

Project Bank Accounts

Status & Opportunities

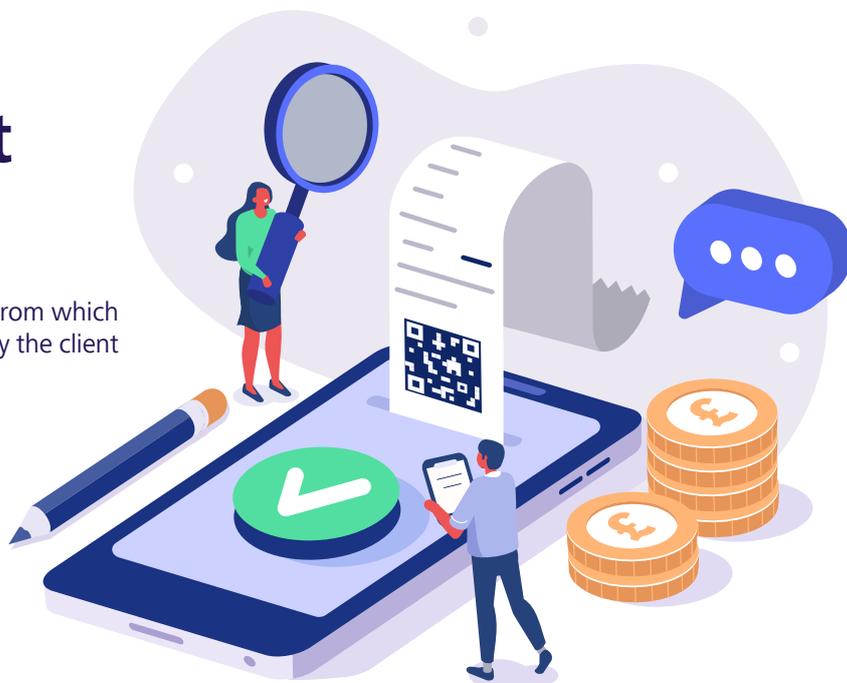
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What are Project Bank Accounts?

Project Bank Accounts are ring-fenced accounts from which payments are made directly and simultaneously by the client to all parties in the supply chain.



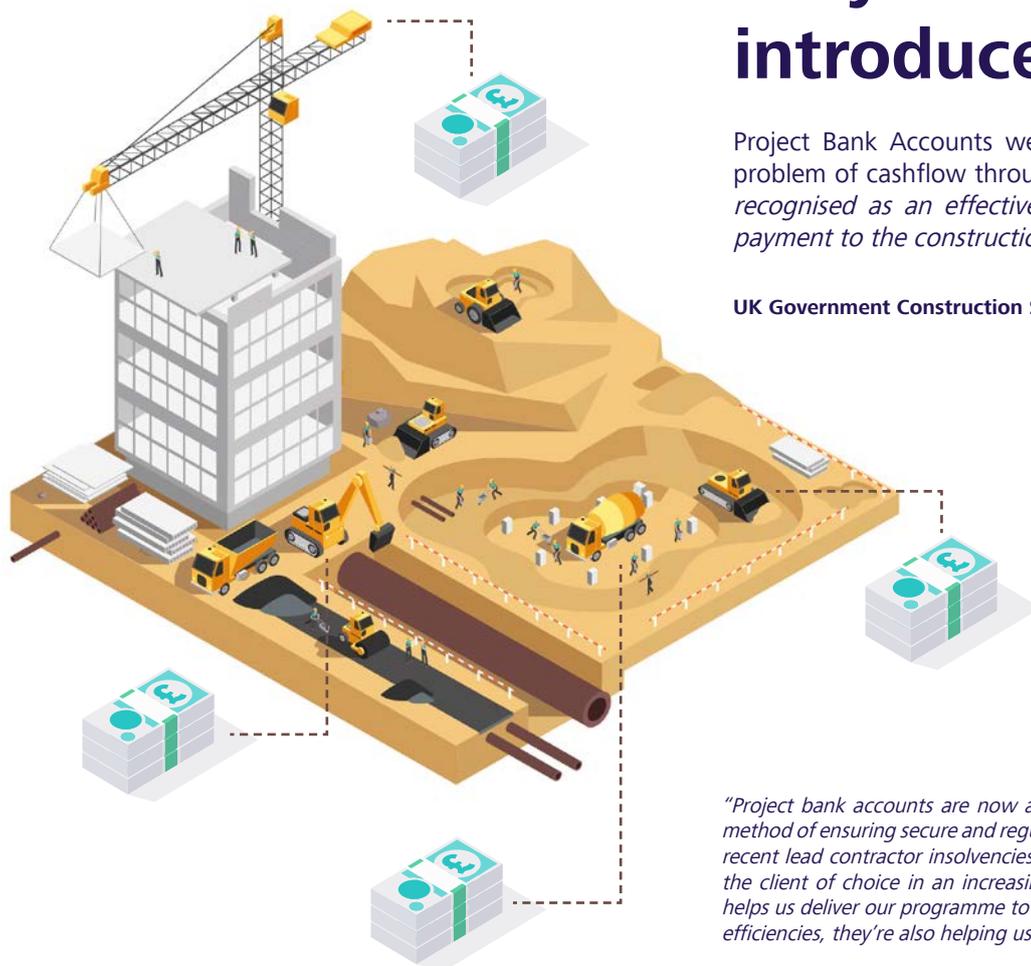
"Without doubt this has to be the way forward for our industry if the current payment culture is to be eradicated. PBAs help eliminate the excuses for late or reduced payment, the burdens on overhead costs and the programme delays as a result of disputes and resultant insolvencies, which often result in SMEs being hardest hit."

