



Credit Where Credit Isn't Due

The Results of the NSCC & FMB Payment Survey 2014

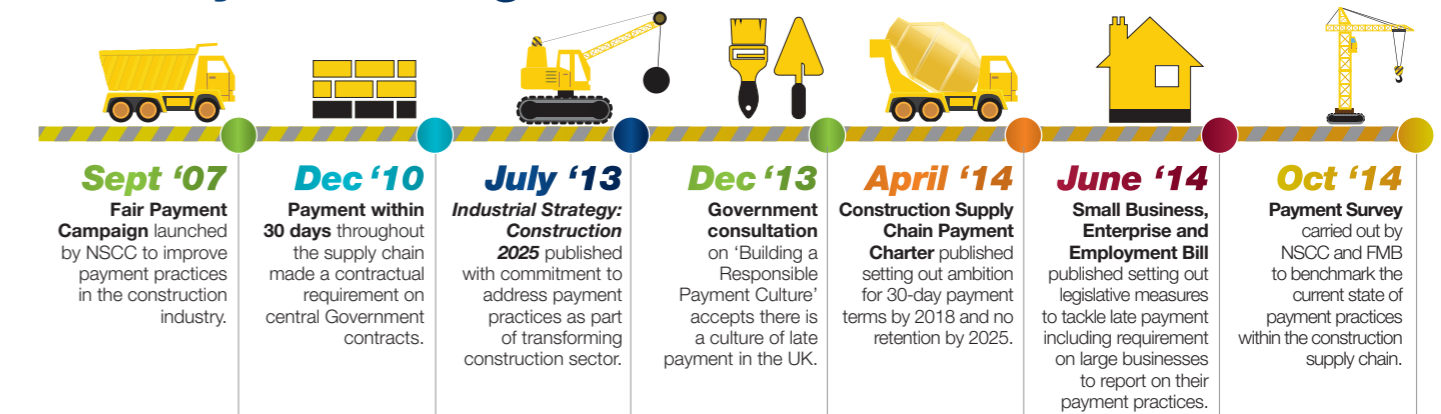
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Conclusions

- Contractual payment terms vary depending on the type of client. Businesses that generally work in the domestic sector have contractual payment terms of 30 days or less, whereas those with a commercial client base are more likely to experience 31 to 45 days rather than 30 days or less.
- Payment practices on public sector works are better, indicating that the various initiatives undertaken by Government are making a real difference. However, there is still work to be done with almost half of members not receiving payment within 30 days on public sector projects.
- Whilst contractual payment terms are improving, late payment is still rife within the supply chain and more needs to be done to ensure payments are made within terms.
- With members paying within terms much more regularly than their clients, it reinforces that tier 2 sub-contractors are the net providers of trade credit within the industry, offering more trade credit to tier 1 contractors and clients than they receive from their own suppliers.
- The abuse of retentions remains a significant problem with 45% of retentions overdue and 12.5% written off as bad debts.
- Charging interest on late payment in accordance with the Late Payment of Commercial Debts Regulations is currently not perceived as an effective mechanism with only 5% of members using it for late payments.

“Deliver a good standard of work and negotiate tough on payments. If a company wants extended payment terms, then they are telling you they don't want to pay you.”

Fair Payment Progress



The Construction Supply Chain

The National Specialist Contractors' Council (NSCC) and the Federation of Master Builders (FMB) represent a combined total of around **16,000 businesses** in the UK construction industry. NSCC members generally work as a tier 2 specialist sub-contractor for a main contractor whereas nearly three-quarters of FMB members work in the domestic repair and maintenance sector for private householders.

The recent joint NSCC and FMB survey on payment practices received **719 responses** from businesses with a collective turnover of **£3 billion**. The median turnover of an NSCC member is **£2.3 million** compared with **£325,000** for an FMB member.

The survey findings, which are set out in this report, offer a comprehensive overview of the current state of payment practices in the construction supply chain, showing the progress that has been made and where there is still work to be done.



16,000
UK businesses
in the construction industry.

719 responses
from businesses
with a turnover of £3 billion.

“It's like swimming in shark-infested waters and you never know which contractor is going to deal fairly or not.”

Find Out More

For further information on the support provided by the **Fair Payment Campaign** or to view the **Construction Supply Chain Payment Charter**, visit www.fairpaymentcampaign.co.uk.

Payment Terms

The Construction Supply Chain Payment Charter maintains the commitment to payment within 30 days on public sector projects and specifies payment within 60 days from April 2014, 45 days from June 2015 and 30 days from January 2018 on private sector projects.

Payment from their Clients



92% of NSCC and FMB members agree contractual payment terms with their clients of 45 days or less, indicating that the majority of clients and contractors would meet the requirement in the Payment Charter from June 2015.



However, only **57% of members** actually receive payment within those 45-day terms and more work needs to be done to address the issue of late payment.

Contractual payment terms vary depending on the type of client. With a primarily domestic client base, 90% of FMB members have contractual payment terms of 30 days or less. However, just 42% of NSCC members, who operate predominantly in the commercial sector, secure 30-day terms.

When working for the public sector, 56% of NSCC and FMB members actually receive payment within 30 days compared to an average of just 32% across all projects.

Payment to their Supply Chain

89% of NSCC and FMB members agree contractual payment terms with their own supply chain of 45 days or less and **84%** actually pay within those terms.

This reflects that the majority of members are contracting with materials suppliers and small sub-contractors which generally operate maximum 30-day terms.

As a small business, cash flow is critical. Payment terms put enough pressure on us and to be paid late against those terms is crippling.



92% of members agree contractual payment terms of 45 days or less.

57% of members actually receive payment within those 45-day terms.

Whilst payment dates are getting better, we have noticed a large increase in spurious deductions and reduced valuations to be seen as [having] good payment records albeit that the payments themselves are significantly reduced.

89% of members agree contractual payment terms with their own supply chain of 45 days or less.

84% of members actually pay within those 45-days terms.

Retentions

The Construction Supply Chain Payment Charter specifies either cash retention will not be withheld or any arrangements for retention will be no more onerous than those implemented by the client in the tier 1 contract, moving towards zero retention by 2025.

NSCC and FMB members have on average **2.2%** of their turnover withheld in retentions. At present, an estimated total of **£439 million** is withheld in retentions from all NSCC and FMB members.

Approximately **£203 million** of this, which is more than **45%**, is being withheld beyond the agreed contractual terms and is overdue for release.

In the past year, NSCC and FMB members wrote off on average **12.5%** of their retentions as bad debts, equating to a total of **£55 million**.

"If we don't pay our suppliers, they stop supplying... You can't go to [the supermarket] and say 'I'll pay you next week but I'll only pay for some of it in case it doesn't meet expectations!'"

£439m

is withheld in retentions from members.

£203m

of retentions are overdue for release.

£55m

of retentions are written off as bad debts.



Overdue Payments and Bad Debts

Almost **one third of payments** owed to NSCC and FMB members for work undertaken are overdue. This represents on average **4.4%** of their turnover.

Members write off on average **1%** of their turnover in bad debts. In the last financial year, an estimated total of **£177 million** was written off in bad debts by NSCC and FMB members.

NSCC and FMB members charge interest in accordance with the Late Payment of Commercial Debts Regulations on just **5%** of their late payments.

Almost **one third of members** have used adjudication to resolve a dispute over payment.

Sub-contractors should be more willing to charge for late payment [in the same way that] clients expect their bank to charge them for a loan."

4.4%

of turnover equivalent to overdue payments.

£177m

written off in bad debts.

5%

of late payments have interest charged on them.

