

# SEC **GROUP** **focus**

Voice of the Specialist Engineering Contractor

The members of the  
SEC Group are:

Association of  
Plumbing and Heating  
Contractors

British Constructional  
Steelwork Association

Electrical Contractors'  
Association

Heating and Ventilating  
Contractors'  
Association

Lift and Escalator  
Industry Association

SELECT

## **NAO REPORT** **RECOMMENDS PROJECT** **BANK ACCOUNTS**

The National Audit Office Report on 'Improving Public Services through better construction' has recommended the use of project bank accounts to ensure effective and fair payment mechanisms.

The Report can be found on the NAO Website at [www.nao.org.uk](http://www.nao.org.uk).

### **Project Bank Accounts.**

**The NAO Report has confirmed that:**

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*'Unfair payment practices such as unduly prolonged or inappropriate cash retention undermine the principle of integrated team working and the ability and motivation of specialist suppliers to invest in innovation and capacity. Departments should have the appropriate visibility of the entire supply chain. Understanding how specialist contractors, and particularly small and medium sized enterprises, are engaged, evaluated and managed can contribute considerably to the achievement of value for money. For example, Departments should ensure that they have in place effective and fair payment mechanisms, such as project accounts to provide more certainty to suppliers payments dependent on delivery to time, cost and quality.'*  
(Page 14 – recommendation h – paragraph 2).

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**In additional the footnote has pointed out that:**

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*'The approach of using a single bank account for the entire construction ensures the timely payment of all parties and mitigates the risk of the main contractor unfairly withholding payments from suppliers further down the supply chain'.*

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### **Example of a single project bank account.**

Also relevant is the Case Study of Defence Logistics Organisation Offices at Andover North in the supporting 'Case Studies' document to the NAO Report. This specific example of a single project bank account confirmed that:

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*'Defence Estates were concerned to ensure the timely payment of all parties working in the supply chain to manage the risk that the prime contractor might unfairly withhold payments from subcontractors. A project bank account was set up in trust for the whole supply chain and payments from it needed the authorisation of the client and the prime contractor. Defence Estates also had the ability to audit the account. The use of the single bank account helped to ensure the timely payment of all parties in the supply chain'. (Page 20 – paragraph 10).*

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### **Savings**

It has been estimated that the introduction of project bank accounts (along with project insurance and integrated design teams) would achieve savings in the region of £1 billion across the public sector.

### **A breakthrough.**

The SEC Group has applauded the NAO recommendations. They are positive and cannot be ignored. The biggest breakthrough of all is the call by NAO for the widespread use of project accounts. This is the clearest endorsement yet of project accounts and presents a real opportunity to smooth supply chain payments and put an end to outdated practices, like retention abuse.

The NAO recommendation is important given the number of recent high-profile insolvencies that continue to damage the industry. For example, the implementation of project bank accounts could see an end to the kind of misery suffered by sub – contractors of failed contractor Benson, which collapsed last year owing £23 million to 3,000 firms. Benson went into administration owing sub – contractors £5 million in retentions.

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### **Next Steps**

**The House of Commons Public Accounts Committee will consider the NAO Report. Following the General Election a new Committee will be appointed and one of its first tasks will be to agree their future programme of hearings. The SEC Group has already been in touch with the present Chairman of the PAC Committee and been informed that in the event of a hearing in the new Parliament the PAC would be pleased to receive written evidence from SEC Group.**

**There will be a need to consider a time frame in which the NAO recommendations can be implemented. In particular, the SEC Group propose that within the next 3 years every public sector project should have a project bank account.**