John M Stevens
Director, Dodd Group

Why were they introduced?

Project Bank Accounts were introduced to overcome the problem of cashflow throughout the supply chain and "are recognised as an effective mechanism for facilitating fair payment to the construction supply chain."

UK Government Construction Strategy 2016-2020



"Project bank accounts are now acknowledged to be the most effective method of ensuring secure and regular cash flow, particularly in the wake of recent lead contractor insolvencies. Using them makes Highways England the client of choice in an increasingly competitive market and ultimately helps us deliver our programme to improve our road network, and besides efficiencies, they're also helping us do the right thing for our suppliers."

Highways England

What are the benefits?



Retention monies can be 'ring-fenced', providing supply chain with security that they will eventually be paid when becoming due.



The PBA assets are protected from tier 1 insolvencies



They ensure regular payments within timescales that are much shorter than those applying where cash has to cascade down through different contracting layers.



Users identify cost savings and other benefits.



They reduce payment timing disputes and support greater trust and collaboration.



The PBA places all parties on an equal footing since everyone gets regular and secure payments at the same time.

Who is using them?

The UK Government's policy of requiring all UK government procurers to use Project Bank Accounts unless there are compelling reasons not to do so was introduced in 2010 (Procurement Information Note 2/2010, Cabinet Office). All the devolved governments now have policies in place requiring the use of PBAs, however research by SEC Group indicates the take up of PBA by local authorities in England has been slow.

England

- Overall, it is estimated that £30bn worth of projects will have used PBAs.
- Highways England 150 projects plus 50 more expected by 2025 (£17 billion by 2025).
- Environment Agency 120 projects.
- HS2 committed to use across all construction contracts.

Wales

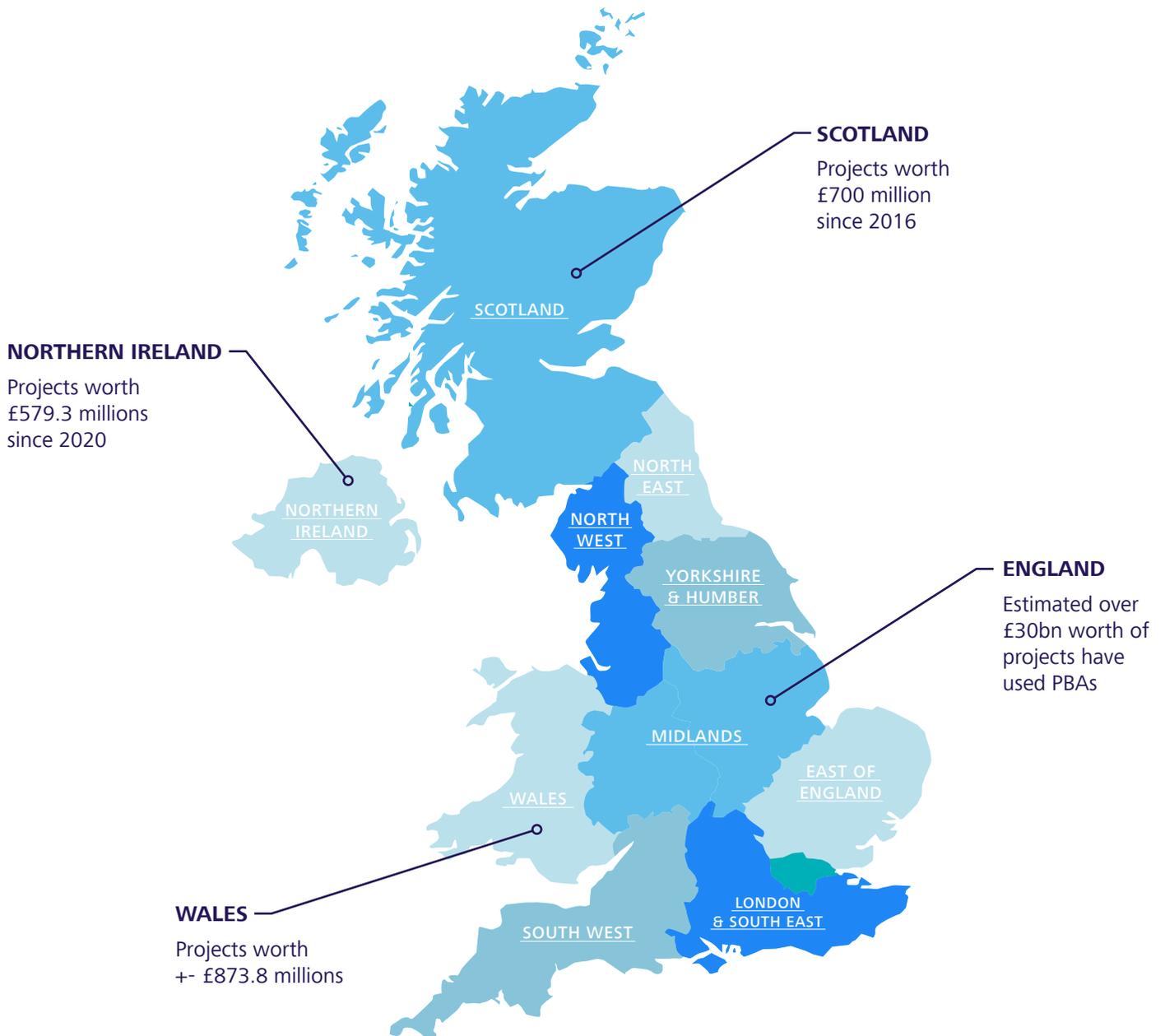
From their public procurement data, they have 39 projects eligible to use PBAs with total value of £873.8 millions. However, currently only 3 of these project use PBAs, 5 have been exempted and 2 are disputed (to be exempted).

