Sponsored by

BE NEWS Begbies Traynor Group FREETHS

CONSTRUCTION CRISIS: HOW DO WE GALVANISE THE INDUSTRY INTO ACTION?

INDUSTRY GUESTS:

Alberto Argentieri, head of business centre – construction, Bibby Financial Services

Amman Boughan, chief financial officer, Pagabo Group

Dan Bradley, managing director, Kennedy Redford

Vicky Brook, founder and business lead, P3CL

Matt Collingwood-Cooper, construction and engineering partner, Freeths

Yosof Ewing, founder, Construction Coach

John Foster, pre-construction leader

Jarvey Moss, founder, Saible

Julie Palmer, regional managing partner, Begbies Traynor Group

Tim Whitehill, co-chief executive, The Save Construction Initiative

Ed Wooton, managing director of developments and construction, Torsion Group

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

The construction industry is in the grips of an insolvency crisis, exacerbated by a lack of organisational resilience and a payment culture not fit for purpose.

The sector's woes have been made worse by the collapse last September of ISG, which severely affected subcontractors, employees and clients, and echoed the demise of Carillion in January 2018.

At a wide-ranging debate sponsored by law firm Freeths and insolvency practitioner Begbies Traynor Group, held at Begbies' office in Leeds during UKREiiF, leading voices from across the construction sector discussed how to galvanise the industry into positive action.

QUESTION: It is nine months since ISG collapsed and seven years since Carillion went under. What has changed in the construction industry?

EWING: Nothing's changed. And the number of insolvencies we have been involved with is rising. We need to go back to the reasons these companies go bust because what they're doing is trading literally almost insolvent until they are actually insolvent, and it's allowed.

PALMER: Speaking as an insolvency practitioner, the insolvency services are critically underfunded in terms of the adverse reports we file and we just raise our eyebrows at the quite serious ones where no action is taken.

BROOK: The staggering thing for me was to read only weeks before [ISG] collapsed that it won government schemes. Having worked as non-ex for Eco Modular Buildings, I cannot believe how the government granted those schemes based on the financial information we as an SME alone had to provide, which was pretty much an inside-leg measurement job.

The sector's in crisis. We've got to stabilise it financially so when people are bidding for work, they're bidding on quality, their products, their innovation, their diversity and inclusion. That's their point of difference, and there is no undercutting.

Yosof Ewing

Vicky Brook

WOOTON: While little has changed since the collapse of ISG, from a contractor's perspective people were ready. The industry was ready. And as a result, the number of companies that have subsequently gone into liquidation off the back of ISG were far less than they were when Carillion went under.

So, something has changed in the period between the collapses of Carillion and ISG. In the supply chain, there has been a gradual improvement in how they review credit terms, the borrowing that they'll lend, the amount of debt they will allow themselves to get into and how that is spread. So, I do think the industry has matured since Carillion.

> ***I do think the industry has matured since Carillion***
>
> *Ed Wooton*

QUESTION: Do you see any evidence people are starting to be more collaborative and trusting of one another?

MOSS: Back in the day when you wanted to borrow money, you'd go to the bank,


Tim Whitehill


Ed Wooton


John Foster

and they'd know who you were – they were relationship managers. That isn't how the world largely operates anymore, although there are banks that are now trying to redo that in the SME space.

WOOTON: We're far from perfect. We have our moments and our problems balancing cashflow, but we speak to our supply chain and say "listen, we've got a problem coming", and if they know that they can work with us.

QUESTION: How do we break the cycle of self-destruction affecting the sector?

WHITEHILL: London South Bank University published research in 2020 that followed the Carillion collapse, and they exposed a normalisation of deviance across the organisation, and the three most significant deviances were: overpaying shareholders on dividends despite the financial worries; aggressive accounting techniques; and late payments of suppliers driven by the business model.

We previously discussed how the governance structures of certain organisations make decisions driven by market dynamics, where profit margins of just 1% or 2% are considered standard. Within such financially constrained environments, the risk of normalised deviance becomes more pronounced.

When you are a focused business model, and only playing in the grass where you know you can cut it, and you've assembled an end-to-end approach where you can control the flow of money, you can control the profitisation, you can control the supply chain of organisations and bring them in as partners; classic partnering – this is more typical in other sectors where integrated supply chains is a thing.

> ***The risk of normalised deviance becomes more pronounced***
>
> *Tim Whitehill*

Julie Palmer

Amman Boughan

Liz Hamson

The problem is the broader marketplace can't structure like that. It's still vulnerable. If we can get to different parts of the market and get them towards focused business model and integration, then maybe.

