- *Payment process*
  The process of preparing and certifying valuations or milestones is unaltered by the PBA arrangement. The client's role where joint signatures or joint authorisation of transactions are adopted, is merely to confirm payments transfers from the account.

- *Visibility and auditability*
  In order to secure the support and trust of all parties, the account needs to be transparent and open to scrutiny and audit.

- *Trust status*
  The PBA is in effect held in trust for the whole of the supply chain and prevents a receiver seizing the proceeds of the account. An example of a trust is given in the OGC guide.

- *The selection of suitable projects*
  In principle PBAs can be applied to any size of project whether one off schemes or part of an ongoing programme of work. However, in light of the costs involved they are better suited to a programme of work or a larger project. PBA's can be applied to traditional lump sum and open book arrangements, although in view of the differing degrees of client visibility authorisation arrangements will be different.

- *Training the client's team*
  Training of client's staff on the operation of a PBA is a key to it's successful adoption. This training should cover roles and responsibilities, the rationale for its use, the benefits to the supply chain etc.

- *Selecting and appointing a bank*
  The selection of the correct PBA will be dependent on the type and value of project. For a programme of works a call-off arrangement with a selected bank needs to be established, after initial trials, in accordance with an agreed protocol.

- *Changes to the tender invitation and contract documentation*
  Standard tender documentation will need to be modified to accommodate a PBA. Changes will include mandating the use of the PBA, defining payment processes and the notice of payment provisions. Further amendments will need to cover the scale of bank charges, tenderer awareness training, amendments to the marking regime, post award training etc.

- *Arrangements for supply chain members outside the PBA*
  OGC recommend that the PBA is adopted on larger contracts initially, in view of the costs associated with their initial establishment. The OGC envisage that over time it will, however, be possible to include most levels of the supply chain, accepting that there will be projects, which are too small or for other reasons are not suited to the PBA arrangements.

- *Briefing tenderers*
  Tenderers must be appraised of the PBA arrangements during the tender process including the process for setting up the account, how it is to be operated, what charges will be levied and how interest will be dealt with.

- *Training successful contractors and their supply chain*
  OGC recognise that there is likely to be concern that PBAs are a means of attacking contractor margin and training (at all levels) is therefore considered an essential part of the adoption process to highlight the long term benefits that can be derived through lower tender prices, greater collaboration and cooperation.

- *Finalising payment arrangements*
  Although the operation of the PBA is standardised, the detail of payment arrangements may vary from client to client and project to project eg monthly payments versus milestones and the levels and degree of authorisation.

- *Activation of the account;*
  Some clients may wish to open the PBA themselves while others may ask their appointed contractors to do so.

- *Operation of the account*
  Interim payments are agreed in the normal way, including the review and evaluation of the payments due to each member of the project supply chain by the contractor. The agreed interim payment is authorised by the client team and money is transferred directly into the PBA by the client's bill paying department. The client and main contractor then jointly authorise payment transactions by pre-registered contractor or client representatives.

