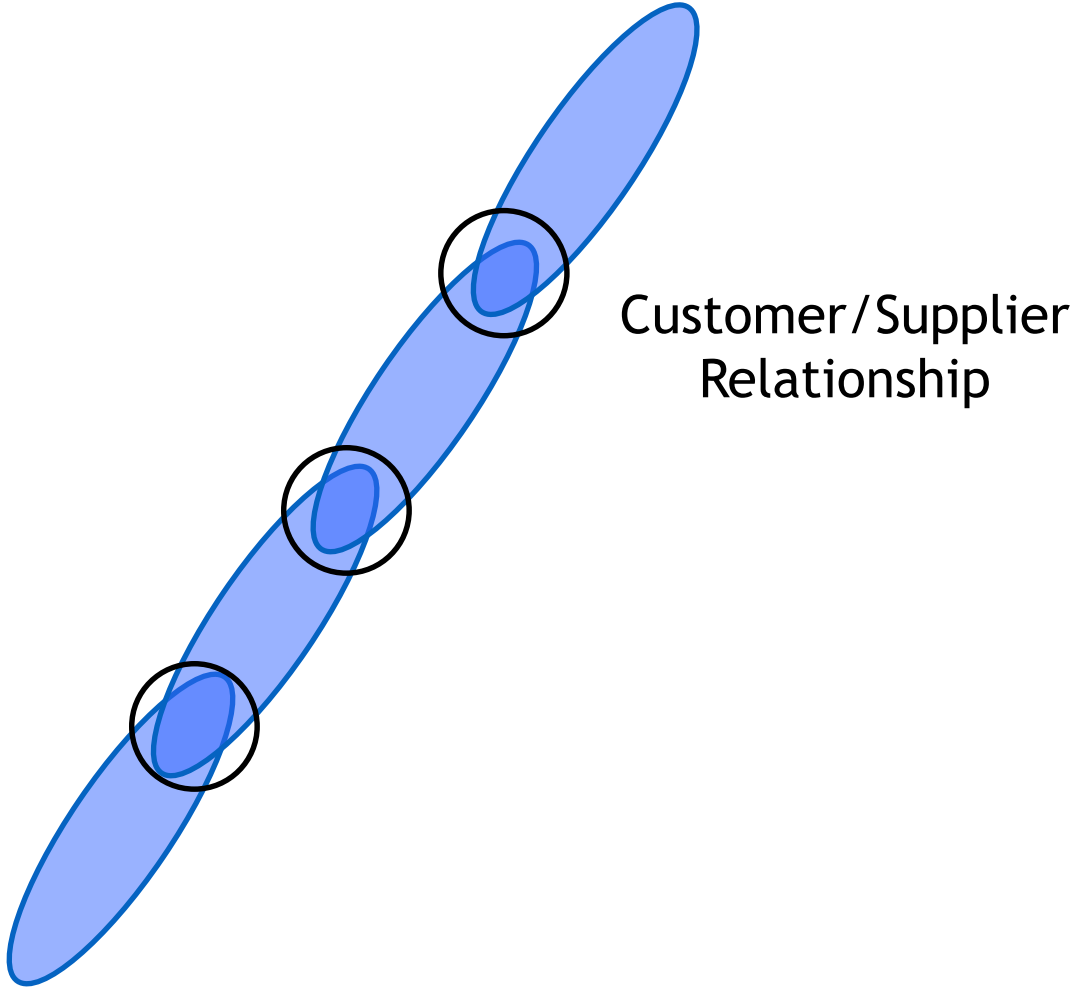
#CEforum

@constructingexc

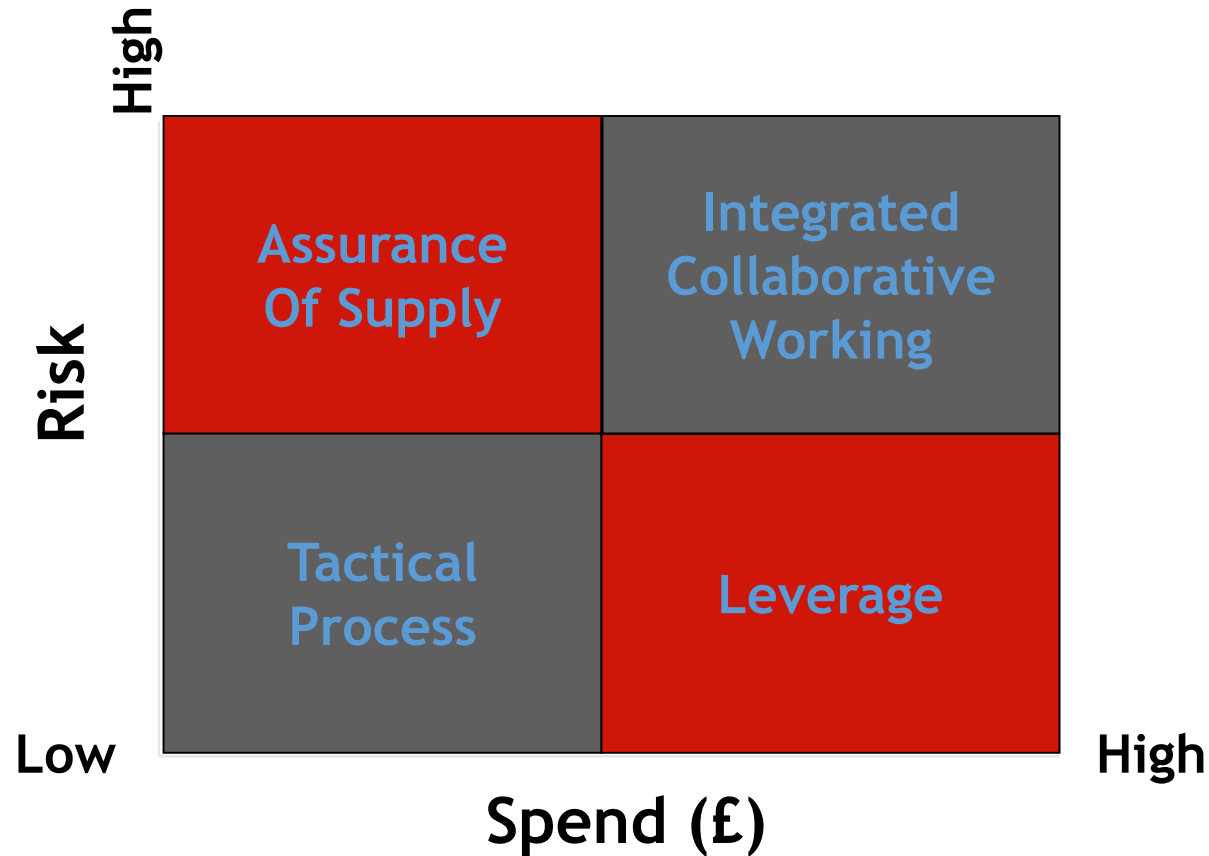
@G4Cnet

@UK_CCG

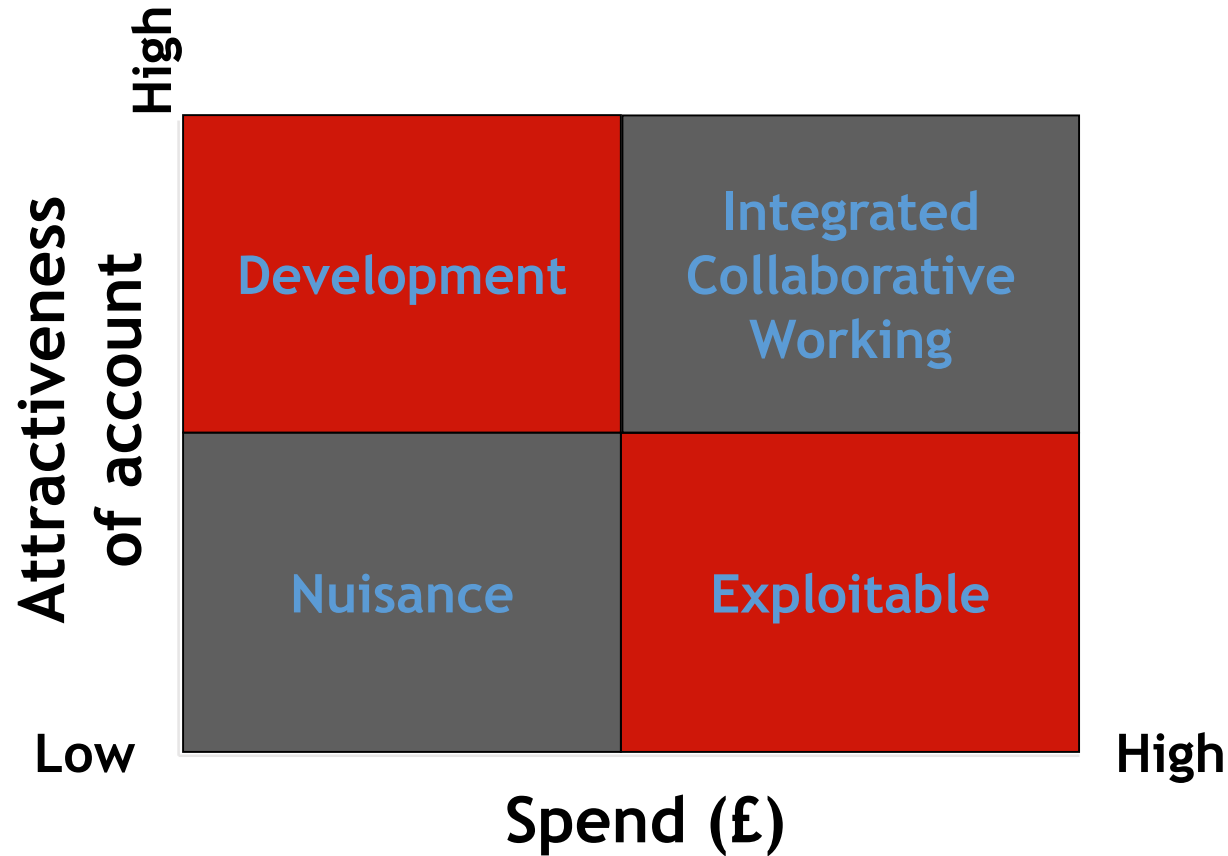
Transactional Interfaces



Customer View – Supply Positioning



Suppliers View – Customer Relationships





Department of Health



Sustainable Supply Chains – Prompt Payment

Cliff Jones MCIPS MRICS

Head of Construction Procurement Team

10th February 2015

Sustainable Supply Chains – Prompt Payment



- What does “prompt payment” mean?
- Who does it affect?
- Why is it important?
- Evidence of compliance within Supply Chains?
- Challenges (“not barriers”)?

