



Global Economic Impact Report:

March 2025

UK Construction Payments

Solving cashflow shortfalls in the construction industry using digital payments with embedded finance.

Contents

Executive Summary	3
Project Activities and Findings	5
Conclusion	8
About ProjectPay	9

1. Executive Summary

1.1 Industry Background

Last year, over 4,600 construction businesses failed in the UK¹, with ISG's recent collapse serving as a stark example of the devastating impact on small businesses in the sector. The economic impact of such collapses is huge in terms of financial losses to subcontractors, project asset owners and HMRC, and has created a construction skills shortage making it challenging for the infrastructure and housing supply targets to be achieved.

The UK has the highest number of builder collapses and some of the worst payment times in the world, hence why the UK government is attempting to enforce timely payments on their projects with the new Procurement Bill finally entering into force on 24th February 2025 requiring extensive transparency and the publication of new implied terms that supplier invoices the length of the supply chain are paid within 30 days; however, high-profile collapses like ISG have raised doubts about the effectiveness of these measures in addressing late payments and mitigating the financial losses caused by main contractor failures.

The industry is calling on the government to make crucial reforms to the Housing Grants, Construction, and Regeneration Act 1996, also known as the Construction Act. Originally designed to ensure timely payments to support cashflow between contracting parties, the Act has proven ineffective in providing small business contractors with

security of payment with construction having the highest number of insolvencies of all UK sectors.

In this report, we will highlight challenges with the UK Construction Act that should be addressed and do not exist in legislation in the USA or Australia that could be a deterrent to private investment in the UK and expose SMEs, should government hand over the keys to private investment on infrastructure projects to a 'profits at any cost' approach. It is reported that government needs to attract £150 billion in investment to meet the infrastructure demands.

Industry Associations are telling the UK government they should recognise that the "ISG debacle and the wider woes of the sector"² represent a significant threat to its ambitions to grow the UK economy, and urged it to speed up addressing the ongoing late payment and default crisis.

Just days before ISG went into administration, the government announced new measures to help small businesses overcome "the scourge of late payments"³. It promised to consult on "tough new laws" to hold larger firms to account and bring in new legislation "within weeks" that would require all large businesses to include payment reporting in their annual reports.

"Enforcement will also be stepped up on the existing late payment performance reporting regulations which require large companies to report their payment performance

twice yearly on GOV.UK," a government statement said,⁴ adding that non-compliant companies could face unlimited fines and criminal records."

Yet ISG's collapse made a mockery of the government's payment performance reporting provided by Build UK, showing that they had gamed government fair payment reporting tables. Published payment records ranked ISG as among the industry's very best payers⁵, when in reality, subcontractors owed large amounts were battling to get paid.

The Prime Minister Sir Keir Starmer said, "we are determined to back small businesses by unlocking their barriers to growth, by stamping out late payments which are at the heart of this. After years of delay, we're bringing forward measures that small businesses have long been calling for to tackle late payments once and for all."⁶

The collapse of ISG signals a critical need for fundamental reforms and new payment models within the construction industry to address and prevent recurring financial misconduct and instability.

1.2 Current Industry Models and Solutions

The construction industry is burdened by outdated financial models and banking structures that fail to address its unique cashflow challenges or understanding of unique-to-construction payment risks. Many small businesses in the

sector are unable to access low cost affordable working capital and as a result find themselves stuck in a high interest expense debt trap.

Outdated banking products, such as Project Bank Accounts (PBAs), were designed to secure and speed up payments for subcontractors but have proven inadequate due to them worsening working capital shortfalls, their complexity, high administrative costs, and limited protection for lower tier subcontractors.

Some companies have tried to answer this problem by simply digitising the payments process, however, digitising the existing dysfunctional payment flows and financial model in the sector does not speed up payments and certainly does not offer any protections from financial losses suffered by subcontractors when businesses above fail.

The UK government needs to learn the lessons from other jurisdictions, such as the Australian government that overstimulated the construction sector with government funds to unleash a building boom having not addressed the payments mismanagement and payment default risks in the sector, (this was despite repeated industry warnings) creating a profitless boom that has devastated the Australian building sector. With record high builder insolvencies, financial misconduct enabling widespread fraud in the sector and huge financial losses for Australians.