A2.7 Case Study, Channel Tunnel Rail Link

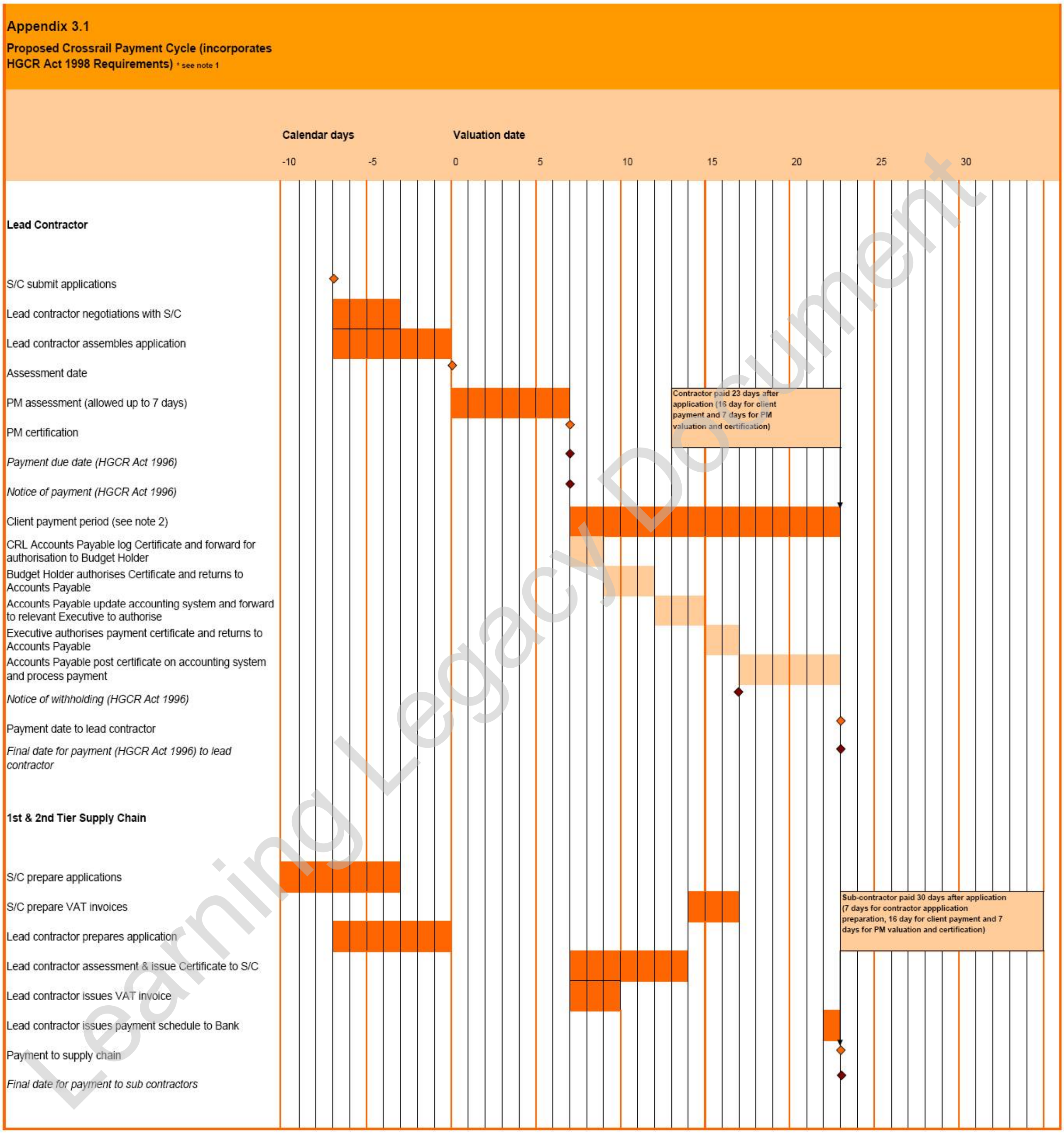
- CTRL established a form of project bank account through which it made all contract payments.
- Each of the main contracts (15 at peak) had a requirement for the contractor to set up a project bank account. Each contract had its own bank account. These accounts were set up through the usual high street banks (Lloyds, Barclays etc).
- The initiative was established to reduce contractor related finance charges (based on the premise that the client could borrow money more cheaply) and to improve payment periods and predictability.
- Interest gained on the account rested with the client.
- The account was geared to ensure contractors had a neutral cashflow.
- The account was widely regarded as saving the client in the region of 3% of its main works costs.

- The balance maintained within the account was based on actual and projected expenditure over the following period.
- CTRL adopted a 28 day certification/payment cycle.
- The look ahead period was initially seven weeks.
- The projected expenditure was adjusted to reflect actual spend in the previous period against forecast.
- It was possible for the client to certify negative payments and under these circumstances the contractor could be required to fund the account to cover any amounts due.
- The tier 1 supplier could draw down on the account without client authorisation and at anytime. All payments of Actual (Defined) Cost were made from the PBA.
- Sub contract invoices were based on contractor's certified values.
- The account was subject to client audit to ensure only allowable amounts were drawn from the account.
- Contracts were based on NEC2 option C (or in the case of sub contracts option A), with an open book approach allowing greater transparency of supply chain payments beneath tier 1.
- NEC2 wording regarding the definition of cost of works to date (along the lines "of payments made to sub contractors"), was preferred to the wording now adopted in NEC3 (along the lines of "sums forecast to be due").
- The account was established in joint names.
- A number of contactors chose to use cheques as their preferred method of payment to address internal payment authorisation issues, but the use of new electronic banking procedures would have been viable had they existed at the time.
- The PBA was not set up as a trust.

The principal differences between the OGC model and the CTRL model would appear to be:

- Client authorisation before payments are made from the account.
- Monthly payments by the client from the PBA based on certified amounts versus withdrawals by the contractor as and when required in relation to the project (in parallel with the normal contractual processes).
- The trust status of the account.

APPENDIX 3 – Detailed Payment Cycle



Notes:

1 PM considers any application but no obligation on the Contractor to produce application for payment . PM has to assess.

2 Client payment period 16 days.