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*To: the editor*

What is the impact to the taxpayers and unpaid subcontractors, suppliers, materialmen and laborers when the second largest contractor in the UK files for liquidation? Could the government have taken steps to protect taxpayers, mitigate the risk of losses to the taxpayers while increasing the likelihood of completion of the various projects and payment to those performing work on the project? What about the reputation risk to the government?

The extent of the collapse of the construction company, Carillion, has yet to be determined. Some estimates indicate that the “too big to fail” company held close to £5 billion in financial obligations. UK taxpayers and as many as 30,000 subcontractors will be forced to bear the cost of the insolvency.

Current data indicates that the vast majority of Carillion construction contracts are not secured by a surety bond, and when those contracts are for government projects, the UK taxpayer is the victim. The additional cost to complete those contracts and pay workers and subcontractors now will be paid for by public funds, and not reimbursed by a surety company.

Surety bonds protect tax-payers’ money. Government departments, public bodies, subcontractors, workers and ultimately the tax payer benefit from the security of a surety bond. These bonds guarantee the performance of a contractor. They provide the security to protect the construction project owner against the insolvency of a contractor or the failure of a contractor to complete a contract in accordance with its terms and specifications.

When a government entity awards a construction contract to a contractor, and obtains a large penalty surety bond, it knows that the surety bond company stands behind the contractor’s promise to complete the contract according to the owner’s specifications and terms of the contract. A surety’s prequalification of a contractor decreases the chance of contractor failure, but when a contractor failure occurs, taxpayers are protected against virtually all losses caused by the contractor failure. That’s because surety bond companies provide the resources necessary to complete the contracts and pay certain bills for labour, material suppliers, and subcontractors. Obtained by contractors from surety bond companies, surety bonds transfer the risk of contractor failure to the surety company.

Around the world surety bonds protect against a contractor's insolvency and help government departments and public bodies in protecting taxpayers' monies. The Carillion collapse highlights the need for government entities to make full use of this protection.

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