It is expected in the UK that small builders and specialty subcontractors' already dire cashflow position will be hit harder from April with new taxes coming into effect, increasing insolvencies in the sector.

It is encouraging to see the UK government providing builders with cashflow support with the government announcing the ENABLE BUILD scheme providing builders with access to credit backed by a government guarantee. Yet the scheme fails to address the issues of builders mismanagement of funds and insolvency, leaving over 80% of the sector, the speciality subcontractors, in most urgent need of cash flow support faced with further late payments and defaults which is continuing to destroy the industry workforce with the UK

short over 250,000 trades to service demand and an alarming rise in male suicides.

1.3 Introduction to ProjectPay

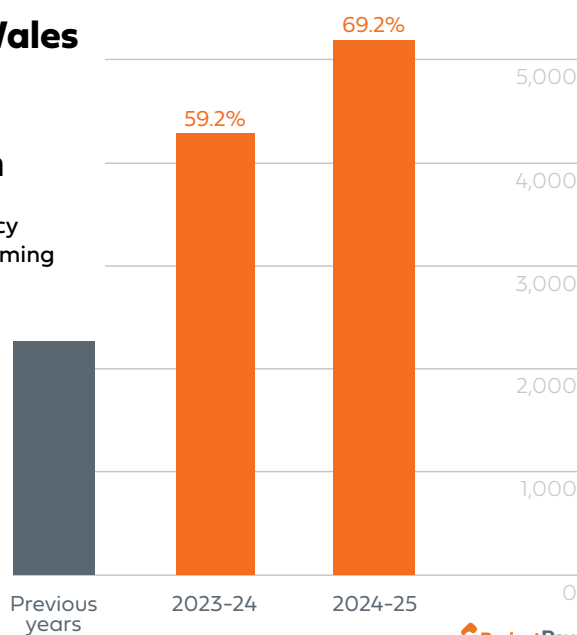
ProjectPay, having worked extensively with governments in Australia to address the construction sector issues of late payment and financial losses from contractor collapses, has been working with UK government and industry to help them understand what is required, but openness to new models and innovation has been limited, slowing progress.

ProjectPay has been extensively supported by the UK government's Innovate UK to deliver a technology solution to solve this problem and can achieve rapid growth in the UK with government using ProjectPay on projects to replace sub-optimal PBAs, eliminating late payments, protecting from financial losses of insolvencies and addressing the sectors cashflow challenges. Providing real time information across the whole supply chain for asset owners and government to be sure the subcontractors are being paid. Providing the industry with a technology platform **built for them**, that **solves their biggest problem**: access to real-time, low-cost working capital. In tandem, also providing the sector with education and support from our contract payments coaches who assist users in completing the required actions to ensure they can be paid fast and guaranteed.

1. <https://www.gov.uk/government/statistics/company-insolvencies-october-2024/commentary-company-insolvency-statistics-october-2024&sa=D&source=docs&ust=1735910622832501&usg=AOwVaw0LsqfkKWAH9G0oyrr9v0w>
2. <https://www.acr-news.com/besa-calls-for-tough-and-rapid-response-to-isg-chaos>
3. <https://www.lexology.com/library/detail.aspx?g=9c9ba163-a3b1-40ee-8597-a959ddaf7c22>
4. <https://www.gov.uk/government/news/crack-down-on-late-payments-in-major-support-package-for-small-businesses>
5. <https://constructionwave.co.uk/2023/10/05/new-measures-to-crack-down-on-late-payments/>
6. <https://policymagul.com/key-updates/38649/crack-down-on-late-payments-in-major-support-package-for-small-businesses>

England & Wales Insolvency Statistics, Construction

Source: The Insolvency Service; Bishop Fleming



2. Project Activities and Findings

2.1 Legal and Regulatory Assessment

The UK government has made many attempts to address late payments in the construction industry, such as implementing the Prompt Payment Code, and more recently, the new Procurement Act 2025, which mandates 30-day payment terms and reporting the entire length of supply chains. Alongside this, the use of PBAs on some government projects aim to protect payments from main contractor insolvency by ring-fencing funds, but has not been supported by the industry due to the administrative burden, slow/complex setup and onboarding, reliance on legal documents such as trust deeds and worsening working capital shortfalls.

