



Intelligent **Transport**
Planning Solutions



How solid is the house of cards?

Even in the best of times insolvencies are part of the construction industry but, until now, they have not been a major part of this recession. However, do the high profile collapses of Connaught and Rok signal a change and, if they do, what protection is there in the supply chain?

Lies, damned lies and statistics?

Interpreting statistics is a dark art at the best of times, but trying to predict trends in the current market is a tall order. On a positive note, the total volume of construction output in the third quarter of 2010 rose by 4.0 per cent compared with the second quarter of 2010 according to the Office for National Statistics (ONS). Less cheerfully, Insolvency Service statistics show that, while construction insolvencies peaked in Q2 of 2009, the most recent statistics show that there are still 33 per cent more construction insolvencies than in Q2 2007.

So, were the recent high profile demises of Connaught and Rok truly surprising?

Eyebrows were raised with Connaught because, after all, how often does a FTSE250 company fail? However, there was speculation last year that Connaught's accounting practices were not sufficiently prudent in relation to the revenue of its long term contracts. In Rok's case, it was a company that had had a market value of over £400 million only three years ago although, by the time its shares were suspended the value had fallen to a little over £30 million.

What does history tell us?

Hindsight is a wonderful thing but we really haven't needed much of it to see that things weren't quite right at Connaught and Rok and alarms bells should probably have been ringing for a while. This is a difficult area because no one will want to restrict their supply chain due to rumours, especially if they later turn out to be unfounded. There are probably also those who would not want to contribute to the failure of businesses caused by a lack of market confidence.

What can you do?

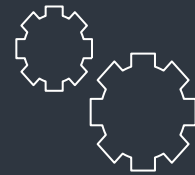
Credit checking your supply chain - advisers should be checking as a matter of course that you are running credit checks or arranging for the checks to be carried out where you do not have the wherewithal in-house

Analysing copies of the last three years of accounts - obtaining the accounts is all well and good but they have to be interpreted and the selection process needs to reflect the findings.

Bonds and parent company guarantees - in some quarters these are seen as an either/or option but that is not the case. Bonds provide some fallback in that a percentage of a contract sum may be recovered under the bond but remember that the bondsman will probably have carried out its own credit and other checks before providing the bond - if a member of the supply chain is unable to provide a bond that should be a cause for concern. Parent company guarantees do not have the comfort of back-up from outside the supply chain member and there is always the concern that if one part of an organisation fails, the rest often do and a parent company guarantee becomes worthless in an insolvency. However, company structures are not usually that simple and some parts of the Connaught business were a going concern.

Keeping a track of things - never has it been more important to monitor construction works and implement the contracts regulating them. It is vital to look out for the tell-tale signs that things are not all as they should be. What should you do if the supply chain is pressing for advance payment for materials or equipment held off site? There will be times when this may allow the successful completion of the project but there may be other times where you find yourself dealing with the administrators of an insolvent supply chain member. All of a sudden there is a retention of title dispute that delays (or possibly even prevents) components that are needed to complete a project on time.

While suggesting eternal vigilance sounds melodramatic, this is the time for it.



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We hope you find this an informative read, if you require any further information please do not hesitate to contact:

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