

Jackson Coles Insight - Spotlight on Insolvencies

As we noted in our recent quarterly market view, the industry continues to suffer from a **high level of insolvencies**, with the number **up 40%** from pre-pandemic levels. There are a number of early warning signs to look out for, so that proactive measures can be taken to mitigate financial risk and safeguard the successful completion of projects.

Performance Warning Signs 	Workforce Warning Signs 	Commercial Warning Signs 
<ul style="list-style-type: none"> ▪ Lack of Progress: Slow or stagnant progress in construction activities beyond reasonable delays could indicate resource or financial constraints. ▪ Poor Quality of Work: Sub-par workmanship or the use of low-quality materials might be a result of cost-cutting measures due to financial strain. ▪ Lack of Material Deliveries: Delays or shortages in material deliveries could suggest payment issues with suppliers or an inability to afford necessary materials. ▪ Abandoned Equipment left unused or abandoned on-site could signal financial troubles, as the contractor may lack the funds to maintain or operate it. 	<ul style="list-style-type: none"> ▪ Reduced Workforce: A significant decrease in the number of workers on-site or frequent changes in subcontractors may suggest issues with cash flow or the inability to retain skilled labour. ▪ Unpaid Workers or Suppliers: Visible discontent among workers or suppliers regarding late or unpaid wages/payments or changing of suppliers on site may indicate financial difficulties. ▪ Inadequate Site Supervision and/or Safety Violations: Lack of proper oversight or supervision on-site could lead to inefficiencies and errors, potentially stemming from resource limitations. Cutting corners on safety measures to save costs might also indicate financial pressure, as safety measures often incur additional expenses. 	<ul style="list-style-type: none"> ▪ Legal Disputes and/or Unresolved Issues: Legal disputes and notices, regulatory violations on-site and unresolved issues or disputes with clients, subcontractors could all be indicative of financial strain or mismanagement. ▪ Excessive Change Orders: Frequent change orders or variation claims on a project might suggest poor planning, financial mismanagement or a contractor who's trying to maximise income. ▪ Front loading in Valuation Applications: Claiming sums ahead of time might also suggest cashflow or wider financial issues.

Clients and project teams can take a number of measures at the outset to further protect against insolvency risk:

- Ensure that **robust credit checks** are obtained at the outset
- Understand **how the contract works** in terms of insolvency (of main contractor & sub-contractors)
- Understand **how payment is dealt with** under the contract if the Contractor becomes insolvent

Our cost consultancy team are on-hand to provide more information and practical assistance. To get in touch email info@jacksoncoles.co.uk