



Working together to support building engineering services excellence

ECA & BESA response to a consultation on options to enhance the role of Companies House and increase the transparency of UK Corporate Entities

Respond to: transparencyandtrust@beis.gov.uk

Submission date: 5 August 2019

ECA and BESA welcome the opportunity to respond to this consultation. We jointly represent the interests of over 4,000 businesses covering a broad range of engineering, design, installation and facilities management activity, including electrical, heating, plumbing, energy management, micro-generation, ductwork, ventilation, fire and security, and wireless systems. These works not only form a key part of the UK construction, maintenance and facilities management services supply chain, but they form between 40-60% of sector turnover. The industry comprises 280,000 businesses of which 99% are SMEs (the bulk of which are involved in B2B transactions) – turnover is estimated by UK Government to be circa £225bn for both construction and facilities management representing 10% of employment and enabling a further £540bn contribution to wider economic output.

UK construction and facilities management averages four to five levels within its supply chain and 70 sub-contract packages. It suffers from high fragmentation and disaggregation. This has a direct impact on its opaque handling of cash making the commercial eco-system in which the industry operates incredibly fragile.

Executive Summary

- ECA and BESA welcomes the opportunity to respond to this consultation. We support the Government's ambition, through the Industrial Strategy, to make Britain the best place to start and grow a business and echo the Minister's statement around the importance of Government and business working together to shape a strong and fair economy.
- ECA & BESA have continued to work hard with; Cabinet Office, the Small Business Minister, BEIS, and the Small Business Commissioner, to enable the integration of key Government initiatives in order to strengthen the influence of Government and reduce the scope for late and abusive payment practices.
- To continue to grow the economy, it is important to ensure the corporate law framework is designed to support all participants and maintain the core principles that underpin the attractive nature of the UK's economy.
- We would like to see a greater focus on corporate performance and transparency within the way corporate governance is viewed, adhered to and interrogated¹. For example, fair payment is our (and other) sector's number one business concern. A previous BEIS 2018 consultation² highlights that a quarter of small businesses view late payment as a threat to their business survival which demonstrates how important it is to tackle the problem. One of the key enablers to successful regulatory reporting, monitoring and enforcement, is the integration of the Companies House open source beta data platform with other key online Government resources.
- Without the Companies House online platform acting as the conduit in identifying which corporate compliance initiatives apply to which businesses, the Government's entire SME growth and

¹ BESA and ECA response to BEIS' consultation on Insolvency and Corporate Governance, June 2018

² Entitled: Creating a responsible business culture

prosperity agenda and Industrial Strategy³ is undermined as it is compromised by the perennial issue of late and abusive payment. Until this systemic problem is addressed initiatives within the scope of the Industrial Strategy (R&D, innovation, digital transformation, training and apprentices; raising pay; working in new markets and exporting; or investment in technology to be more productive), can never be meaningfully advanced by a significant proportion of businesses within the UK economy. This is certainly true of construction and facilities management, a very large contributor to the UK economy and employment; and we suspect numerous other sectors too.

- Developing better payment practices that are discharged on a more widespread basis is therefore a gateway policy to unlocking many other public policy objectives. This means that we should be using all the public policy tools at our disposal, including the role of Companies House and increasing corporate transparency. With respect to this consultation, we recommend the following:
 - With Companies House beta now being an open source data platform, this provides an opportunity for integration with other datasets that would be important to bring together information from across Government. This would include the Prompt Payment Code (which is to move within the ambit of the Small Business Commissioner), mandatory payment reporting for large firms and carbon reporting for qualifying businesses. This would allow would-be suppliers, business partners and investors to go to one place to understand whether that business falls within the scope of some or all of these requirements; and on the basis of being able to easily review these, whether it is a suitable business to be working with or investing in. It would also allow Government to more easily assess whether businesses are meeting the standards required in order to qualify for Government contracts, as has been promulgated in Government's policy⁴.
 - The Government is taking forward several positive measures but there is now a need to 'join the dots' within existing Government tools and infrastructure.
 - As a protection from the impacts of corporate insolvency, we believe the level of ring-fenced money should be specified at a percentage relevant to the amount of debt the business carries. This will ensure supply chain creditors, as a class, are not unfairly compromised to the preference of secured creditors.
 - We believe it is important to limit the situations in which SMEs' money may be held by another business and which could be subject to abuse in the form of late, withheld or unrecovered payment. The Government has proposed action, such as around ending the potentially exploitative withholding of retentions in the construction industry, but a firm public commitment to hard action is still awaited after 18 months.