What does “prompt payment” mean?

SIMPLY :

ALL PAYING:

- **WHAT THEY ARE DUE**
- **AT THE EARLIEST TIME**
- **AS SOON AS IT IS DUE (OR EARLIER)**
 - **WITHOUT DELAY**

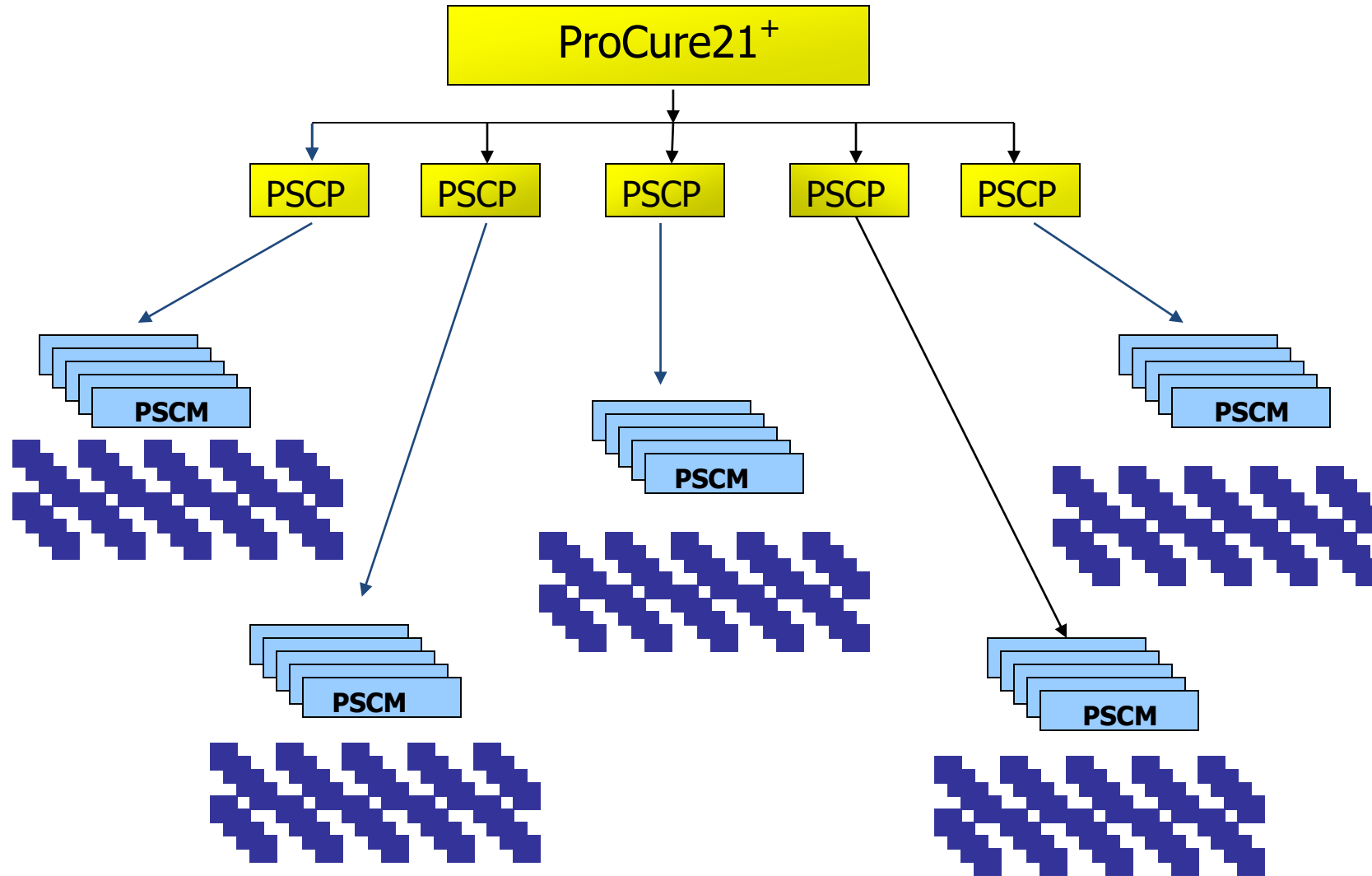
Who does it affect?

ALL INVOLVED IN THE DELIVERY OF A PROJECT:

- Clients;
- Professional Advisors (Project Managers, Designers etc.);
- Contractors;
- Sub Contractors;
- Components Manufacturers;
- Materials Suppliers.



ProCure21+ Supply Chains



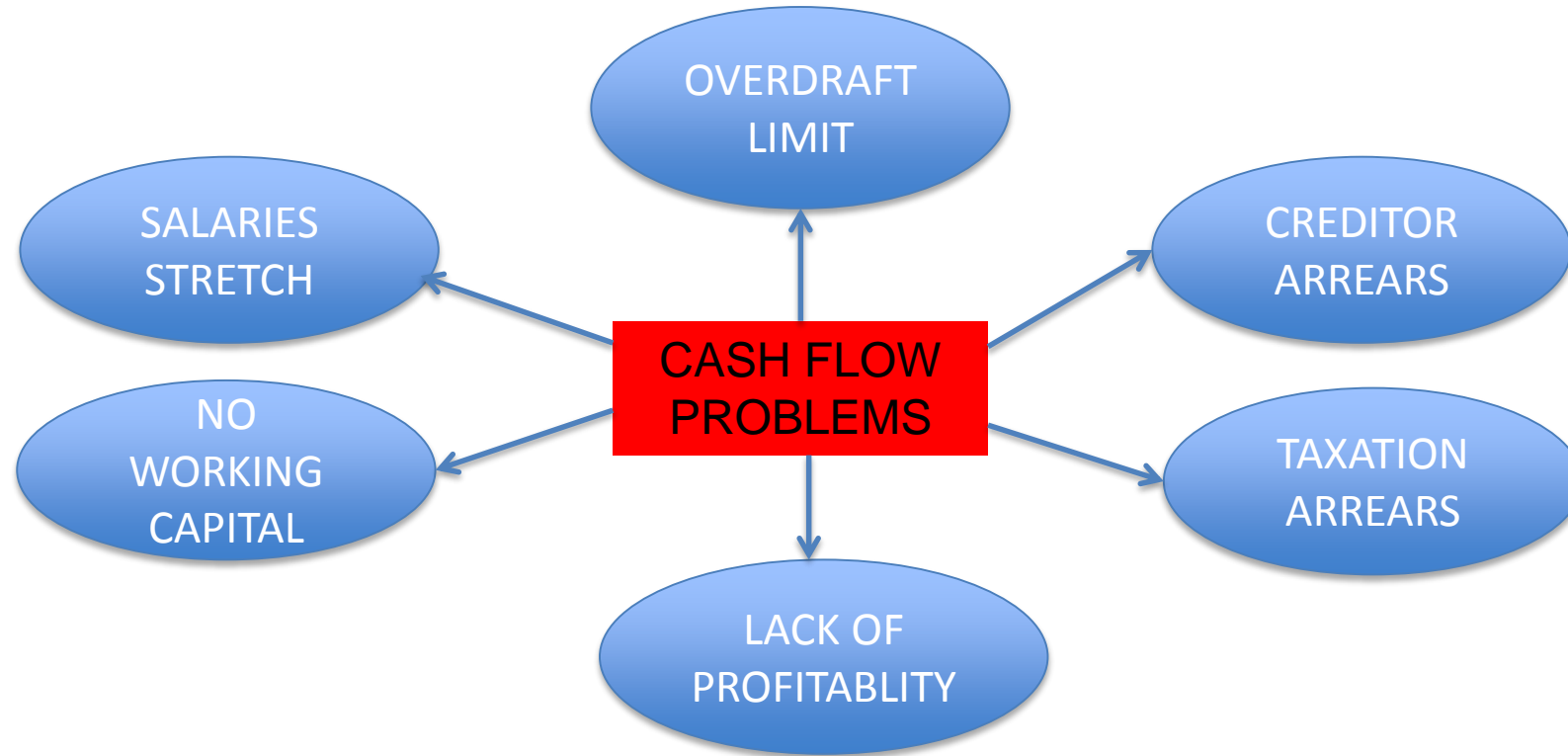
Why is it important?

- Liquidity and Cash Flow if the life blood of all organisations;
- To fund shortfalls in cash flow resulting from late payment incurs costs;
- Benefits to one organisation of not paying sums due as soon as possible may create wider problems for **ALL** ultimately;



- May adversely effect relationships and can result in disputes;
- Can result in additional risk being included in costs – businesses will asses the risk associated with some organisations.

