

- Protects retention monies from upstream insolvencies
- Ensures retention monies are released on time
- Facilitates faster resolution of disputes over release of retentions

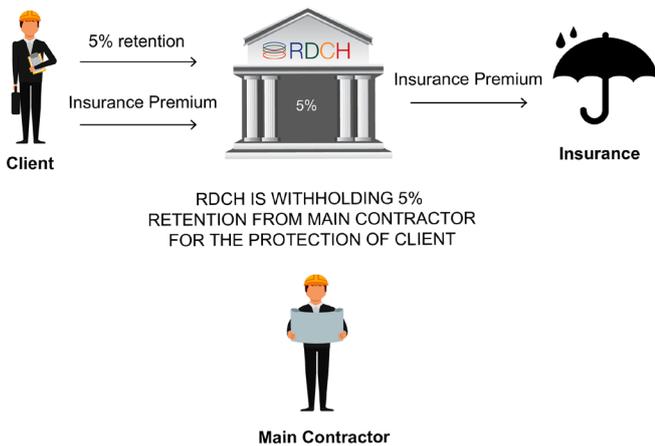
WHAT IS THE RETENTION DEPOSIT CLEARING HOUSE (RDCH)?

The RDCH is a retention deposit scheme. Like the statutory tenancy deposit schemes (enabling tenants' deposits to be kept secure) the RDCH keeps retention monies secure. The RDCH is the result of over 2 years' work by a broad group including Pay2Escrow, (a financial services company) and the Specialist Engineering Contractors' Group (representing engineering in construction), a global insurer, Northumbria University, a software developer and a large tier 1 contractor. The next step is to develop the necessary software and conduct an 18-month pilot scheme as a test phase ahead of wider implementation. This pilot will comprise 5 or more projects and include major UK clients and contractors.

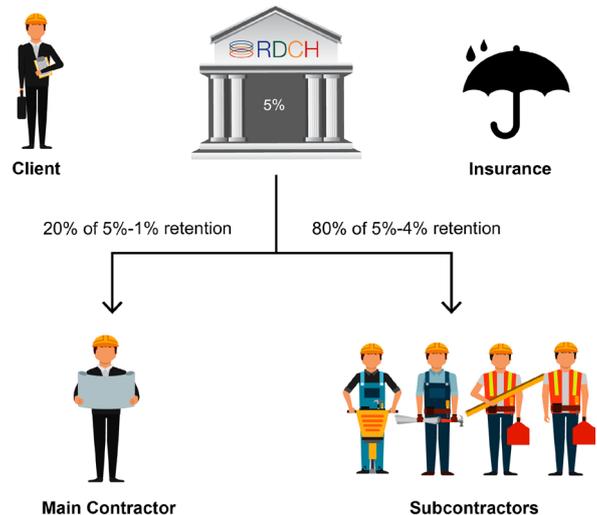
HOW DOES IT WORK?

EXAMPLE

01 In this example the client enters into a contract with the main contractor which requires a 5% retention. Client deducts 5% from progress payments and pays these deductions into the RDCH. With the first payment the client pays an insurance premium equivalent to 0.23% of the contract value to the RDCH*.



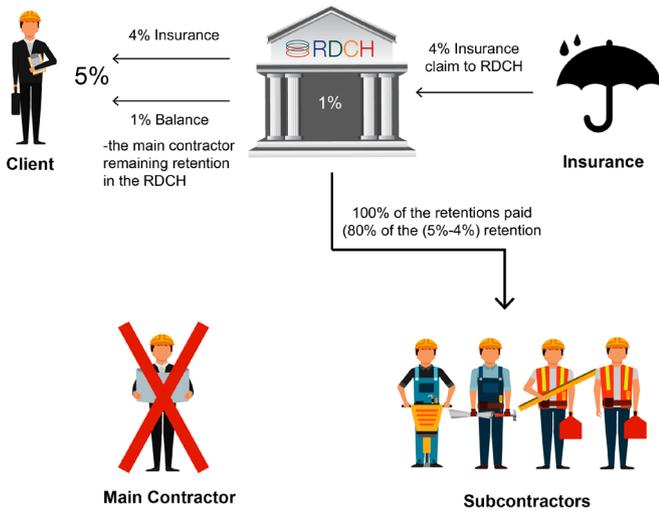
02 Assuming the main contractor subcontracts 80% of the project value, the RDCH will automatically divide the retention pot on a pro-rata basis between all the contractors in the supply chain. This will allocate 20% of the 5% retention pot (1%) to the main contractor and leave the subcontractors with the remaining 80% of 5% (4%). All contractors will be able to see that their share of the retention pot is secure at any time by accessing the online RDCH app.



N.B. With just the client paying the whole retention into the scheme there's no need for other parties in the supply chain to deposit retentions in the scheme. If additional retentions are withheld from the supply chain at a higher percentage (than that applicable up the supply chain) then this additional retention must be paid into the RDCH. For example, if a client is withholding a 5% retention amount and the main contractor withholds a 7% retention amount from subcontractors, then an extra 2% will be required to be paid into the RDCH by the main contractor to be held for the benefit of the supply chain.

* The pilot scheme will determine how this is adjusted when contract value changes throughout the life of the project.

03 Main contractor becomes insolvent.



If defects exist in the completed work at the point of insolvency (or there remains incomplete work), RDCH provides the client with access to the entire 5% project retention fund.

Where subcontractors have wholly/satisfactorily completed their work packages, full retention release is provided by the RDCH.

WHAT IF ALLEGED DEFECTS (OR REQUIRED REMEDIAL WORK) ARE DISPUTED?

Under the rules of the RDCH where a party (usually a client or main/principal contractor) places the release of retention monies on hold due to a dispute, the dispute must be referred to adjudication within a defined period (starting from the date on which that party objected to the RDCH releasing the monies). Disputed monies can be placed on hold using the RDCH platform software. The adjudicator will then notify the RDCH of his/her decision as to whom the whole or part of the retentions must be released.

WHAT ARE THE FEATURES OF THE RDCH?



COST EFFECTIVE

The 0.23% insurance levy paid by the client (£23 per £10,000) includes the costs of operating the RDCH



RAPID ADJUDICATION

Disputes over release of retentions are resolved quicker



RETENTION MONIES ARE SAFE

Retention monies are held in a ring-fenced account. Payments occur automatically without delay unless there is a dispute



IMPROVED ACCESS TO FUNDING

Since retentions are held in trust by the RDCH, this will provide collateral to banks and others for lending purposes. This is the exact opposite of what happens today where retained retentions are assumed to hold no value as they may or may not be repaid.

A RETENTION APP

An App is in the course of development. It will enable a contractor/subcontractor to keep track of the retentions held in the Scheme. Retentions will be released automatically unless put on hold. If put on hold the App manages the process by facilitating the correspondence between the parties. The App is expected to interact directly with 3rd party lenders to facilitate lending against retentions.

HOW THE RDCH WILL BE REGULATED?

The proposed RDCH will be regulated by the Financial Conduct Authority (FCA)

MORE INFORMATION

This document is a simplified explanation of how the scheme will work.

More information will become available on the following websites:

RDCH: www.rdch.co.uk

SEC Group: www.secgroup.org.uk