Joining the dots

- The Government has established a number of corporate reporting requirements to promote good corporate governance and behaviour however these are currently disparate, and so analysis of these is not easy, for businesses or Government.
- From a Companies House perspective, now that its data is open source this provides an opportunity for integration. Currently, a supplier or investor needs to look on a number of separate Government websites to ascertain if they meet the criteria to fall in-scope for mandatory large corporate compliance regulatory requirements; payment reporting and also for mandatory carbon reporting.
- For example, the BEIS mandatory payment reporting website has a button for 'find out if they need to report', but this takes you through to a self-diagnostic tool. Therefore, to find out if a business is required to report, you must manually download PDF accounts (where submitted) from Companies House and check if the qualifying criteria are met (250 employees, annual turnover

³ The Government's Construction Sector Deal being a manifestation of the Industrial Strategy in our sector

⁴ A Cabinet Office consultation on how Government should take account of a supplier's approach to payment in the procurement of major contracts

exceeding £36 million and balance sheet total exceeding £18 million). This is time-consuming and not all the criteria have to be reported on (e.g. number of employees).

- To clarify which businesses exceed which thresholds and to demonstrate whether a business is meeting the additional regulatory requirements, we recommend Companies House, a) require in the submission of accounts to highlight whether a business has met the relevant reporting criteria, and b) then require a business to enter the relevant data outside of the PDF accounts files into a databox where it can be captured. This would be consistent with Government Digital Service standards and policy of open source integration.
- The effect of this would be to raise the profile of the reporting requirement within the business doing the reporting, and to make its submissions more traceable for would-be suppliers, business partners and investors who are looking to make commercial decisions. Increased transparency would also assist Government in monitoring and enforcing these reporting regulations.
- It would also help Government to understand more easily whether businesses are reducing their carbon footprint, paying on time or whether they are signatories to the Prompt Payment Code. This would assist Government to drive its Industrial Strategy sector deal agenda, its decarbonisation agenda, and its agenda relating to the payment performance of Government suppliers.
- Finally, since Making Tax Digital has been implemented, there is scope for connecting both data sources to enhance this integration by cross-matching and verifying both datasets (e.g. six monthly turnover and balance sheet figures).

Protection for SMEs and fair payment

- Small and medium-sized enterprises are the backbone of the UK's economy and money needs to flow through the supply chain in a fast and transparent way to fuel wider economic prosperity and growth. ECA and BESA believe that, if the Government is going to deliver a strong, transparent and attractive business environment in the UK, options to protect payments for SMEs in the supply chain in the event of the insolvency of a large partner business or customer must be considered.
- We believe the level of ring-fenced money should be specified at a percentage relevant to the amount of debt the business carries. This will ensure supply chain creditors, as a class, are not unfairly compromised to the preference of secured creditors.
- We believe it is important to limit the situations in which SMEs' money may be held by another (often larger) business and which could be subject to abuse in the form of late, withheld or unrecovered payment.
- We call on the Government to implement the recommendations of the BEIS Select Committee in its report on its Small Business and Productivity Inquiry⁵ as a matter of priority; and to respond to its own consultation on ending the potentially-exploitative retentions regime for construction work⁶.

ECA and BESA – Working together to represent the engineering services sector

- *ECA and BESA collaborate on a range of issues affecting the engineering services sector.*
- *The partnership brings together the two leading trade associations representing the interests of engineering services contractors, representing some 4,000 businesses with a combined annual turnover of almost £10bn.*

⁵ December 2018

⁶ A BEIS consultation on the practice of cash retention under construction contracts, October 2017

- *Together, ECA and BESA cover a broad range of engineering, design, installation and facilities management activity, including electrical, heating, plumbing, energy management, micro-generation, ductwork, ventilation, fire and security, and wireless systems.*
- *Joint working includes representation and services in key areas such as contracts, procurement, payment and health and safety.*
- *Overall, the engineering services sector is estimated to account for some 40-60% of UK construction and maintenance turnover.*

ECA 020 7313 4800 www.eca.co.uk BESA 020 7313 4921 www.thebesa.com