Why is it important?



“Evidence” of Compliance within the Supply Chain

- Data is available already – aged creditors/debtors records, accounting systems show when payments are received and made etc.;
- Transparency/access to records throughout supply chains;
- Access to accounting systems such as SAP, Oracle etc. – most businesses use these;
- Use by industry of other systems such as that provided by Textura or others to assimilate payment data across supply chains.



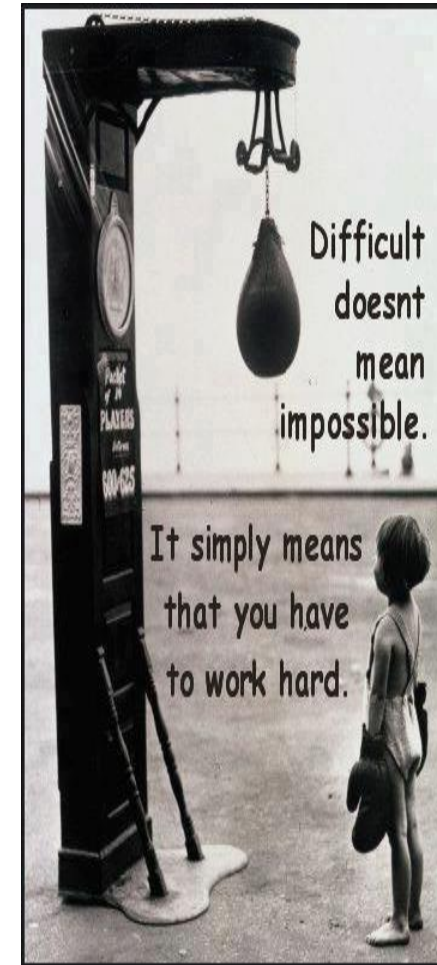
(Supply chains need to volunteer and substantiate evidence of payment performance)

Challenges (“not barriers”)?

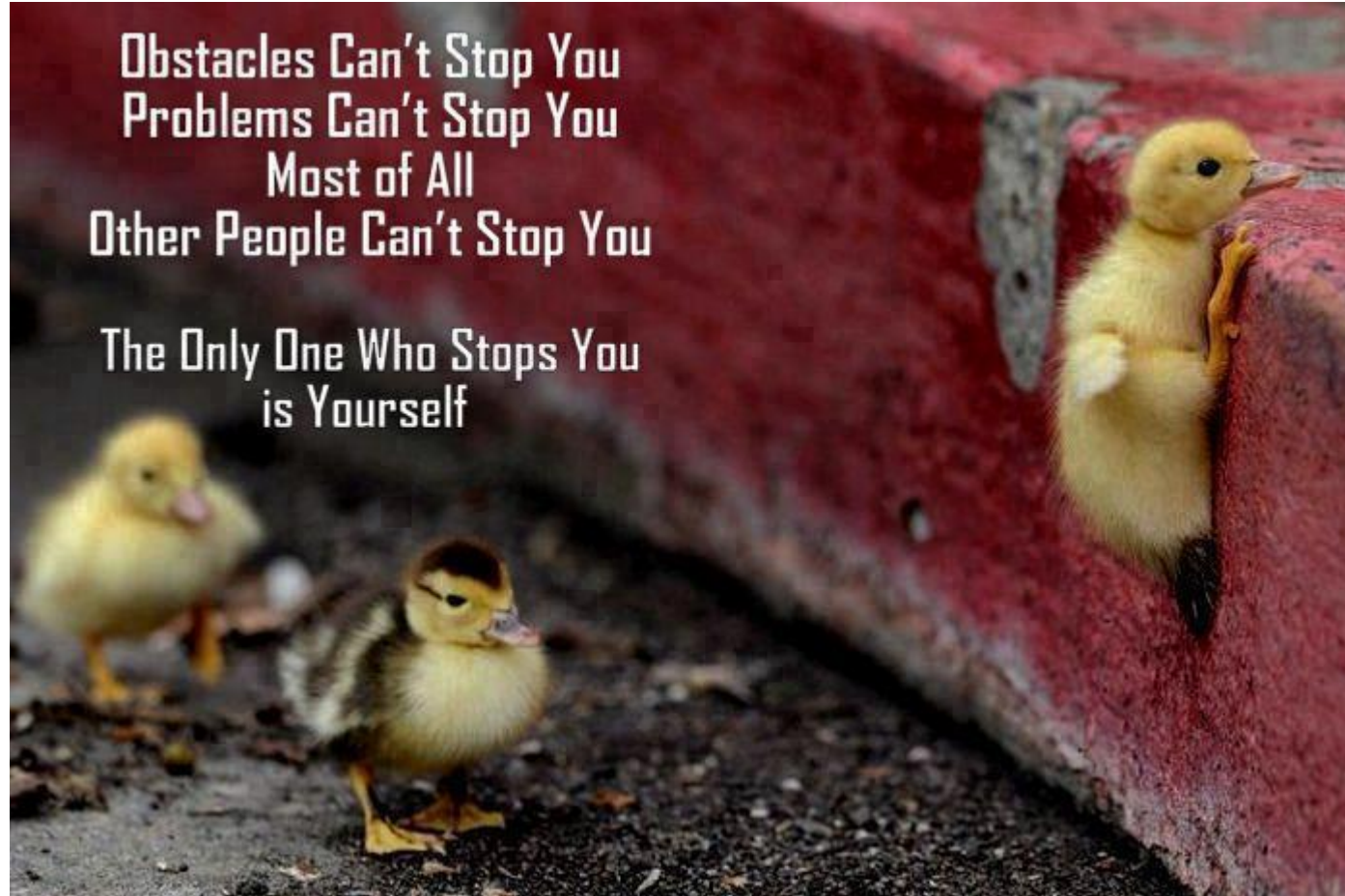


Suggestion in this area may include:

- Clients need to pay on time as well?
- Lack of Client leadership and interest in what happen as a result? Is this due to lack of awareness/understanding of this or is it simply that Clients need become more demanding?
- Clients paying Contractors within shorter periods than those Contractors apply to their supply chains – why should we?
- Contractors extending payment periods for their supply chains even though sums invoiced can be evidenced as being for satisfactorily completed work?;
- Contractors requiring supply chains to pay fees for payment earlier than their normal lengthy payment periods?
- Lower levels of supply chains include risk/costs associated with late payment whether they get paid sooner or not – (same happens with retention)?



FINALLY !



Thank You
Questions?

Further Information

www.procure21plus.nhs.uk

)

The logo for BESA (Building Engineering Services Association) is displayed in white text on a dark purple rectangular background with a slight drop shadow. The letters 'BESA' are in a large, bold, sans-serif font.

BESA

BUILDING ENGINEERING
SERVICES ASSOCIATION

P.E.S.T. analysis

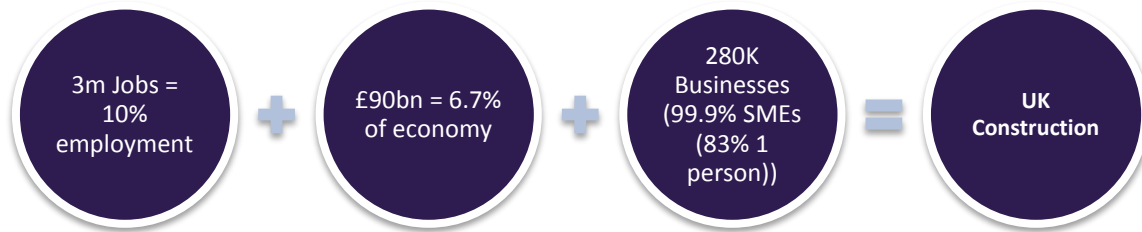
Wednesday, 10 February 2016

PEST factors





19 Payment initiatives: → Commitments → Guide & Charter → Code → OGC Note → Mandelson & Maude → PBAs → Charter...



#PRODUCTIVITY

CLC

- Major Projects
- Housing
- Skills



- 50-75% of total value of the work SMEs within the supply chain
- 2007- 2011 8.9% ↓ to 6.7% GD
- 3 recessions in 5 yrs
- Lasted twice as long
- No counter-cyclical public sector spending
- Banking
 - ↓38% -v- ↓5% average
 - 2-3x ↑trade credit
 - TC is 24% construction assets -v- 11%
 - SMEs 130 hours pa = 3 wks.
 - SMEs owed £30bn late payments
 - 4000 late payment insolvencies
 - £180m in debt interest charges

