

# External perspectives:

Minimising the risk of supply chain insolvency in the construction sector

## Our team

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## About Miller

We are a leading independent specialist (re)insurance broking firm with more than 750+ people across our UK and international operations.

Our reputation as the strongest advocates in the business comes from our exceptional people delivering exceptional results for over 120 years.

With a client-first approach, we value our long-standing relationships and continue to build strong and rewarding partnerships.



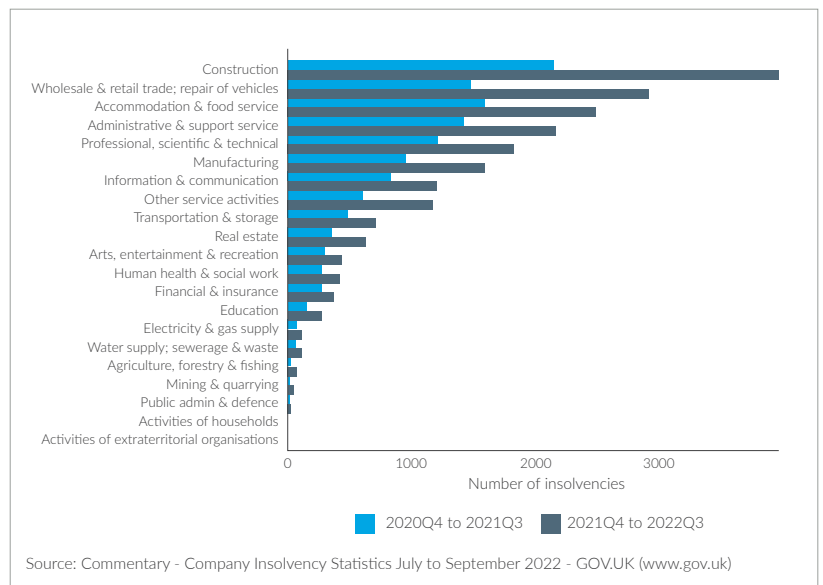
Miller is a Chartered Insurance Broker, the industry's gold standard for insurance brokers. We have committed to delivering professional excellence and adhering to a Code of Ethics.



In conjunction with HLME and Charles Russell Speechlys, Miller presents the perspectives of a Construction Project Manager, Construction Lawyer, and Construction Insurance expert on ways to help shield the construction industry from the growing threat of insolvency risk.

## Latest data

Construction has the highest rates of insolvency of all UK sectors and rates have doubled in just 12 months (see graph below). Over 6,000 construction company insolvencies are anticipated in 2023 and GBP1bn in bad debt is expected within the UK construction industry by the start of 2024.\*



Many construction and consultancy companies have become insolvent due to ongoing economic issues. Pressures continue to exist across all aspects of the construction industry from base raw material prices, through to increased labour costs, increased energy bills and greater costs associated with debt financing. Over recent years, construction has generally operated on fixed price, low margin contracts, and due to the lag between contract agreement and delivery on site that can mean in inflationary times that margins are rapidly eroded. At the same time, cashflows have been put under significant pressure, particularly due to programme and progress delays linked to material and labour availability across the wider supply chain.

\* Construction faces "perfect storm" for insolvencies | Construction Enquirer News

## Latest guidance

Set out below are our top recommendations of things to consider during the procurement of a project. This will help to minimise the risk of supply chain insolvency and put your organisation in the best position possible should insolvency occur.

- **Understand project risks and costs** that may arise from supplier insolvency.
- **Develop a strategy** to address insolvency risk with input of key stakeholders and experts.
- **Early engagement** with potential suppliers - determine track record, current and potential workloads, lead in times and key issues they may currently be facing.
- **Procurement:** Consider procurement strategy, the critical supply chain involved and associated risks, including collateral warranty and bond/guarantee requirements.
- **Key suppliers:** If a proprietary product system or method is to be used, consider what may happen if the supplier or system owner were to fail.
- **Due diligence:** Assess the potential supply chain, including:
  - references from other clients about their quality, labour, materials, reliability
  - credit checks using established credit reference agencies
  - review their payment record - how often do they pay on time / pay late?
  - value of any parent company guarantee available
  - consider key supplier site visits
  - overseas supply-chain for critical build components
  - operation and efficacy of supplier insurance protection
  - health, safety and environmental protection record
  - training and support by supplier to staff, including regulatory change response.
- **Insurance:** Consider options available for risk mitigation, risk management and risk transfer, including enlisting help of construction specialists such as Miller:
  - a robust owner-controlled asset protection approach
  - protection for latent structural defects risks post-completion
- **Form of contract:** Prepare an appropriate form of contract that has suitable employer protections in the event of contractor insolvency. Ensure such contracts are properly executed before the relevant contractor starts on site.
- **Security:** Consider what security may be required from key suppliers such as retentions, performance bonds and advance payment bonds (tailored by specialists such as Miller), parent company guarantees, vesting certificates and collateral warranties with step-in rights.
- **Payment structure:** Consider how best to structure the payment terms, such as lump sum price or re-measurable, and monthly valuations or stage payments? This is particularly important if payment is to be made for off-site materials.
- **Information:** consider what and when information needs to be collected and retained and who may need access to this and how it is stored. This may include information to ensure compliance with Building Regulations, Building Safety Regulator requirements or for general quality assurance purposes.

### About Miller

Miller provide specialist risk advice and insurance solutions to all parts of the construction industry.



We have over 25 construction experts dedicated to delivering intelligent and tailored solutions that match our client's specific risks. Our industry expertise, client-first ethos and collaborative structure sets us apart from our peer group.

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### About HLME

HLME is a consultancy that helps provide direction for residential development projects. Their skills cover the full spectrum of residential development from identification and inception of projects through to delivery, project completion and ongoing development management.



HLME has in excess of 20 years' experience working across a range of multiple award winning projects covering all forms of construction including traditional masonry, timber frame, concrete frame and Category 1 MMC (Volumetric) on both Greenfield and Brownfield sites in urban, suburban and rural areas.

HLME has a comprehensive understanding of land acquisition, promotion, planning, technical, procurement, construction and completion activities required to facilitate development whether it's a one-off home, regeneration project, standalone unserviced site or a serviced development parcel.

[www.hlme.ltd](http://www.hlme.ltd)

### About Charles Russell Speechlys

Charles Russell Speechlys are an international law firm with a focus on private capital, at the intersection of personal, family and business. They have a broad range of skills and collective legal expertise and experience with an international outlook across the full spectrum of business and personal needs.



Charles Russell Speechlys are here to guide you through your most pressing challenges and rewarding opportunities. We do this by getting to the heart of your needs to bring you the best-fit solutions.

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