

SECURITY OF PAYMENTS FOR SUBCONTRACTORS IN THE NEW ZEALAND CONSTRUCTION INDUSTRY: STAKEHOLDER VIEWS ON THE KEY ISSUES AND IMPROVEMENT MEASURES

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Abstract

Subcontractors play a major role in the construction industry with responsibility for 80-90% of the project work. However they face much security of payment issues. These issues affect their cash flow, productivity and performance, and ultimately impact negatively on the productivity, performance and growth of the construction industry as a whole. These problems persist in spite of the improvement expected from the Construction Contracts Act 2002. To date, there is little research on the security of payment issues and mitigation measures in the NZ construction industry. This study contributes to filling the knowledge gap in this area by providing evidence-based solutions to the problem. Using a mix of qualitative and quantitative research methods involving pilot interviews and questionnaire surveys, industry stakeholders' perceptions were collected and analysed by means of content analysis, descriptive statistics and the Spearman's Rank Correlation test. Results reveal the key security of payment faced by subcontractors as comprising the main contractor 'going-bust', poor record keeping, lack of supporting evidence during claim preparations, late or no-payment and delayed release of certified amounts and retentions. The full paper reports on the identified mitigation measures, which included providing deposit payment to subcontractors before work commences; bond in lieu of retentions, and the use of bank guarantees. There was lack of consensus between the main contractors and subcontractors on the prioritization of the key risk areas and the proffered solutions. However, the findings have pointed out critical issues and mitigation measures, which, if implemented, could provide lasting solutions to the security of payment problems faced by subcontractors in New Zealand.

Keywords: Cash flow, construction industry, retention, security of payment, subcontractor.

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