

CONSTRUCTION SUPPLY CHAIN PAYMENT CHARTER FACTSHEET

This guide is an introduction to the Construction Supply Chain Payment Charter.

The Construction Supply Chain Payment Charter that sets out payment terms of 30 days has been published by the department for Business Energy and Industrial Strategy and endorsed by the Construction Leadership Council (CLC), the body set up to deliver the government's industrial strategy for construction.

Fair and transparent payment practices are essential to the achievement of successful integrated working on construction projects. The Charter is voluntary and applies to all parties who are signatories to construction contracts with the aim of helping to create a more collaborative culture and ensure a strong, resilient and sustainable supply chain.

The charter is voluntary and sets out 11 "fair payment commitments" outlined below. These also include a commitment to reduce payment terms to a supply chain to 30 days from January 2018. The charter also sets out stages before this: terms of 45 days from June 2015, and 60 days with immediate effect.

"The main ambition for 2025 is that the construction industry's standard payment terms are 30 days and that retentions are no longer withheld."

The Charter adds to and complements already existing legislation and policy, the Housing Grants, Construction & Regeneration Act 1996 (as amended), the Late Payment of Commercial Debts Regulations 2013, the Fair Payment Charter, Cabinet Office Procurement Information Note 2/2010, the Payment Performance Reporting Regulations and the Prompt Payment Code .¹

1. IS IT MANDATORY?

The Charter is voluntary, but by becoming a signatory to the Charter, an organisation agrees to apply the fair payment commitments contained within the Charter in its dealings with its supply chain. ²

The Charter is self-policing in that compliance with the principles of the Charter is monitored and enforced by the Charter hosts. Ultimately the sanction for non-compliance is to be struck from the register of signatories to the Charter, i.e. reputational risk/'name and shame'. However, this form of policing is, in reality, ineffective for most as an incidental slump in share price does not impact on a signatories ability to trade.

In August 2016, the revised Charter was published to which 19 organisations had signed up. ³

¹ More about the code can be found here: <http://www.promptpaymentcode.org.uk/>

² To access the Charter website please click here: [Construction Supply Payment Charter](#)

³ The list of signatures is available here: [Signatories](#)

2. CHARTER: FAIR PAYMENT COMMITMENTS

Below are 11 commitments to which all signatories will adhere to together with all new construction contracts from 1 January 2015 in order to meet the fair payment Charter.

1. We will make correct full payment as and when due for all work properly carried out, or products supplied, in accordance with the contract. We will ensure any withholding of payment due to defects or non-delivery is proportionate, and clearly, specifically and demonstrably justified in line with the arrangements set out in the contract.
2. We will not deliberately delay or unreasonably withhold the payment.
3. For all new contracts we will ensure that payments are made to our supply chain not more than 60 calendar days from the end of the Calendar month in which the work is carried out or products are supplied. From June 2015 we will ensure that payments are made to our supply chain not more than 45 calendar days from the end of the calendar month. From January 2018 that will decrease to not more than 30 days.
4. Public authorities are already required to pay within 30 calendar days. On central Government contracts, payments will be made accordingly:
5. We will either not withhold cash retention or ensure that any arrangements for retention with our supply chain are no more onerous than those implemented by the client in the Tier 1 contract. Our ambition is to move to zero retentions by 2025.

- › Tier 1 within 14 days
- › Tier 2 within 19 days
- › Tier 3 within 23 days

Of the due date which will be 7 days after the common assessment or valuation date established by the client in the Tier 1 contract

6. We will issue any Pay-less notices at the earliest opportunity and no later than 7 days prior to the final date for payment.
7. We will have processes in place to enable the effects of contract variations to be agreed promptly and fairly and payments for such variations to be included in the payment immediately following the completion of the varied works.
8. We will make payments electronically unless agreed otherwise.
9. We will use Project Bank Account on central Government contracts unless there are compelling reasons not to do so and on other contracts where appropriate.
10. Where Supply Chain Finance schemes allowing members of the supply chain to secure earlier payment are offered, we will not impose fees or costs for receiving payment within the terms set out in the contract.
11. We will adopt a transparent, honest, and collaborative approach when resolving differences and disputes.

3. BESA'S COMMITMENT TO THE CHARTER

Whilst BESA currently continues to support the Charter, to make the Charter have any meaningful impact it must:

- ▶ Achieve critical mass in number of client/tier 1 signatories.
- ▶ Remove the guidance requirement that condones less than 100% compliance.
- ▶ Be supported with a monitoring and enforcement framework which makes compliance data publically available.

As a statement of political rhetoric and industry consensus, the Charter is of value. However, in isolation as a non-binding statement it is inherently weak in seeking to tackle the major issue of cash flow which inherently divides the industry as it sits at the heart of incumbent business models and the industry's economic structure. ⁴

⁴ The Construction Supply Chain Payment Charter guidance can be accessed here: [Construction Supply Chain Payment Charter guide](#)