

SIR – In the construction industry, clients and main contractors have traditionally withheld part of the payment owed to specialist contractors and builders for a period of time, ostensibly as security against defective work or risk of insolvency.

As trade associations and professional bodies representing many small- and medium-sized businesses, we want to highlight the following facts about this practice, known as cash retentions.

Some £10.5 billion of the overall construction sector turnover of £220 billion is held in retentions by clients and main contractors from small- and medium-sized businesses down the supply chain. An estimated £7.8 billion in retentions has been unpaid in the construction sector over the past three years, and in the same period £700 million of retentions were lost due to upstream insolvencies.

Poor payment practices in construction affect productivity, innovation and investment, holding back the sector's overall capacity to do business and invest in the workforce. Given that construction is a cornerstone of enterprise in Britain and fundamental to enhancing the country's built environment, the problem of retentions cannot go on – it needs tackling as a priority.

There is, though, a simple way to reform the system. Regulations should specify that retentions must be held in a statutory retention deposit scheme (rather than in clients' own bank accounts), an approach which is already being used successfully in Australia.

The Government consultation on retentions is still under way, but we believe that there is no longer any reason to stick with the status quo, or for this issue to be potentially kicked into the long grass again.

Reforming retentions would be a good way for the Government to show it is truly standing up for the interests of small- and medium-sized businesses, and is willing to put them at the forefront of plans for an industrial strategy and the expansion of the UK economy.

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