

PROJECT BANK ACCOUNT CASE STUDY

A164 HUMBER BRIDGE TO BEVERLEY ROUTE IMPROVEMENT SCHEME

Framework: YORcivil – North & East Region
Lot: 2 – Civil Engineering Project over £1m
Call off Process: Quality Initiated call off
Client: East Riding of Yorkshire Council (ERYC)
Contractor: Jackson Civil Engineering Ltd
Contract: NEC3 Option C
Project Value: £10m
Length of Scheme: approx 5 mile length of the A164
Start on Site: Spring 2012
Completion: Summer 2013



BACKGROUND

The scheme to improve the A164, the East Riding's busiest road, is now complete and has been officially opened by the Rt Hon Patrick McLoughlin MP, Secretary of State for Transport, on 13 May 2013. The £10 million scheme, to which the Council contributed £2.3 million, began in spring 2012 and was designed to reduce congestion at peak intervals and improve traffic flows for up to 35,000 vehicles using the road each day. As well as the installation of a section of dual carriageway between Willerby and Castle Hill, the contractor also reconfigured 4 roundabouts and constructed lengths of new footpath and cycleway.

OBJECTIVE

The Government Construction Strategy, published by the Cabinet Office in May 2011 and the former Office of Government Commerce (OGC) Fair Payments Guide published in 2007 both recommend the increased use of Project Bank Accounts (PBAs) in public sector construction projects.

A PBA is essentially a bank account held jointly on trust by the employer (the Council) and the project's main contractor. Funds are paid into the account by the employer and then paid directly to the party that has carried out the work, i.e. main contractor or subcontractor as appropriate, ensuring subcontractors are paid on time as there is no middleman. There is an obvious transparency but more importantly a high degree of security in that the employer can see what is being paid for.



APPROACH

The East Riding of Yorkshire Council (ERYC) decided to carry out a trial of the use of a PBA on this project. Call off contracts from the YORcivil framework are delivered using the NEC3 form of contract (as the only government endorsed form). The inclusion of the option to use a PBA was first included in these conditions as a supplementary publication but since April 2013 has been included as optional clause Y(UK)1. However the Council elected to gain experience and a greater understanding of PBAs by taking responsibility for the operation of the account and so included changes to conditions to allow the account to be established and administered by the Employer rather than by the Contractor.



OUTCOMES

The project team's experiences of this initiative on this contract have been positive. The use of a PBA does not alter or interfere with any aspect of the contract as far as the contractor's assessments and Project Manager's duties are concerned. Contractors' applications for payment are submitted as normal based on Defined Costs with subcontractor packages clearly identified. Therefore once authorised payment can be made directly to the supply chain at the same time as the main contractor through the use of the PBA.

BENEFITS

The Cabinet Office has estimated that savings of up to 2.5% can be achieved with the use of a PBA on major projects due to subcontractors not increasing prices to allow for possible long delays in payments from the main contractor. This project identified an actual direct saving of 0.43% based on retender of received supply chain subcontract packages with a PBA, even though the main contractor was known to pay promptly. This ensured that payment times for the supply chain were less than 30 days on this contract. However it will not always be possible to assess genuine savings or the effect on individual projects particularly when prices are obtained through a normal tendering process.

Costs to the Council in the setting up and administration of the account were minimal. The Council set up an account through its existing bankers at no cost. The Contractor also banks with the same group so very few financial checks were required. Other assessed costs include:

- Transactions from the account – payments made up to £100k = 35 pence, over £100k = £10.
- Resource costs – financial services support at ERYC estimated that each transaction only took minutes to complete and that no more than £200 of staff time was charged.
- Interest on monies in account – monies were only paid into the account when due and immediately paid to the supply chain, no interest was accrued.

It is also considered that the benefits of the use of a PBA are not measured purely by financial savings. PBAs speed up the payment processes and mitigate the risk to the employer and subcontractors of insolvency in the main contractor's supply chain by ensuring that all participating subcontractors receive timely payment of monies due to them. The payment process becomes very transparent to the Employer.



WHAT NEXT

The Council has identified further major projects where the use of a PBA will be adopted. These include further major civils infrastructure and flood alleviation works and a major building project to be let through the YORbuild framework.

The experience gained and protocol developed as a direct result of this project will allow ERYC to support and advise other users of the YORhub agreements on the use of PBAs.

CHALLENGES & LESSONS LEARNT

The use of a PBA continues to be contentious with contractors who would prefer to acknowledge the revised fair payment charter and maintain responsibility for payment to the supply chain. However the option adopted by ERYC to retain responsibility of setting up and administering the PBA has been well received.

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