The UK government has recently rebranded the Prompt Payment Code as the new Fair Payment Code⁷, introducing a tiered system of awards to incentivise faster payments. Alongside this, tougher rules on payment reporting and audits are to be implemented, with large firms required to disclose payment practices in their annual reports. Despite these changes, industry is skeptical about the government's ability to address late payments effectively and is not supportive. A new government consultation process kicking off early this year regarding late payments, which costs SMEs thousands annually and contributes to insolvency.⁸

Despite previous and current efforts by the UK Government, they have

not been successful in addressing slow payments and have provided limited protection from the financial losses of builder collapse, leaving small businesses in the sector without security of payment and no real remedy to recover funds if they aren't paid. The recent collapse of ISG exemplifies the ongoing shortcomings of legislative action, as subcontractors and suppliers found payments lost to the insolvency administration process.

2.1.1. USA Legislation and Policy

In contrast, the USA, having identified many decades ago that corporate law protected the directors of the insolvent builder from personal liability of the debts of the business and if not addressed would enable widespread fraud and stealing in the construction sector, creating skyrocketing insolvencies. With 'bad actors' using the insolvency administration process to avoid personal liability to repay the debts of the business. To address this the USA legislated that all progress payments are 'deemed' to be monies held in implied trust, to be paid to subcontractors that have done the work, protecting from main contractor funds diversion or misuse (unintentional or otherwise) and the insolvency administration process. The USA also provide subcontractors with lien rights over the asset owner's property to enforce payment. As a result, the USA has very low construction business insolvencies compared to the UK.

However, slow payments remains

a problem with many SMEs underbanked and have limited access to affordable working capital under traditional credit and lending models, with banks abandoning the sector due to counterparty slow payment and default risks which ProjectPay eliminates. In the USA, to-date, they have not had access to a technology platform like ProjectPay that solves access to affordable working capital challenges to eradicate slow payments and ensures compliance to 'implied' trust statute legislation.

Further, the USA 'implied' trust legislation removes all complexity and any need for suboptimal measures such as PBAs, and the requirement for trust deeds, with all beneficiaries automatically protected under the legislation. There is no requirement for a special type of bank account (such as a PBA) or trust account, the law simply imposes an implied trust arrangement between contracting parties with legal penalties for breach of trust if it is shown that funds have been misused or diverted.

The legislative regime in the USA supports ProjectPay to grow rapidly in providing contractors with a fast and guaranteed payments platform, whilst removing any of the worry of having to manage complex and timewasting lien paperwork. This provides comfort to private credit lenders with assignment of lien secured against property.

2.1.2. Australia Legislation and Policy

Similarly, Australia has Security of Payments legislation to ensure that any person who carries out construction work or supplies related goods and services under a construction contract gets paid. The Act requires that a Payment Schedule (Payment Notice) is issued within 10 business days in response to a Payment Claim (Application for Payment). If a Payment Schedule is not issued, the full amount claimed becomes due and can be enforced as a statutory debt. Further, the adjudication process under the Act was updated in 2021 to move away from the UK adjudication model to ensure rapid and low cost adjudication that is effective in its objective of keeping cash flowing, (See: *Review of Adjudication Process*⁹).

This legislative regime is supportive to the commercialisation of ProjectPay given that payments are only made once a statutory debt has been created between the parties, providing comfort to private credit lenders.

Louise Stewart, ProjectPay's founder, was heavily involved in an industry payments reform process and in updating the Western Australian Security of Payments Act to help protect contractors in the construction industry to ensure they get paid. The updated Act moved away from the principals in the UK Act that its function is to regulate payments under construction contracts. Instead, the new Act has an effect **overriding provisions in any contract to stipulate 'implied' statutory payment requirements and timeframes** and is designed to give subcontractors and suppliers more protection from the risks of not being paid. It included modernising the adjudication process to ensure it was rapid and low cost in resolving payment disputes.

