



CabinetOffice

Government Construction

Project Bank Accounts – Briefing document

10th February 2012

Cabinet Office is working with public sector construction procurers in pioneering a new way of paying supply chain members in construction projects through Project Bank Accounts (PBAs). PBAs will see construction SMEs working in government projects receiving payment in five days or less from the due date. Government Construction Board members have committed, over the next three years, to deliver £4bn worth of construction projects using PBAs.

This move is set to revolutionise the way the construction supply chain gets paid, in an industry in which around 99 per cent of businesses are SMEs. Historically, it has not been unusual for lower tier supply chain members to have to wait for up to 100 days to receive payment, which damages their cash flow and can harm their business. Supply chain members in PBA projects will no longer have to wait for higher tier contractors to process their payment; instead they will receive it directly through a bank account specific to the project they are working on.

Minister for the Cabinet Office, Francis Maude, said:

“We are leading the way with this innovative approach to paying smaller suppliers, and where better to do so than in an industry where more than 99 per cent of businesses are SMEs. Project Bank Accounts means SMEs will be paid faster, freeing them of the burden of juggling with their cash and allowing them to focus on expanding their businesses instead of chasing payments.”

PBAs not only assure certainty and security of payment; they also ensure that payment is made promptly. It is estimated that if fully implemented PBAs can deliver almost 1% savings in the cost of construction projects.

Major programmes such as Crossrail have already implemented PBA arrangements and key construction spending departments such as Highways Agency and MoD are committing substantial amounts of their programmes to it.

	Projects currently in construction using PBAs (Value of contracts let using PBAs to 1st Dec 2011)	Value of Projects committed to be let using PBAs this FY – (Total value of PBA contracts scheduled to be let post 1st Dec 2011)
Highways Agency	253.7	62.6
Defence Infrastructure Organisation	226	0
Crossrail	2,072.5	855.6
TOTAL	2,552.2	918.2

The benefits

Simple though the concept is, PBAs directly deliver against a range of the aims of the Government Construction Strategy. By addressing unfair payment practices, benefits will accrue to the whole supply team, by ensuring transparency of and certainty of payment. In particular, for the SMEs down the supply chain PBAs will protect their often very fine margins, obviate the need

for unnecessary borrowing and can lead to a much more balanced trading environment, hence supporting growth. Cost savings accrue from supply chain members not having to chase payment or having to finance lengthy credit periods. PBAs eliminate payment disputes and the costs associated with them (which ultimately feed back into costs for the client). They also help the supply chain concentrate on the job in hand and reinforce or facilitate team working. Increased trust leads to greater collaboration, which in turn incentivises innovation.

How does the PBA work?

A Project Bank Account (PBA) is a ring-fenced bank account from which payments are made directly and simultaneously by a client to members of his supply chain. PBAs have trust status which secures the funds in it and can only be paid to the beneficiaries – the supply chain members named in the account. Payments out of the PBA are made simultaneously to all parties. The account is held in the names of trustees; likely to be the client and lead contractor (but could also be members of the supply chain). The advantage of trust status is that in the case of insolvency monies in the account due for payment to the supply chain is secure and can only be paid to them.

PBAs are suitable for a very wide range of project values – even for projects as small as £1m or less, depending on the size of the supply chain.

So far Barclays and Bank of Scotland currently offer PBA arrangements; others are working towards this. NEC3 and the Project Partnering Agreement (PPC2000) and the Joint Contracts Tribunal forms of contract have PBA provisions.

Cabinet Office
70 Whitehall
London
SW1A 2AS

www.cabinetoffice.gov.uk