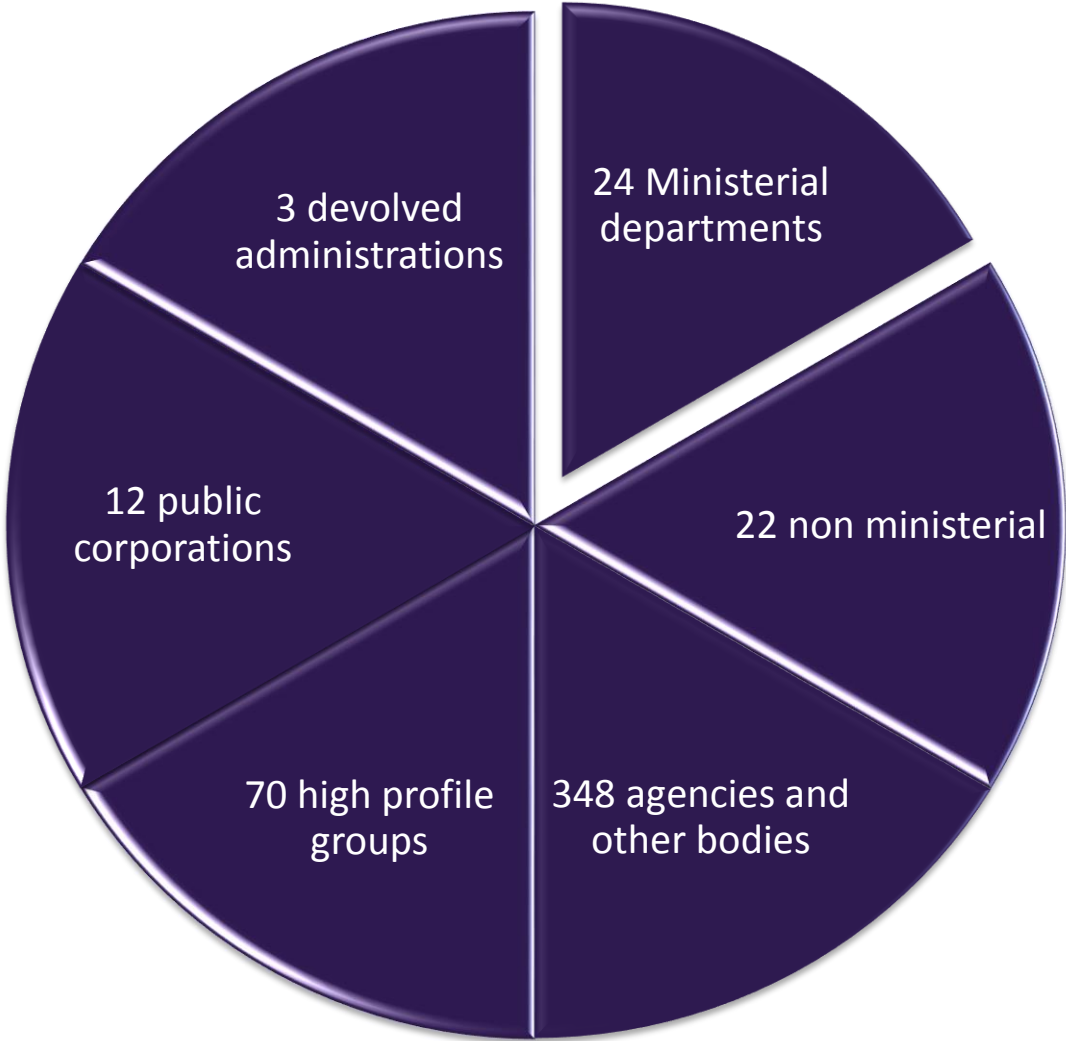
- Expectations
- Apple Pay
- Paypal
- Retail
 - Amazon
 - Ebay
- Banking
 - HSBC
 - Tesco



- BIM → 3
- ERP systems
- BACS
- Gocardless
- Textura
- Social Media - API



Disaggregation of client

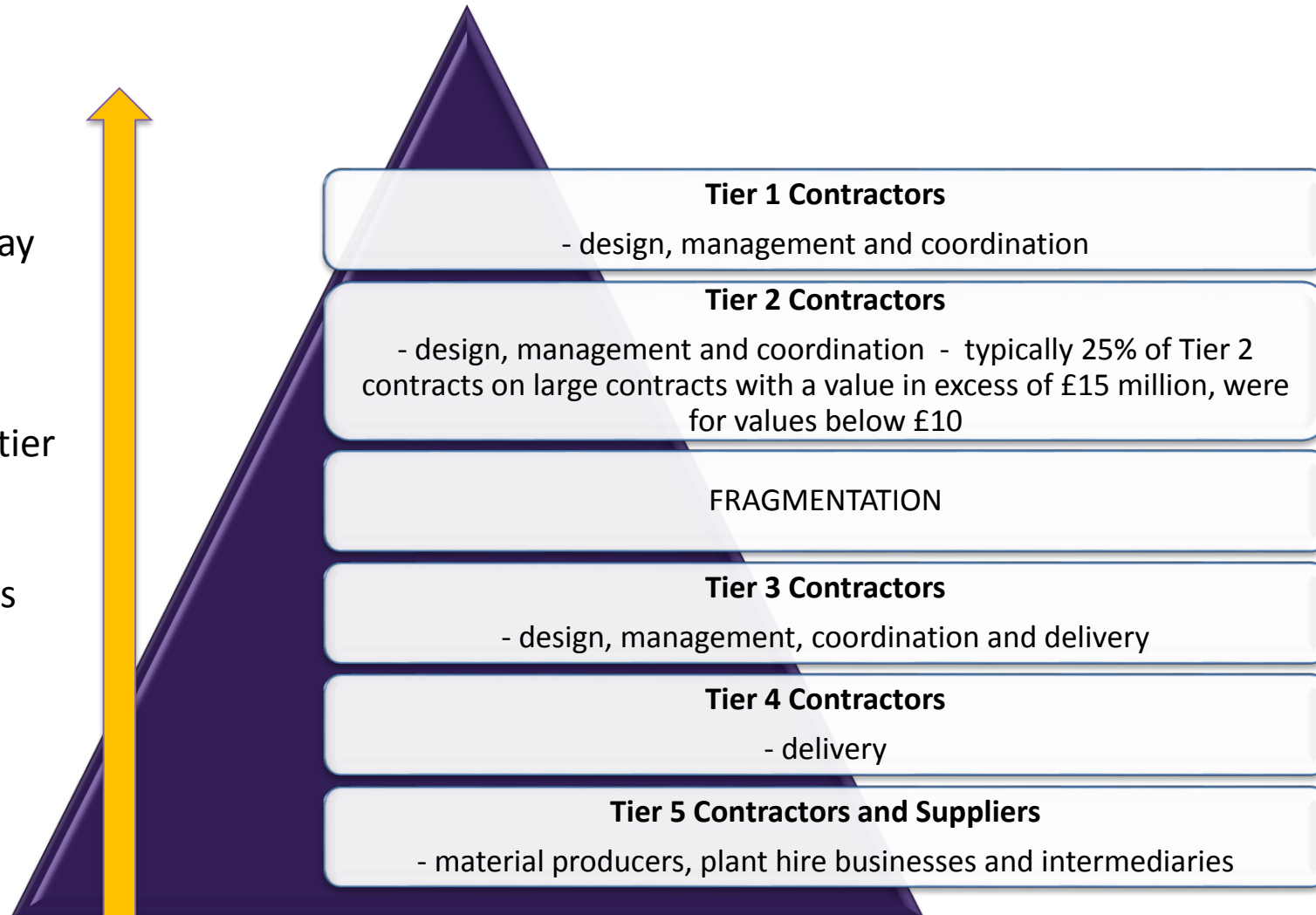


Policy drivers



Disaggregation

280,000 Suppliers pay fees and enter pre-qualification information at each entry point to each tier of the supply chain within multiple pre-qualification systems

