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WHAT CAN BE LEARNED FROM THE COLLAPSE OF ISG?

Construction industry leaders joined *BE News* and sponsors Begbies Traynor Group and the Save Construction Initiative to discuss how to improve organisational resilience, shake up the payment culture and solve the insolvency crisis once and for all

INDUSTRY GUESTS:

Zoe Brooke, co-founder, Save Construction Initiative, and managing director, Ezrah Consulting

Cath Carter, director, project controls, AstraZeneca

Faye Dolan, framework director, Procure Partnerships

Sam Hughes, operations director, UK north, cost and commercial management, Mace

Angela Mansell, managing director, Mansell Building Solutions

Jarvey Moss, founder, Saible

Julie Palmer, regional managing partner, Begbies Traynor Group

Leigh Renshaw, chair, CIOB Manchester Hub

Katherine Saunders, partner, Towers & Hamlins

Paul Singh, founder, EEDN

Justin Sullivan, founder, Adair

Kris Wigfield, managing partner, Begbies Traynor Group

Stuart Wigley, partner, Baily Garner

Tim Whitehill, co-founder, Save Construction Initiative

Liz Hamson, editor-in-chief, *BE News* (chair)

Angela Mansell

Sam Hughes

The construction industry is in the grips of an insolvency crisis. In the year to November 2024, the total number of construction firms that went under was 4,102, according to the Insolvency Service. While this was 6.3% down on the 4,380 insolvencies recorded in the year to November 2023, it was 27.5% up on the 3,217 recorded in pre-pandemic 2019 – the fate of ISG offering a stark warning that not even the biggest firms are immune.

The systemic challenges of low margins, variable costs and the inherent unpredictability of the construction process still pose a huge risk to firms this year.

So, what can we do to mitigate these risks? How do we improve organisational resilience in the industry? What can be done to disrupt the current payment culture, prevent another ISG and ultimately fix the broken construction industry model?

These were just some of the questions discussed during the second in a series of roundtables hosted by *BE News* in collaboration with the Save Construction Initiative and Begbies Traynor Group held at the company's Manchester office.

QUESTION: The statistics paint a depressing picture, and the sector continues to face huge challenges. What does everyone else think the immediate outlook for the sector is at the start of 2025? What's changed since ISG's collapse, and what still needs to change?

MANSELL: There is still this notion of looking at projects and looking at things in isolation, and the challenge of joining the dots is really the key bit for me. There are so many variables, the chain is long, we're all kept apart from each other and it's more complicated than it needs to be. So simplify things and think about the bigger picture around partnerships.

But I am optimistic about this year. We do a lot of housing work – whether it's build to rent, social housing or different models of delivery – and the government has announced more funding for affordable homes, but it's a case of how quickly that starts to move.

HUGHES: We've taken quite a large number of former ISG employees into the business and we did pick up a number of [former ISG] schemes in the construction part of our business.

When you look at the different reasons of failure, the actual failure [at ISG] was making poor decisions around taking on projects they shouldn't have taken on or they went into regions or geographies they shouldn't have gone into.


Paul Singh


Julie Palmer

Mace often gets approached about taking on projects in regions where we don't have the supply chain or capability and we turn it down for the obvious reasons, but I think some businesses might get pressured into taking on those projects.

On paper the reason the company failed is because it couldn't cover its liabilities, but the [actual] reason the company failed is because it put itself in this position of taking on higher-risk projects outside its capability.

SINGH: ISG used to be a decent firm and had a really good reputation, and I noticed that dealing with ISG more recently, they had a few car-crash projects, and that sort of perception was diminishing and they turned into a really poor deliverer of projects.