The Western Australian Act also included an 'implied' trust clause like the USA, to protect progress payments monies from misuse and financial losses of builder collapse before political interference resulted in it being watered down to a retention trust scheme, protecting only 5% of monies owed. Australia has conducted 9 parliamentary reports, all of which have

recommended an 'implied' trust like the USA with governments moving away from PBA use and adopting the most recent recommendations made in the Murray and the Fiocco Reviews.

2.1.3. UK Legislation and Policy

In the UK, there are calls to reform the UK Construction Act. The Housing Grants, Construction, and Regeneration Act 1996 (the Construction Act). The Act is problematic given that its function remains to primarily regulate payments under construction contracts rather than impose and imply statutory payment requirements and timeframes. Only if contracts are silent on payment terms will the Act impose 'implied' payment provisions.

The current provision to issue a Payment Notice and then a Pay Less Notice (that cancels the earlier Payment Notice) the day payment is due is problematic to private credit lenders, given that in other jurisdictions there is supporting legislation to make payment against a Payment Notice and have access to statutory payment or lien provisions to recover payments, which could become problematic under the UK Act.

The UK Act does very little to provide security of payment or enforcement of payment entitlements given that the adjudication process is also outdated, slow, ineffective and expensive.

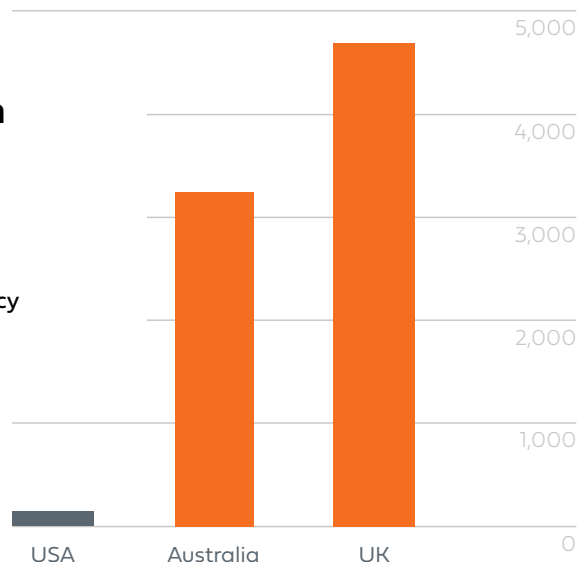
2.1.4. Proposed Reforms and Recommendations

Several key amendments could help bring much-needed stability to the sector:

- 1. Strengthen Notice Requirements:** The failure to issue Payment Notices currently has little consequence compared to other jurisdictions whereby the failure to issue a payment notice creates an enforceable statutory debt.
- 2. The provision to issue "Pay Less Notices" the day before payment is due makes a mockery of the process,** with small businesses having no way of knowing how much they will get paid or manage their own cash flow requirements.
- 3. Instituting penalties for non-compliance** would promote fairness and accountability.
- 4. Simplify and reduce the cost of Adjudications** and make Adjudicators' decisions binding and enforceable, with parties having the right to appeal later. This would prevent unnecessary delays and ensure that cash flows smoothly where it's most needed.
- 5. Standard Payment Terms:** Mandating consistent payment terms across all contracts would prevent larger firms from imposing unfair conditions on smaller suppliers, creating a more balanced playing field.

Construction business insolvencies in 2024

Source: The Insolvency Service; S&P; ASIC



6. Eliminate Legal Loopholes:

Repealing Section 105(2) would remove exclusions that hinder the effectiveness of adjudication, ensuring a more streamlined process.

7. Regulate Adjudicator Bodies:

A commission should oversee adjudicator nominating bodies to ensure they are appropriately trained, and that decisions remain fair and transparent.

8. Consider a 'implied' trust regime similar to USA and Australia as a deterrent to funds mismanagement,

financial misconduct and protect funds from being lost to the insolvency administration process. To reduce the number of contractor insolvencies and eliminate the need for PBAs.

9. If the UK government does not wish to pursue a reform agenda they must **partner with technology platforms** like ProjectPay that solve the late payment, payment default and cash flow challenges in the sector without requiring any legislative changes.