Scotland

£700 million through Project Bank Accounts since 2016

Northern Ireland

35 PBA projects with total value of £579.3 millions since 2020



How do you set one up?

THERE ARE TWO MODELS IN USE:

Single authority model

The single authority model means that the bank account is held in the sole name of the lead contractor as trustee. This tends to be the less popular model. However in many cases the client will insist on “viewing rights” over the bank mandate and instructions to the bank regarding payments out.



Dual authority model.

The dual authority model requires that both client and lead contractor hold the bank account in their joint names as trustees. Scots law requires the use of the dual authority model.



“East Riding of Yorkshire Council implemented the use of Project Bank Accounts in 2012, its first project a £10m highway improvement scheme from the Humber Bridge to Beverley demonstrated actual savings of 0.43%. This was based on a re-tender of received supply chain subcontract packages with a PBA that ensured payment times for the supply chain were

less than 30 days. Costs to the Council in the setting up and administration of the PBA were minimal as we used our existing bank. Due to this success we now use PBAs for all projects over £5m and with the experience gained are reviewing lowering this to £2m.”

Steve Baker
Group Manager Construction Management Services,
East Riding of Yorkshire Council

Are there any challenges?

- Insufficient direction and control by the client over the choice of beneficiaries can provide scope for abuse.
- There is some confusion over the appropriate threshold for using PBAs. Scotland, Wales and Northern Ireland apply £2m threshold. The threshold can be £½m or even less; the key issue is the duration of the works, the anticipated number of payment events, overall size of the project and extent of the supply chain. There is little benefit to be obtained from setting up a PBA for projects lasting less than, say, 4 months.
- There is sometimes a lack of transparency along the supply chain regarding the operation of the PBA.
- Cabinet Office haven't validated the “compelling reasons” given by a department or agency for not using PBAs. The Welsh Government has instituted a system for validating any “compelling reasons” which have to be given by any public body not using PBAs.
- Some public sector procurers have been reluctant to use the dual authority model on the basis that staff are unwilling to take on the role of trustee.
- Occasionally issues have arisen where the tier 1 contractor has gone into insolvency. The insolvency practitioner may not fully understand the status attached to the PBA assets or may delay in issuing instructions to the bank to authorise payments out of the PBA. However, the fact remains that funds under the PBA must be paid to the beneficiaries.
- There is concern amongst supply chain firms of what happens to disputed sums. On Highways England projects disputed monies are kept in the PBA until the dispute is resolved.

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Constructing Excellence is a platform from which to stimulate, debate and drive much needed change in the Construction sector. Our thought leading members from the entire supply chain – clients, industry and users – share a vision for change through innovation and collaboration. Constructing Excellence welcomes all organisations that share our values and mission.

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For more information:

Website

www.actuateuk.org.uk

Email

info@actuateuk.org.uk