> ***They had a few car-crash projects, and they turned into a poor deliverer of projects***
>
> *Paul Singh*

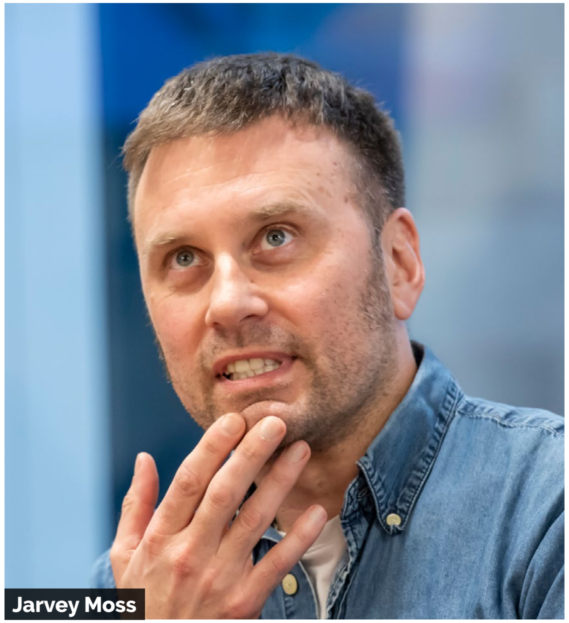
So how did that change? That's obviously to do with senior leadership maybe not admitting to themselves what was happening and taking the right course of action.

We all love the industry and I know the industry is damaged, but if we allow the blame for ISG's collapse to be placed on the industry it just makes us all look bad. So we have to understand how much of what went wrong at ISG should be apportioned to the senior leadership team.

MOSS: The critical point is that they were operating on very low margins. When


Justin Sullivan


Cath Carter


Jarvey Moss

things went wrong, which is inevitable, they had no margin for error.

The way companies often deal with that is to chase turnover – get the cash in now to cover the earlier costs. As soon as you make the decision to go after turnover, you're putting your business in jeopardy, because it's a self-reinforcing spiral.

That spiral feeds the payment terms beast – you hang on to the cash that you're generating for as long as you possibly can, squeezing all of those businesses behind you. If your turnover dips, then all those debts that are chasing along behind catch you up and insolvency becomes a very likely outcome.

SULLIVAN: That's how Carillion worked. I remember when I was 18 years old and being presented to by the chief executive, and he said: "OK, how much is in the bank? £300m. What do we make on that? 9%. What's our margin on projects? 3%. So we make more money from the bank, so we pay the supply chain late."

That's what they were doing. The great saying is 'profit for sanity, turnover for vanity'.

QUESTION: Wafer-thin margins blight the whole industry – I believe ISG was operating on margins of 1.5% to 2%. What is a viable margin and how do we move away from this 'lowest price wins' culture?

MOSS: If you're a fast-moving consumer goods company and you have a completely replicable, commoditised sale, and you do it in huge volumes, then you can operate on low single-digit margins. But construction has none of those characteristics.

Every project is different. Every project team is different. The environment in which the project is taking place is different. There is literally no margin for error and if you don't have the margin in the first place, then you end up chasing turnover.

HUGHES: Obviously margin is a factor of risk, so if we're building, for example, portal frame sheds on a green field it's very simplistic

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>
> *Jarvey Moss*


Zoe Brooke


Leigh Renshaw


Kris Wigfield

and very low risk and we would be very comfortable with a single-figure margin. But if you're doing a major infrastructure project with so many different stakeholders and complexities etc, the margin needs to be reflective of that. If you want to get into the depths of what's acceptable, you've got to look at what sector you're operating in and what part of the world you're operating in – it's quite multifaceted.

CARTER: On the lump-sum sort of market, the D&B [design and build] market, there's been a lot of inflation since Covid. So you might take on a project and perhaps it gets a little bit delayed, and then before you know it a lot of your margin is erased due to inflationary pressures. I think that has had a lot of impact.

BROOKE: The Gold Standard and the Construction Playbook recommend early supply chain involvement (ESI). If we want to remove the race to the bottom, we need to adopt the collaboration mindset. There is a dim view during procurement that value for money won't be achieved, which is the wrong attitude. ESI will improve efficiency on design, cost, risk management and methodology. We need to respect the skillset of the team in its entirety and trust the process.

PALMER: We saw post the Russian invasion of Ukraine what happened to supply chains due to inflationary pressures, and they just blew some contracts out of the water. Cash is king. Margins are absolutely important, but reserves are also important.