The above will create a more equitable environment for all players in the construction industry, fostering stability and trust.

Our founder has already completed such a review and reform process in Western Australia, whereby the Construction Contracts Act, based on the UK's Construction Act was replaced by the Security of Payments Act to address continuing payment delay and default in the construction sector.

With expertise across the UK, Australian, and USA construction legislative environments, **ProjectPay has developed a platform that protects from funds mismanagement and losses from builder collapse without requiring supporting legislation or changes to the Construction Act.** Given the dire situation related to late payments

and very high risk of payment defaults due insolvency in the UK, there is strong interest and demand from subcontractors that participated in our workshops to start using the platform to manage payments asap.

Our legal experts are confident that we can address the primary concern of a 'Pay Less Notice' being issued after a 'Payment Notice' has already been issued.

This does beg the question of why this provision exists in the Construction Act. We found in our industry workshops that the issuing of a second later notice is very rare, so why have it at all?

Although we overcome the deficiencies of the Construction Act with ProjectPay's technology and unique payments model and can provide validated and reliable data the length of the supply chain on payment performance and ensure payments are made within 30 days in compliance with the new Procurement Act reporting requirements; it would still benefit the broader UK construction sector to complete a review of the Construction Act and its ineffectiveness in making sure contracting parties can get paid for work completed.

We would recommend that reforms 1-5 above should be considered by the government, it is apparent to us and private credit funders that the UK under the current Construction Act is a much riskier jurisdiction for ProjectPay to operate in compared to the USA and Australia that have well developed Security of Payment laws.

ProjectPay saves subcontractors and builders billions in (credit card, loan) interest payments getting them out of the debt trap. Also saving asset owners and taxpayers over £10B a year in lost payments due to builder collapses, enabling builders and subcontractors to take on more projects when receiving faster payments that are guaranteed, to cashflow the delivery of new projects. It is estimated this contributes £5.6 billion to the UK economy, supports over 400,000 jobs and provides greater capacity to deliver infrastructure projects and the 1.5m homes the UK government has promised to deliver.

7. <https://www.gov.uk/government/news/crack-down-on-late-payments-in-major-support-package-for-small-businesses>

8. Ibid.

9. https://drive.google.com/file/d/1kdR57jHQjY8EwZocbF6DZsc12XfR5V7F/view?usp=drive_link



3. Conclusion

The UK government requires £150 billion in private credit to fund its infrastructure plans. However, high builder collapse rates make the UK a high-risk market for private credit investors. Government is also concerned to address issues with private credit, such as Macquarie Bank (the Vampire Kangaroo) they have encountered in the past. Driven by profits at any cost, even if it means destroying small businesses operating in project supply chains.

Due to weaknesses in the UK Construction Act, private credit deployment may be limited to government projects. To address this, the UK government could provide affordable working capital to small construction businesses, enabling them to deliver housing and infrastructure projects, although this is the intent of the ENABLE BUILD scheme it does not support over 80% of the sector, the speciality subcontractors and as such in its current form, it will fail to make an impact.

ProjectPay in collaboration with government and finance providers, such as the British Business Bank, to offer a platform for the private construction sector—similar to the USA Small Business Administration’s (SBA) approach of providing low-cost debt to contractors whilst reducing high rates of insolvency in the construction sector.

By adopting ProjectPay, the UK can strengthen its construction sector, drive economic growth, and position itself as a leader in fintech and industry-specific innovation while ensuring it maintains a clear line of sight of payment times across the whole supply chain and ensures that small contractors are not losing out on being paid.

5.1 Summary of Findings

This grant project has enabled us to develop the legal, technical and financial framework for ProjectPay’s merchant payments in the UK and USA.

Although the statutory debt provisions and payment enforcement is much weaker under the UK Construction Act compared to the USA and Australia; we have been able to develop a solid framework to address these specific weaknesses.

ProjectPay presents a transformative solution with its merchant payments model, effectively replacing PBAs by combining secure payment protections with immediate access to funds. By partnering with major financial institutions, ProjectPay provides a streamlined, easy to use technology platform, that accelerates payment times and reduces cash flow challenges for all project participants. The platform’s closed-loop payment system ensures that funds reach contractors fast, fostering financial stability across projects and removing administrative overheads.