QUESTION: Has the sector become too reliant on public sector work? If yes, what do we do about it?

FOSTER: When governments change, programmes can get cut, and those who were 90% reliant on that work suffered. However, very often when we talk to colleagues who've got companies that traditionally operate mainly in the private sector, they are still saying they want to move out of the private sector and into the public sector, but we as an industry can't rely on the public sector anymore.

COLLINGWOOD-COOPER: The government has huge infrastructure investment plans – they are pushing significant money at the sector, meaning there's a real opportunity to incentivise meaningfully, which ultimately comes back to more than just receiving work.

Changing the regulatory landscape can be done, but you're always playing catch-up when companies have transgressed.

PALMER: Shareholder expectations are a real issue for some of the largest companies. We saw that with Carillion and the manipulation of numbers to show the business was still going in the right direction. There is manipulation at a grand scale, but it just isn't picked up by the auditors.

BOUGHAN: As the accountant in the room, with more subjectivity across the view, I look at other businesses where it's just revenue and costs and there are no subjective areas.

But in construction there are multiple areas of subjectivity, which then invites people to have different perceptions on where they are based on a genuine view at a point in time and on pieces of information available at that point in time.

People are making their subjective views on a legitimate basis; it's just the reality is somewhat different. This comes back to what is the transparency in terms of the real-time information on which people have got to make decisions.

So, it's not always manipulation. It's just they thought it was here and the reality was things had moved and there was a delay in the information being reflected in subjective decision-making.

QUESTION: What have we done to improve transparency and accountability? Should we be looking at the introduction of an auditing commission of some sort?

PALMER: Rules are not always applicable and followed in what's a very subjective


Jarvey Moss

> ***The burden of proof is incredibly difficult in the sector in which we operate***
>
> *Alberto Argentieri*


Alberto Argentieri

and changeable environment. People find ways to work around them and the problem is a lot of it looks reactively, which comes back to the point about looking at what happens in failure: the problem is the audit is already historical.

ARGENTIERI: It's more about accountability, such as the case of Carillion where there was evidence the numbers were being manipulated, and that comes back on the directors in terms of sanctions.

But the burden of proof is incredibly difficult in the sector in which we operate and if we think that someone has done something wrong, it is inherently difficult to prove.

QUESTION: what can be done to disrupt the sector's payment culture problem?

MOSS: You can talk about legislation, regulation; you can talk about fair payment charges and guides for this practice and all those sorts of things. But if you want to normalise good behaviour, then in my view you must make it in the commercial interests of as many people as possible involved in the whole ecosystem to behave well.

What we're addressing at Saible is getting people paid and making sure the money goes where it's supposed to. Project funding goes through a single bank account for each project – a project bank account held in trust – and then we distribute it to the entire supply chain in parallel.

What that does is remove from everybody – the client, the main contractor, tier-twos paying tier-threes and everyone else – the option to sit on other people's cash because they don't have it. So, if you want to get paid then you need your supplier to get paid. It's very simple. It starts all the way at the top.

Matt Collingwood-Cooper

Dan Bradley

QUESTION: How confident are you that we will be able to galvanise the whole industry into action to at least start to address the insolvency crisis issue?

EWING: I'm confident and from my own area of what we do in business, I've seen many people come out the other end, losing the fear and driving different payment culture with deposits and better terms at the table. There are only another 400,000 special contractors to go. But we're at the beginning of the journey.

FOSTER: We've got to change; otherwise we'll continue to struggle to attract diversity, we'll continue to not invest in digital transformation and the industry will continue to go down and down.

BRADLEY: We need to do more to highlight the positive examples of financial models and projects where the integration of contractors with design teams early in the project lifecycle significantly reduces risk and its financial implications.

These examples should be shouted from the rooftops to increase this approach across a wider scale of projects and sectors to help really galvanise the industry.

WHITEHILL: We are starting a new era in AI, and I think it's time this industry got involved. It's innovation rather than regulation – genuinely. Payment is changing in every sector, so there's no reason it wouldn't change in the construction industry too.

COLLINGWOOD-COOPER: There will be change. If you've been caught up in ISG, and other issues that preceded that collapse, then surely you're going to change, because you must.

There will be some who have yet to see the light, inevitably, but this discussion around the table underlines that change is good and people will change if it's a level playing field.

PALMER: When we started this initiative back in September, things were worse in terms of distress levels, so on the plus side, construction has come off what was then a real distress level. The caveat to that is there are some difficult macro headwinds still to blow through, and we just don't know where that's going to take us. □

Change is good and people will change if it's a level playing field

Matt Collingwood-Cooper