Information

KNOWLEDGE HUB

Vesting

What is Vesting?

In basic form, Vesting is a mechanism to allow payment for off-site / under manufacture goods such as materials and plant and then allows ownership to be transferred upon payment.

It is often needed to protect a programme from high demand / long lead items or to alleviate the cashflow impact cause by paying suppliers as high value products are manufactured, especially when ordered internationally.

How does Vesting work?

Vesting involves an agreement between the supplier, intermediary (i.e. a contractor / subcontractor) and the client.

Goods to be vested are to be identified, separated / clearly marked, insurance and free from encumbrance.

As these items are progressed with supplier's payment would be requested through the normal application process and evidence provided such as photographs to show the above conditions are being met.

Once delivered to site this could then transfer to "materials on site" or simply be claimed as they're installed.

Is it as simple as it sounds?

No.

As with most things in business, and in life for that matter, Vesting brings with it red tape that you'll need to wade through. It's rarely a quick process, especially on high value items.

High values means potential big liabilities and will often mean legal teams wrestling, each trying to protect their own interests. Hence why this is often a slow process to go through.

But, don't let this put you off - as said the benefits can be huge (to both contractor and client).

When should I Vest?

If you believe goods should be Vested, then like most things on a construction project, the ideal time to do this is when negotiating your tender / contract.

Doing this retrospectively when mid-way through the works will usually mean benefits such as cashflow relief are lost as this will be a much slower process to implement when already on site and trying to juggle this with day to day management.

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What are the Pro's and Con's?

There are several and these will be both sides of the contractual fence. Below is a list of benefits and risks that may affect both the contractor and the client:

Pro's

- Cashflow improvement for contractors.
- Right to collect goods on transfer of ownership.
- Programme risk reduction.
- Goods price inflation risk removed / reduced.
- Client reassurance such as insurance cover.
- Client ability to inspect for their own satisfaction.
- Further protection such as Advanced Payment Bonds.
- Reduced requirement for storage until site is ready.

Cons

- Late design change rendering ordered materials useless.
- Additional cost due to Bonds.
- Additional management and paperwork.
- Insolvency risk.
- Storage risk / cost if the project is generally delayed.
- Insurance complexities.

Conclusion

While Vesting certainly has it's uses, it isn't suitable for all. On the flip side of this many projects that do not vest would likely have benefitted from doing so.

Like many things the merits have to be considered on an induvial basis and no two projects are the same, so cannot be adopted with a blanket approach.

For clients needing additional protection of programme and contractors wanting potential cashflow and other benefits, Vesting is certainly something to consider.

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