

Agenda

Comment / Mark Castle



Let's not retain retentions

Cash retentions are not only a threat to small companies' survival, they are symptomatic of a fundamental lack of trust and performance in our industry – they need to go

Cash retentions are not just an issue that needs addressing – they are a symptom of a fundamental problem in our industry: a lack of trust and performance.

From a client's position, retentions seem to make good business sense. You pay someone to build you a project to a quality and a specification. In case they don't deliver it properly, you hold back some of their payment at the end of the contract to provide leverage in ensuring they return to put things right if the need arises.

Without retentions, a client with a long snagging list on a completed project would be faced with a contractor without any real financial incentive to fix the problems.

However, that belies a challenging and damaging feature of our current construction sector that puts all of us – from clients to tier one contractors and down through the supply chain – at risk. Industry must meet clients halfway: too often we do not deliver on our promise of a building that is 100% complete at practical

completion and handover. It seems to have become an accepted norm that a building with hundreds of snags at practical completion is okay and that in some instances these snags can take many months to clear. Is it any wonder that retentions are withheld to act as some sort of insurance policy? If industry were to deliver 100% right first time, retentions wouldn't be needed.

But for smaller companies, retentions can mean the difference between survival and going

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under. Coupled with the industry-wide problem of late payment, retentions – often passed down from client to contractor to supplier – mean some members of the supply chain carry far more risk than they should, given the size of their role on a project.

None of this is new information, of course – it's been clear for years. Recent events, however, have given the discussion fresh momentum and focus. Nothing gives a clearer demonstration of the risks of cash retentions than the collapse of Carillion earlier this year. Huge swathes of the supply chain have been left holding the can, putting other projects at risk, increasing instability across the whole industry and leaving everyone wondering how we can make sure it never happens again.

At Build UK we want to see the complete abolition of cash retentions by no later than 2025 – and we believe it can be achieved. It's an ambitious target, certainly, but one that we think is within the realms of possibility.

The benefits are clear:

- More working capital within the supply chain helps companies to invest more in their systems, people, equipment and innovation, helping to drive productivity.

- The creation of a more collaborative culture between clients, contractors and suppliers will make for better projects delivered more effectively.

- By reducing the time and money spent chasing payments at the end of each project, we will be able to redirect resources in a more productive way across the whole sector.

Above and beyond all those, the achievement of a zero-retention industry by 2025 would mark a wholesale transformation of how we work together. More collaborative working means more trust – and more trust means less requirement to use leverage.

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It's not going to be easy. Build UK is working with all our members and stakeholders across industry and government to achieve this aim. We are committed to an industry-led roadmap, which sets out a phased approach to delivering zero retention and will drive the cultural change needed.

It will include exploring alternatives to cash retentions – are there other ways of holding leverage that don't require withholding payment for work done? Only with cross-industry buy-in will we solve this issue, so we'll be taking our plan out for extensive consultation.

For those in government, we hope that they will recognise the work being done in the sector and support us by making this issue a priority and work in partnership with us. It will also mean change by introducing policy to stop government departments using cash retentions, as well as encouraging similar decisions across local government and major infrastructure clients such as Network Rail and HS2. Finally, ideally we would want them to introduce specific legislation to require a zero-retention industry by no later than 2025.

A construction industry without cash retentions is one with more trust, more capital to invest and more productivity to spare. Every step we take towards it is a step towards a higher-performing sector – but it's not a journey anyone can make alone. Whether you're a client, a contractor or a specialist contractor, you'll be hearing from Build UK soon about our journey – we look forward to working with you.

Mark Castle is chairman of Build UK