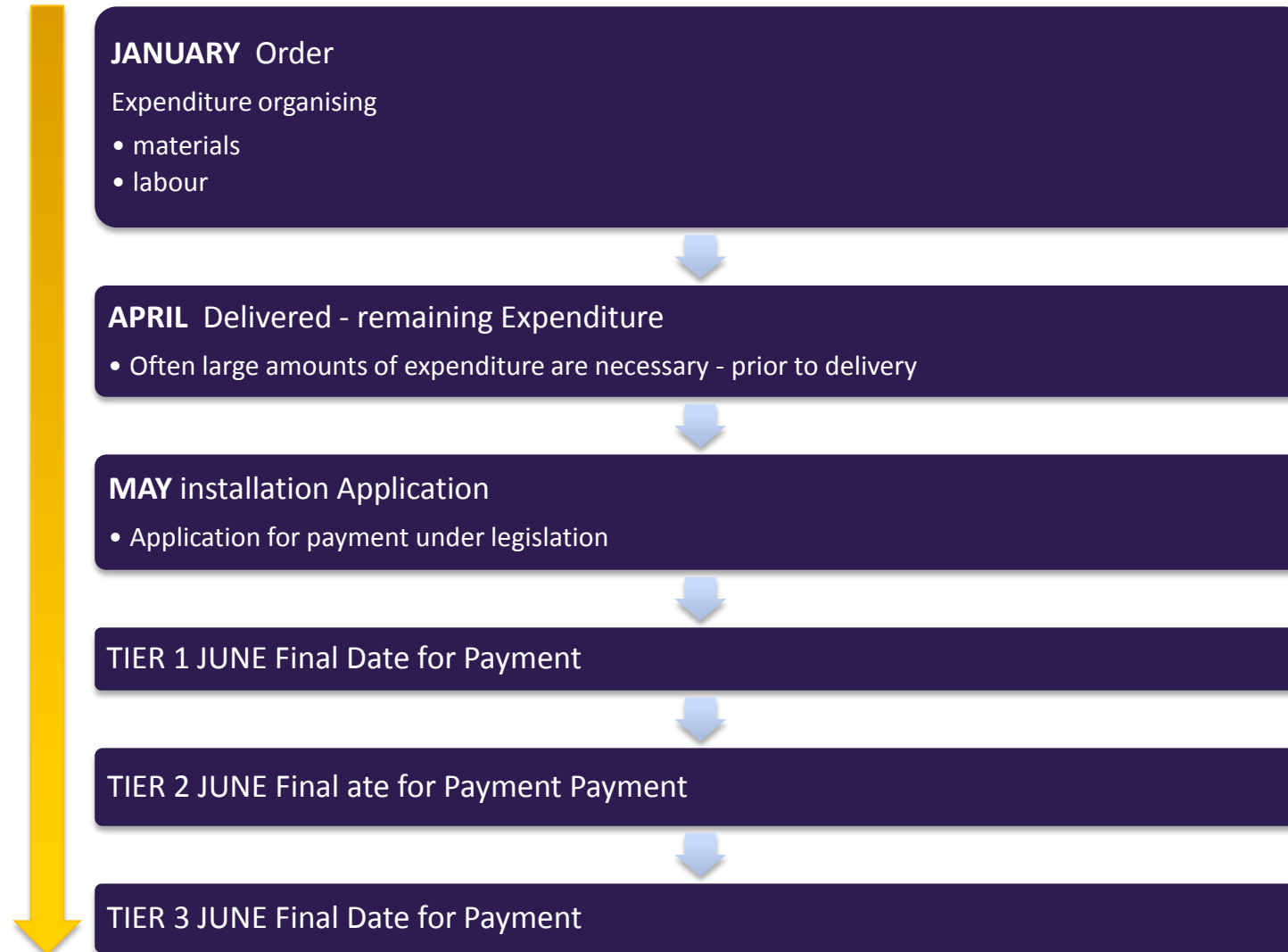


Cash-flow cycle

Cabinet office:
**Procurement
Information**

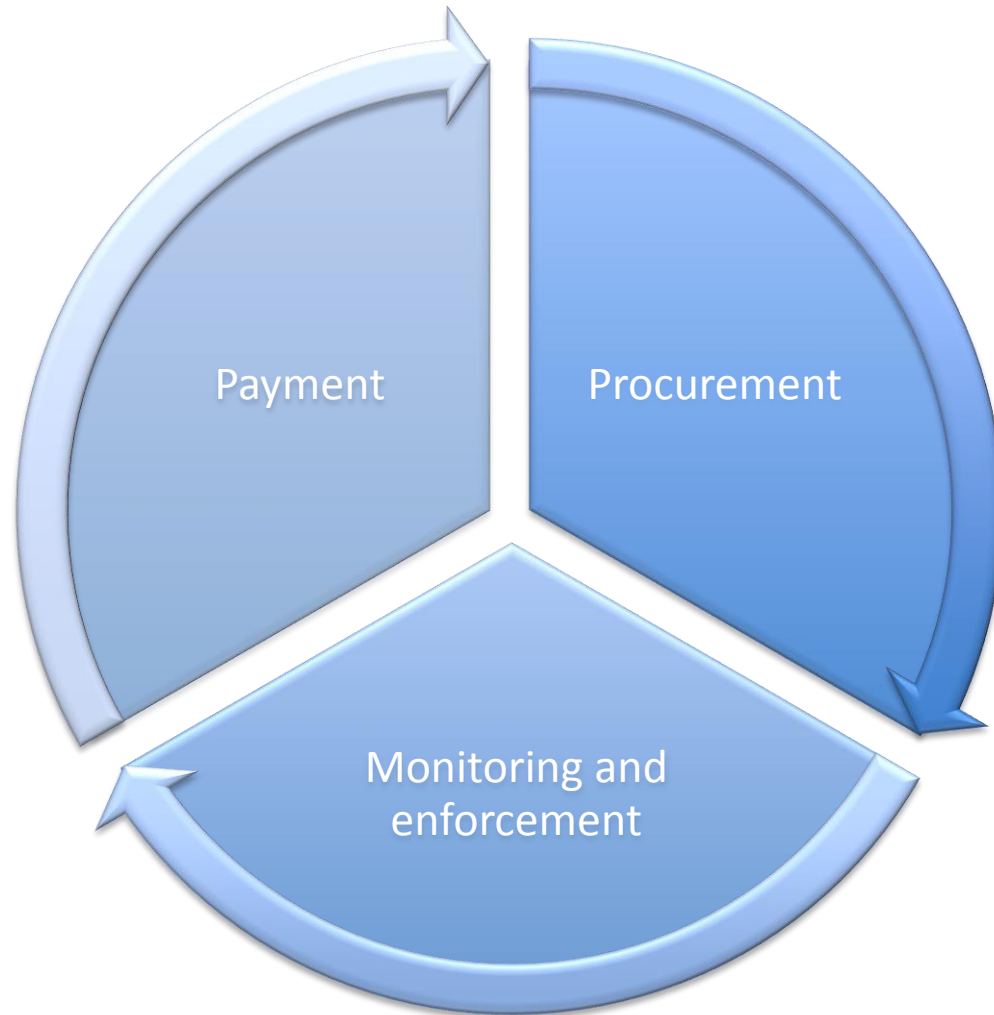
Note 2/2010

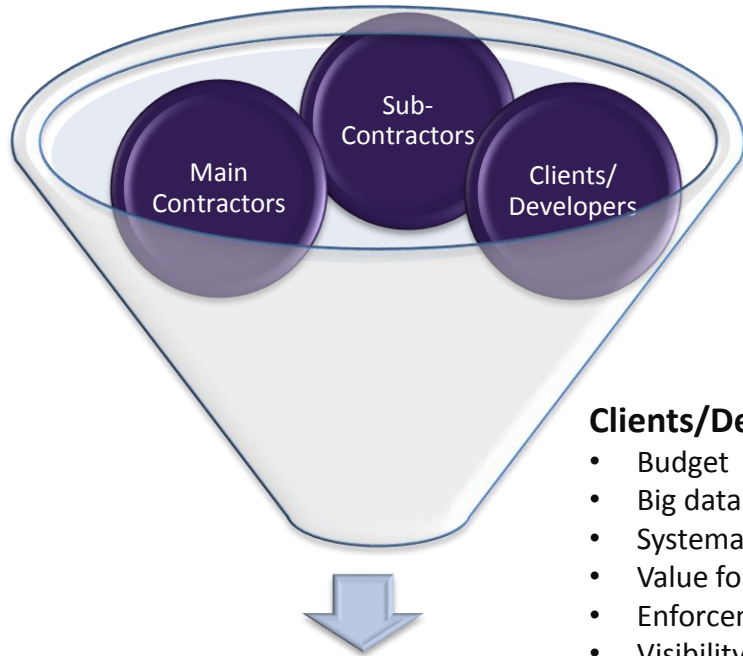
Tier 1 contractors are paid 14 days of their due payment dates
Tier 2 & Tier 3 paid within 19 and 23 days, respectively from the due dates in the tier 1 contracts



Digital Hub Concept

Online Government
Construction Data Hub





Positive digital disruption

Clients/Developers

- Budget
- Big data mining
- Systematic improvement
- Value for money
- Enforcement and monitoring function
- Visibility key metrics
- Tracking Supply Chain Payment
- Consistent documentation
- Legal compliance
- Enhanced
 - productivity, stability and efficiency through reduction of human capital investment
 - project controls and reduced risk
 - standardised processes, automated workflows and interfaces

Main Contractor

- Competitive edge
- Real-time info = increase productivity/efficiency and improve cash flow
- Cash flow improvements = additional working capital
- Visibility key metrics
- Tracking Supply Chain Payment
- Consistent documentation
- Legal compliance
- Enhanced
 - productivity, stability and efficiency through reduction of human capital investment
 - project controls and reduced risk
 - standardised processes, automated workflows and interfaces

Sub-Contractors

- Paid on time and leverage your business growth
- Visibility into valuation status, certified value and expected payment amount
- Streamlined, standardised payment processes reducing the risk of delays
- Integrated compliance management
- Tracking payment
- Consistent documentation
- Legal compliance
- Enhanced
 - productivity, stability and efficiency through reduction of human capital investment
 - project controls and reduced risk
 - standardised processes, automated workflows and interfaces



Environment
Agency

Challenges ~ Project Bank Accounts (PBA's)

- Challenges around PBA models provided by Banks
- Guidance around bank products
- Clarity and agreement on processes
- Understanding of PBA's by Tier 1 and the supply chain
- Cost of setting up PBA's
- Some behaviours within the Industry ~ Some tier 1 suppliers and client stakeholder buy-in
- Loss of cash flow by the Tier 1
- Challenges around tax ~ HMRC
- Confusion with trust deeds
- Internal client payment systems

Challenges ~ Project Bank Accounts (PBA's)

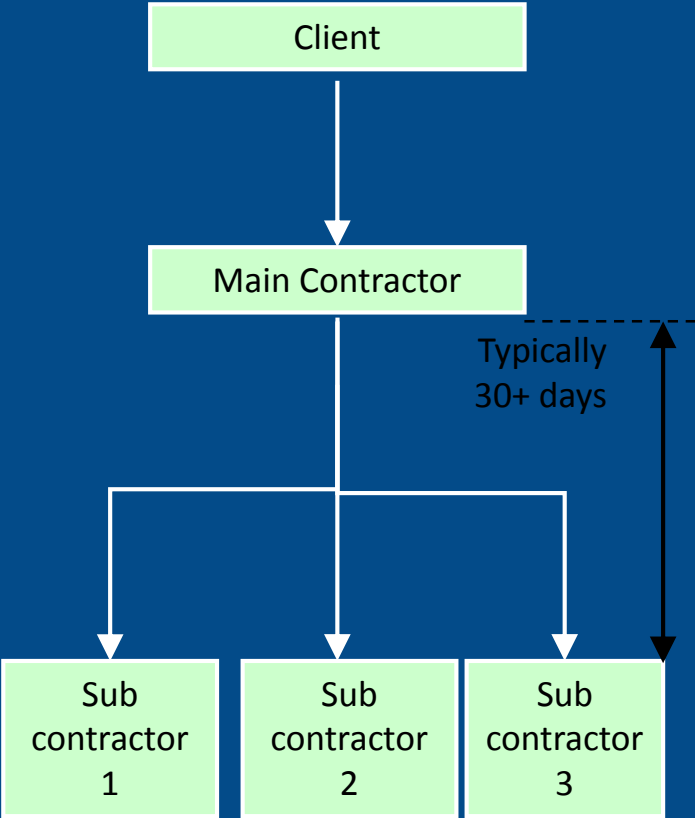
Payments

Delinquency = Payment outside of agreed terms.