If you look at Carillion, in particular, that was a business that was just stripping out reserves in terms of paying dividends that it shouldn't be paying. We've seen that in the construction sector; we're almost certainly going to see it in the utility sector.

QUESTION: What impact might the introduction of the Procurement Act, which requires all public procurement contracts in the UK to include a 30-day payment term, have on the construction sector?

DOLAN: The introduction of the act has been delayed, so I think people are losing a little bit of trust and faith in it, and it doesn't seem to be that important on some people's radars. I really hope it does shine a light on procurement, which I think is a subject that's often forgotten about.

I think there's a big drive in terms of transparency of pipeline that's supposed to be coming through from the new Procurement Act, but my concern is: who's going to police that? Who's going to make sure it's accurate? A lot of us in the room track pipeline and opportunities, and we all know what it's like. It can be like knitting fog sometimes.

Faye Dolan

> ***One of the key aims of the Procurement Act is to pick up on poor behaviour***
>
> *Stuart Wigley*

Stuart Wigley

WIGLEY: Clients have got a massive role to play in terms of managing the supply chain through their behaviours, rather than driving the lowest cost. It is also about how they manage frameworks.

All too often, you go out to tender and the client says "oh no, I hope they don't win, because they've been dreadful on another project". One of the key aims of the Procurement Act is to pick up those poor behaviours and not reward bad behaviour by giving them another opportunity. What about the revised Construction Playbook that's coming in at some point? Is that going to make any difference?

SAUNDERS: The Construction Playbook is a really good place to start to understand procurement best practice and it includes guidance about use of project bank accounts, collaborative contracting and using standard forms contracts to reduce negotiation in delivery and focus on the critical issues such as agreeing the right budget and timescales for the project and at the quality that the client wants. However the Playbook has focused on changing the public rather than the private sector practices and at client and contractor level and relying upon them to make the changes to improve relationships with suppliers and manufacturers and it maybe that further intervention is required to encourage those changes to be made throughout the construction supply chain.

BROOKE: There are so many benefits of prompt payment. For starters, we would have willingness and co-operation from the specialist subcontractors. Knowing they will be paid will promote cohesive working relationships, improve quality and give clients certainty that defects/snags will be remedied. Wider benefits would be the investment in apprentices and skills and improve mental health.

I don't know any other sector where


Katherine Saunders


Tim Whitehill

you would have your construction site team going into a school or college and there's no allowance for them to do that.

So when you look at how much they would be earning on a daily basis with the extension of the hours that they do for extra out of working hours, the playbook is great, isn't it? But again, there should be an allowance with that procurement to say, "OK, to comply against that properly then we need to be at least having this much margin".

QUESTION: What's the most important lesson you want the industry to learn from the collapse of ISG, how confident are you that the industry will successfully disrupt and improve the current payment culture and do you see any green shoots of recovery for the construction sector?

RENSHAW: In terms of the lessons learned from the collapse of ISG, cashflow is king. Also there needs to be a greater emphasis placed on responsible procurement, because we were close to shortlisting ISG on a project and we would have had a serious problem just weeks after that.

MANSELL: The lesson from ISG and the whole piece around margin for me is the responsible 'no'. No is a good word and it is not used in this sector enough. It's OK not to do the work and it's OK to say no.

WIGFIELD: When we look at the construction sector, it is more likely than it is in other sectors that the financial management within the businesses that go bust will be poor. Often you don't even have cashflow forecasts in some of the SMEs that we see and that might be alright if your revenue is quite flatline, but obviously construction is usually quite lumpy.

So in the companies we see we're not seeing that lessons have been learned. What we're seeing is a challenging environment, but it's not an impossible one, so good firms that make good decisions will do well.

WHITEHILL: I'm just going to stick to what the research shows – failure is complex and it's multifaceted. It's difficult to do. What you really need in order to change any system is to disrupt that system, to create a dynamic effect, and I think a digitalised project bank account may do that. In terms of whether we can change the payment culture of the construction sector, never say never. □

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Tim Whitehill