POST CARILLION: WHERE DOES THE INDUSTRY GO NOW?

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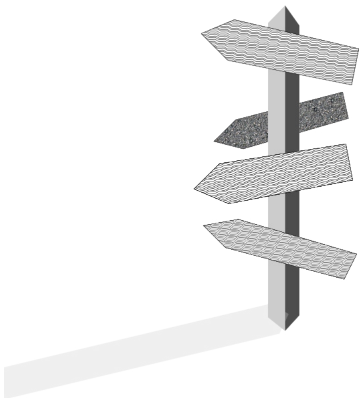
Following the recent collapse of Carillion, we must ask ourselves what's next for the industry, and how can this be prevented from happening again? The effects of its demise will be felt through the industry for years to come. We do not yet know the specific reasons for Carillion's collapse, although it is public knowledge that it had a large number of problem projects, despite funding its business model with draconian payment terms. I don't, however, think Carillion are totally to blame; the industry as a whole needs to take a long hard look at itself in the mirror.

Granted, Carillion was probably the primary architect of its own demise, its use of supply chain money acting as a free overdraft facility almost certainly papered over the cracks. However, its supply chain signed up to the payment terms with eyes wide open, no doubt at the time due to the need or desire for the work on offer. I noted a thread on LinkedIn where a subcontractor explained that they won a contract with Carillion, but walked out of the Pre-award meeting when the payment terms were discussed, and the 120 day duration was presented. What surprised me, was the number of comments criticising the subcontractor, saying they should have stayed and entered into negotiations. If a supplier has a financial model it works to, that includes shorter payment terms, why should they then fund a larger organisation who does not manage their company to the same widely accepted standards.

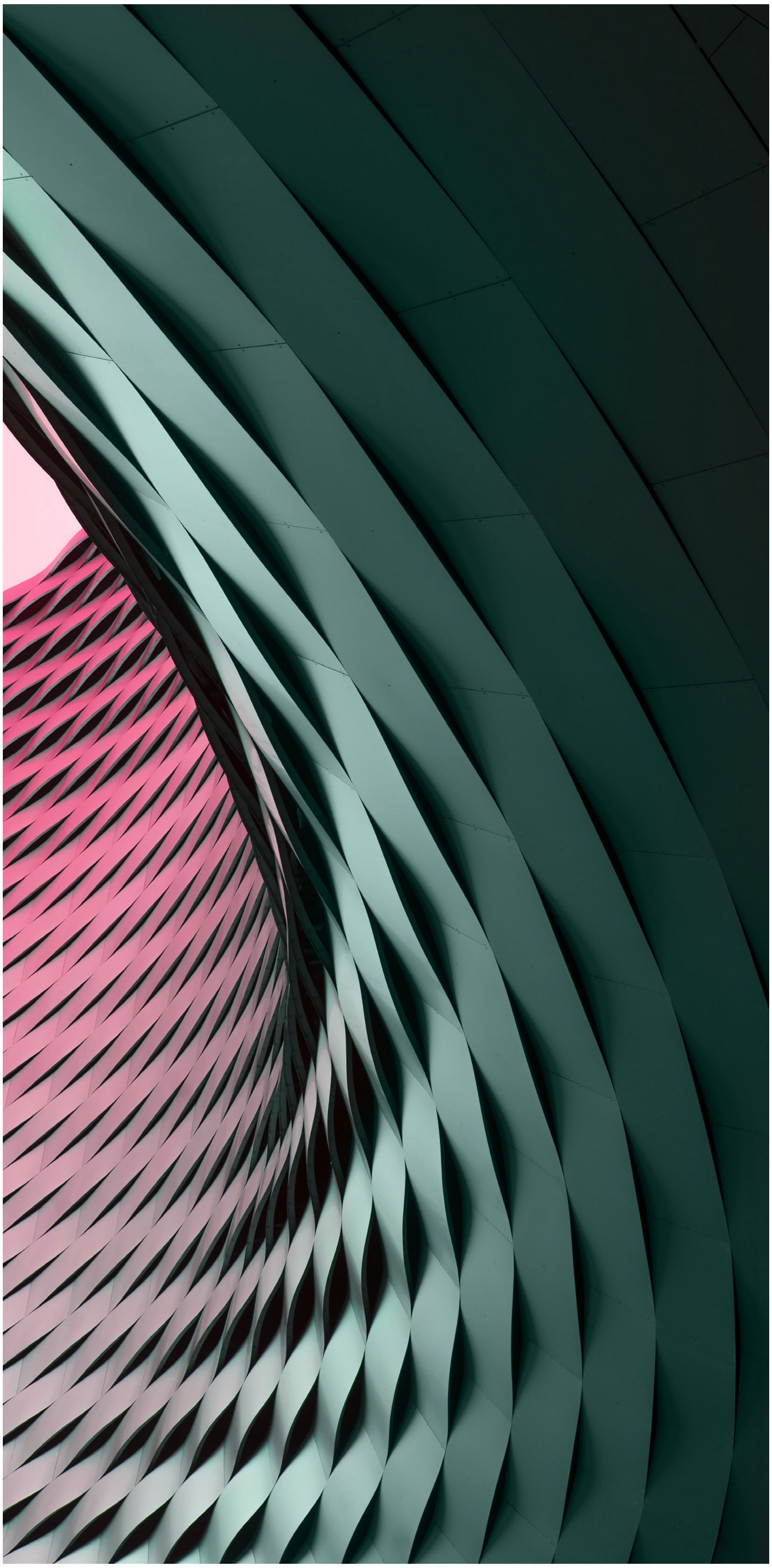
I am also of the opinion that some Client Project Managers and Employers are not lily - white in the industry when it comes to applying financial pressure. I worked on a large infrastructure project, where the PM was employing financial pressure, via the use of disallowed costs to control the cash flow, and force the JV to self-fund the project. This on an NEC Option C contract which theoretically should be cash neutral. The JV had to enter into a number of adjudications to ensure monthly cash flow and on the eve of one mediation



hearing as part of the overall process, the PM increased the level of disallowed costs from £60m to £180m!

In a similar vein, I was speaking to a contractor just last week who was explaining that the PM on one of his larger projects had disallowed the costs for part of his procurement team, on the grounds of 'not providing the works'. The PM had taken the decision that as the Contractor had not procured subcontractors to a timescale expected by the PM, he was not going to pay for the said procurement team. This wrongful use of the disallowed cost provision, in a risk-sharing contract, was almost certainly employed as part of the initial positioning for the final account negotiations. This does nothing to assist contractors, who already operate generally on razor thin margins.

I am a great believer in the use of Project Bank Accounts. However, when contractors are put under the kind of financial pressure detailed above, even this fails to protect the supply chain. When a project 's cash flow dries up and the contractor is forced to self fund the project, the protection offered by the process has failed. Indeed, recent projects have amended the standard NEC contract to allow the PM to deduct Pain Share as works proceed, rather than waiting until the end of the project. How does this assist a contractor in completing the project?



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