5.2 Call to Action from industry: Roll-out Pilot Projects

As ProjectPay moves forward, engaging with government approved tier 1 suppliers remains a priority. Some large main contractors have been resistant to change their financial model that benefits them at the expense of SMEs, however ProjectPay has demonstrated that platform use in Australia is being driven by main contractors, who recognize the substantial benefits derived from using the platform and to SMEs in their supply chain.

The collapse of ISG has led to calls from industry for immediate action. As aptly reported in Construction Magazine,¹⁰ it should serve as a turning point for the construction industry. The sector is at a crossroads: it can either continue with a flawed model that risks more failures, or it can embrace necessary reforms and new technology. Specialist contractors deserve better protections, with transparent payment terms and safeguards against the financial mismanagement of their larger counterparts. Reforming the Construction Act is a crucial first step, but true progress requires acknowledging the deeper issues that plague the industry.”

“We can no longer dismiss these failures as isolated events. They are part of a systemic problem that needs urgent attention. Only by facing this reality can we begin to rebuild a fairer, more sustainable construction industry—one that genuinely upholds the values it professes to champion.”

10. <https://constructionmaguk.co.uk/isgs-collapse-a-wake-up-call-for-the-construction-industry/>



About ProjectPay and its Founder and CEO Louise Stewart

ProjectPay makes construction payments simple, fast and guaranteed, eliminating cashflow challenges. By doing this, it creates stronger relationships, improved productivity and easy compliance to payments performance reporting.

ProjectPay was selected and supported by the UK Government's Global Entrepreneur Programme to move to the UK and setup ProjectPay's global headquarters in London. Since then, the platform has been further developed and tested by UK contractors and supported by substantial funding from Innovate UK to provide the required progress payments protections when builders collapse without the need for supporting legislation.

The platform is supported by a global team of construction payments experts in providing contracts coaching, user support, contractor working capital, banking and payments technology, with the platform development focussed on consumer facing UX/UI principles to ensure that technology adverse contractors can use it without requiring training.

In the UK, ProjectPay is partnered with Lloyds Bank, the UK's biggest bank, has won prestigious awards such as the UK Building Innovation Award and the Best Small Business Payments Award, and Louise was recently featured in the UK Women in Fintech Powerlist.

Louise Stewart is the founder and CEO of ProjectPay. She is a global constructions payments expert, her vision and passion in solving the payment delay and default risks for contractors has been central to the creation of ProjectPay.

A former global technology executive and exited tech founder, having sold her first tech start-up in 2014, she has previously managed her own building company. She is the former Chair of the Australian Subcontractors Association, assisting hundreds of subcontractors to get paid and working with Australian governments that publicly committed to protect contractors progress payments in the event of main contractor insolvency and non-payment.

Responsible for the Western Australian government mandating Project Bank Accounts on all government projects she was also instrumental in the creation of new Security of Payment laws in Western Australia that moved away from the UK based Construction Contracts Act. Due to her expertise on Project Bank Accounts, she was invited to sit on the governments Project Bank Account implementation steering committee.

Her contribution led to two government commissioned reports that supported the previous seven parliamentary reports of how to address losses and protect

payments due to main contractors frequently collapsing into insolvency administration. It was recommended to follow the USA and Canada in implementing laws that create a 'implied trust' arrangement as a deterrent to fraud and business collapse, to ensure payments are not misused and passed onto to subcontractors, rendering the need for PBAs obsolete.

Although these new laws were agreed and promised, they were removed before the Australian government announced \$1.2 billion to create the country's biggest building boom. This removal created disastrous results without protections from contractor insolvency, damaging the industry with thousands of builders collapsing and left many Australians financially ruined. With this harm to the ailing construction sector creating a shortage of over 90,000 construction workers they are now unable to build the infrastructure and homes required resulting in severe housing shortages and one of the most unaffordable housing markets in the world. The removal of these promised protections is now the subject of two anti-corruption submissions.