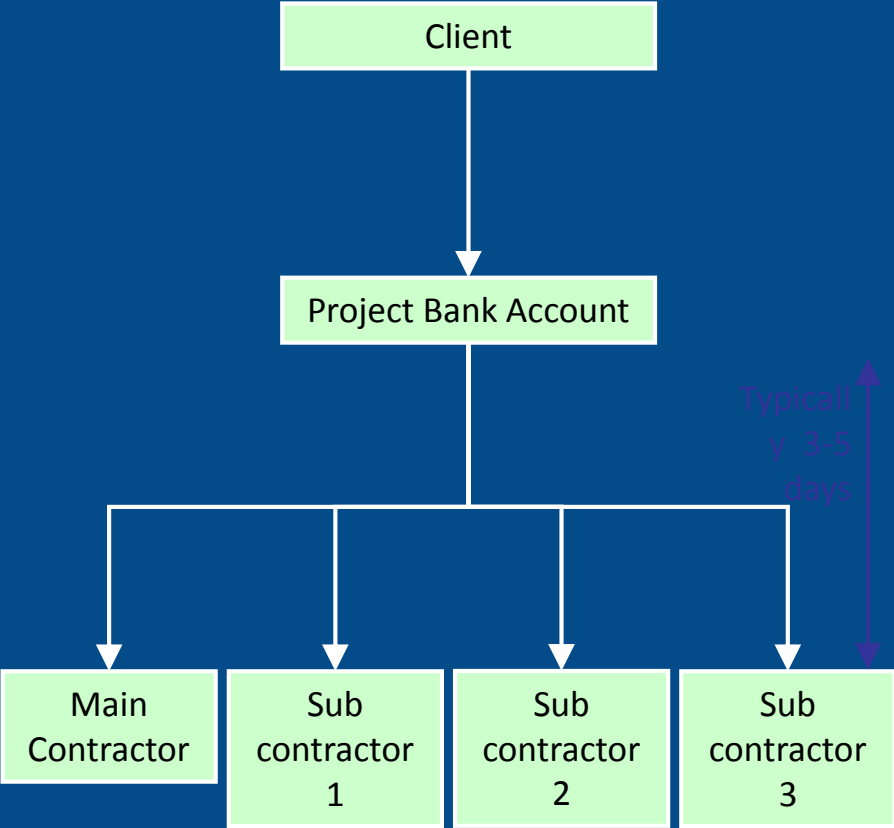
- This is a relative measure of risk, where 1, represents businesses that have the highest probability of severely delinquent payments and 100 the lowest: 60% were between 6-25 40% 60-100
- Paydex = Company's payment practice
- Most suppliers scores were between 60 & 70 which indicates on average payment is made between the due date and 30 days after the due date.

Traditional Payment Process vs PBA

Traditional



Project Bank Account



Government Construction Board (2013)

... 'agreed to move to a position where use of PBAs is the default approach to payment'.

"We will use Project Bank Accounts on central Government contracts unless there are compelling reasons not to do so and on other contracts where appropriate." (2014)

Guide to best Fair Payment practices - OGC (2007)

Cabinet Office (July 2012)

Barclays Bank



Government Construction

A Guide to the implementation of Project Bank Accounts (PBAs) in construction for government clients

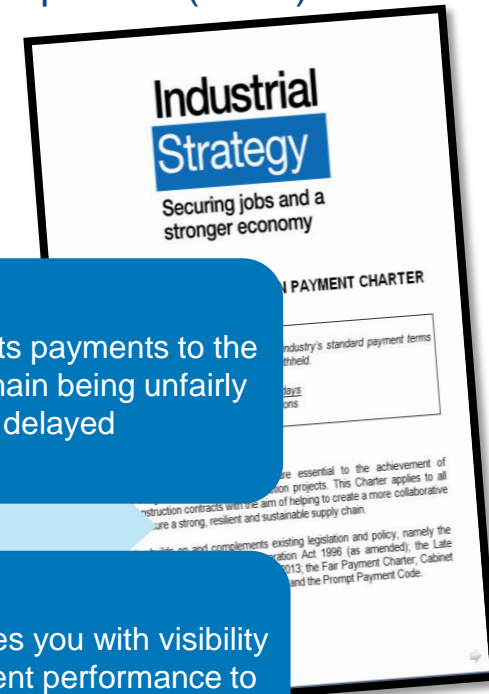
03 July 2012

1. Promotes prompt payment to the supply chain, reducing financing costs to subcontractors that can be passed on in subcontractor tender prices

3. Gives all parties the surety and confidence that monies due from the account are ring-fenced, should a contractor become

2. Prevents payments to the supply chain being unfairly delayed

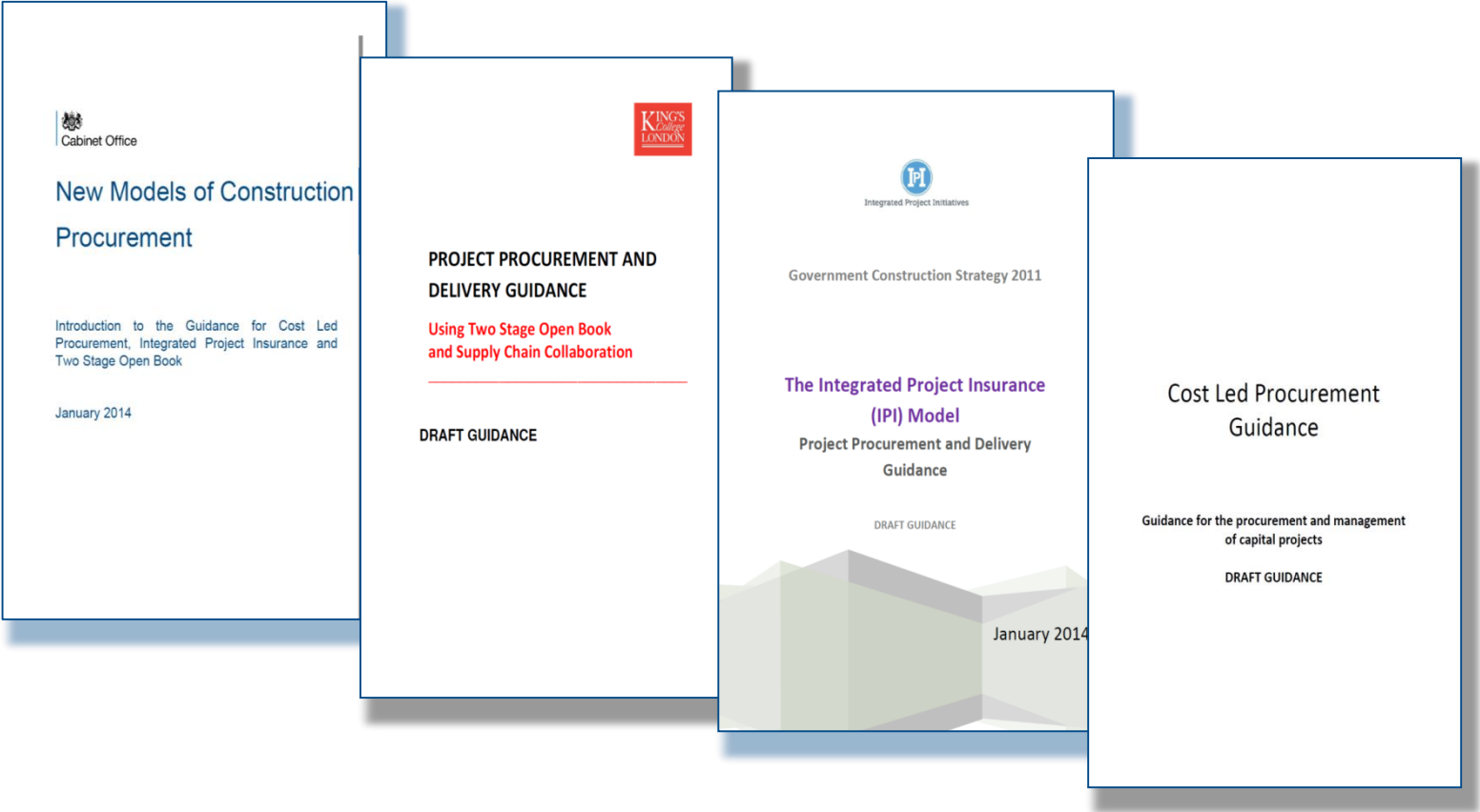
4. Provides you with visibility of payment performance to the supply chain



Benefits of Project Bank Accounts

- Integrated supply chain
- Allows the supplier to focus on project delivery ~ elasticity of time, reduction in delivery time
- Potential savings
- Future investment opportunities for SME's
- Transparency
- Speed of payments
- Reduction in disputes within the supply chain
- Surety of payment
- Reliability of regular cash flow payment
- Reduced waste ~ SME's less time chasing payments
- Collaboration / tool

New Procurement Models: Guidance



Take up within the UK

- England
 - Highways England
 - Environment Agency
 - Ministry of Justice ~ two prisons
 - Defence Infrastructure Organisation
 - Foreign Office ~ completed a project
 - Bedfordshire council ~ completed one project
 - East Riding ~ completed one project
 - Education funding Agency ~ Included in the new frameworks
 - Sheffield City Council – Estate redevelopment
 - Committed approx. £11.5 billion
- Northern Ireland (Jan 2016) Mandated for all projects over £2 million
- Scotland ~ 4 pilot projects
- Wales ~ 3 pilot ~ possible Wales will mandate

Project Bank Accounts

Rudi Klein;

“Over the longer-term project bank accounts will transform the industry. The focus will move from using each other’s money to making money from adding value to project delivery.”

Questions.....



Construction Payment Management – Current Challenges

Physically exchanged documents

- Slow turnaround
- Missing, incomplete or inaccurate

Significant potential for errors

- Calculations, carry-forward
- Incorrectly completed forms

Significant data entry

Mismatched pay apps, invoices, and payments

Lack of clarity and visibility

- Poor oversight into project status
- Opportunity for disputes and mistrust

Disputes and Mistrust

Late Payment of Subcontractors

The current, largely manual process . . .

- Risky;
- Costly and Inefficient;
- Lacks visibility & control.

. . . fails to connect all your project participants and your supply chain.

Construction Fair Payment Charter

Builds on OGC 2007 Fair Payment Charter

Recognised 2.5% Supply Chain Savings through 'Payment Certainty', 'Early Payment' and adoption of 'Project Bank Accounts'(PBA)

Procurement Information Note 2/2010

Stipulated public sector use of 'PBA's', unless a 'compelling reason not to do so'

Fair Payment Charter, April 2014

Agreed by the CLC and administered by the CICM, targets 30 day payment terms and Zero retention by 2025.

Mandates **60 day terms** from 1st January 2015, **45 day terms** from June 2015 and **30 days** by 2018. As of March 2015, 30 days is being pushed as the 'norm' and a Code Compliance Board has been set up to investigate examples of payment abuse. Signatories of the Charter agree to 11 commitments, including:

- *On central Government contracts, payment will be made to Tier 1 within 14 days, to Tier 2 within 19 days and to Tier 3 within 23 days of the due date, which will be 7 days after the common assessment or valuation date established by the client in the Tier 1 contract*
- *We will have processes in place to enable the effects of contract variations to be agreed promptly and fairly and payments for such variations to be included in the payment immediately following the completion of the varied works.*
- *We will adopt a transparent, honest, and collaborative approach when resolving differences and disputes*

Late Payment of Commercial Debts Regulations 2013

Businesses are expected to pay their suppliers within 60 days on private contracts (30 days on public sector contracts) and will be liable to pay interest (at 8% over base) if they have not paid within the agreed period. If a payment period of more than 60 days is agreed in the contract, it must not be 'grossly unfair' to the supplier.

The Public Contracts Regulations 2015

Public sector organisations are now responsible for the payment of the entire supply chain. All organisations in the supply chain must comply with 30 day payment terms, including suppliers and sub-contractors. Public bodies must publish an annual late payment report, making their accountability more transparent. Contracting authorities will be required to publish performance data starting with their performance over financial year 2015/16 which will be published at the end of March 2016 and thereafter at the end of each financial year. The data will demonstrate their performance on paying in 30 days to first tier suppliers /prime contractors over the previous 12 months and calculate late payment interest due to late payment of subcontractors

Duty to Report Payment Practices, April 2016

- Twice yearly reporting requirement for large businesses, covering the following:
- payment terms
- average time taken to pay
- proportion of invoices paid beyond agreed terms
- proportion of invoices paid
 - in 30 days or less
 - between 31 to 60 days
 - beyond 60 days
- any late payment interest owed and paid

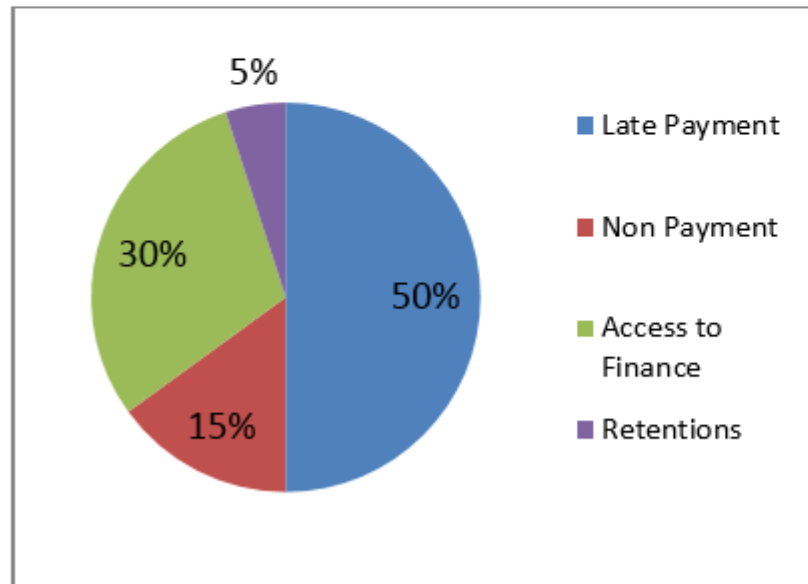
Construction News – Survey Results

- ‘Despite our payment terms, contractors continue to pay us as and when they feel like and use the same reasons for non-payment (director needs to sign and he/she is on holiday, payment run isn't for another 2 weeks, we didn't receive your invoice etc.’
- ‘I was approached by Bibby last year about factoring invoices. They only offered it on final payments. Fat lot of good that is.’
- ‘Main Contractors are leaning on their supply chain as a banking facility to command growth’
- ‘Everything is cut to the bone so big companies use late payments as free financing from small businesses’
- ‘Payments within construction needs to improve significantly’
- ‘Timely payment is essential for business operations’
- ‘Needs a change in ethic, it would revolutionise the market’

Polling Questions

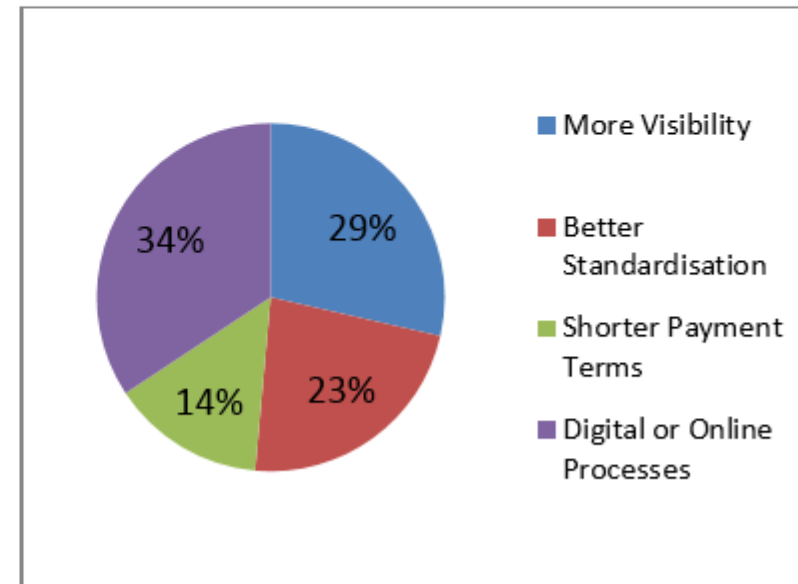
Question 1:

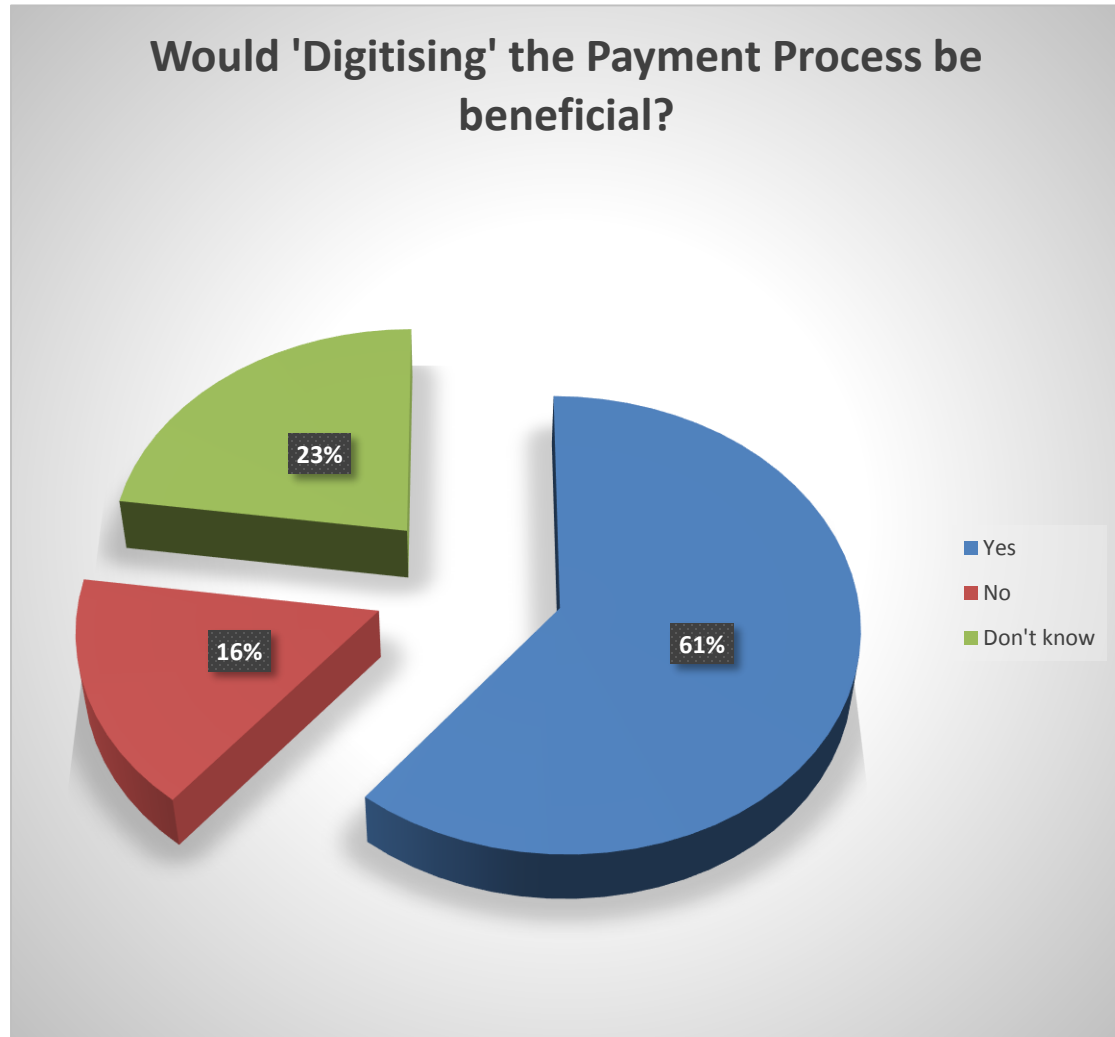
What's your biggest barrier to growth?



Question 2:

How does the current payment process need to improve?





Average Percentage **added** to bids to cover

Late Payment?

4%

Average Percentage **discounted by** to receive

Early Payment?

2.3%

Textura CPM – Integrated Construction Payment Platform



Integrated Supply Chain Finance

Payment Applications

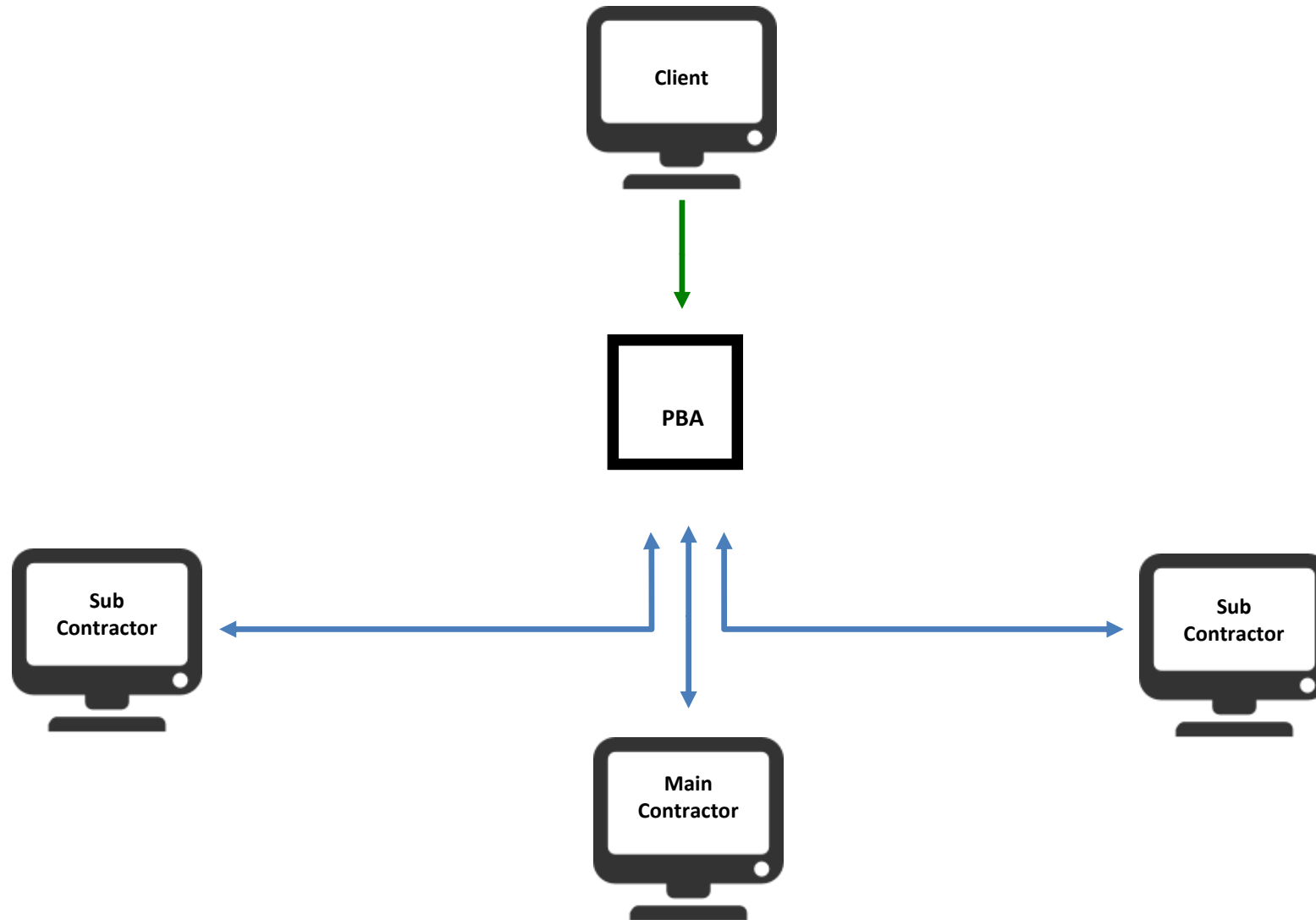
Certification and Compliance

Authorisation and Disbursement

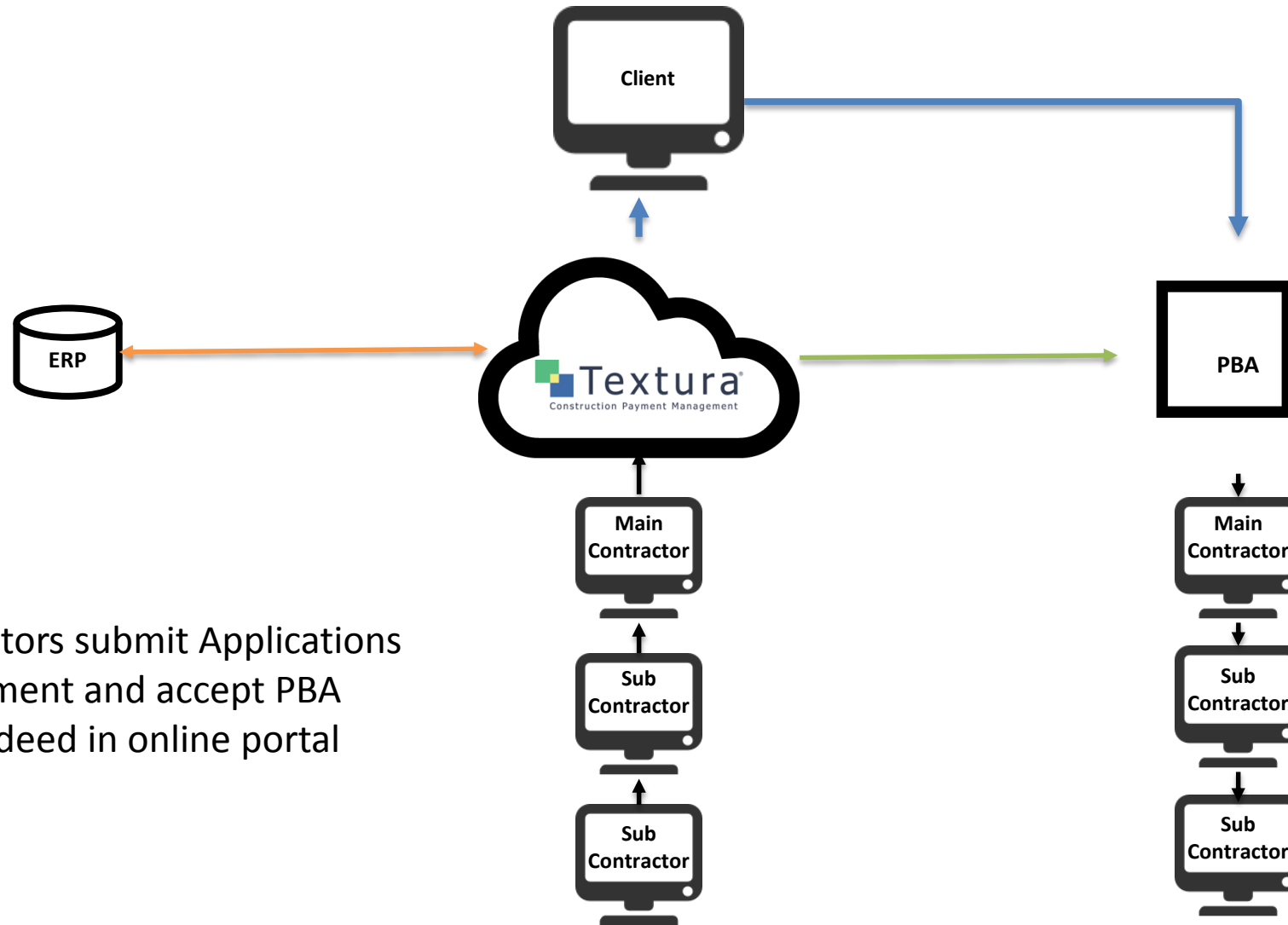
Cloud-based workflow which connects the supply chain, improves cash flow, reduces risk and supports the Construction Act

Integration to Subcontracts Ledger / ERP and Project Controls

Textura – CPM & Project Bank Accounts (PBA's)



Textura – CPM & Project Bank Accounts (PBA's)



Contractors submit Applications for Payment and accept PBA joining deed in online portal