

Insights

KEY LESSONS FROM THE COLLAPSE OF ISG

Oct 28, 2024

The recent collapse of Interior Services Group (ISG), which filed for administration on 20 September 2024, has alarmed the industry. EY has been tasked with managing outstanding projects that Glenigan suggests total over £2.5 billion on site and an additional £1.7 billion in awarded contracts. Stakeholders are left grappling with the implications for incomplete contracts and ongoing operations.

WHAT WILL IT MEAN FOR INCOMPLETE CONTRACTS?

Administration is intended to grant a company some breathing space for reorganisation or asset realisation; but in practice those attempting to rescue a company face tremendous difficulties, both legal and practical.

When insolvency looms, suppliers and sub-contractors will seek to limit likely exposure. Progress on site may slow, deliveries become delayed, and down-stream payments dry up. Yet sadly for some, the strain on their own business will prove too much. Suppliers and sub-contractors will automatically become 'unsecured creditors', ranking low in the hierarchy of creditors. Few will expect to receive any meaningful compensation from this process or harbour hopes an administrator can breathe new life into the old contracts.

For developer clients there are also complex options for finishing the project, minimising turmoil and contagion:

- **Stop payments and secure the site.** Many contracts permit the developer to cease payments from the date the contractor becomes insolvent, and issue a pay less notice instead. But opinions and experience will differ when it comes to making payment in the twilight zone before an administration is announced formally.
- **Direct payment to sub-contractors.** Strategic payments may help retain key project team members, but should be supported by a repayment indemnity from the recipient. This counters the risk of such payment being deemed a *preferential payment* under insolvency law and forcing the developer to pay twice.

- **Right to terminate.** If a contractor falls within the strict contract definition of “insolvent” a termination event likely exists. Press reports may be misleading, however, so first verify the position to avoid wrongful termination. Pressing this nuclear button requires great care and may not be as urgent as first thought.
- **Guarantees.** A parent company guarantee has no initial cost compared to a project performance bond, but in the event of group insolvency a PCG becomes worthless. Bonds provide stronger security, at a cost, but are usually limited to 10% of the contract sum.
- **Warranty package.** Where a D&B main contractor is struck down it is prudent to collect outstanding warranties from all subbies ahead of further payment in case defects arise in the existing or future work.

There will be a competitive rush amongst developers to re-procure the services essential to completing a contract. For example, re-tendering for an alternative main contractor willing to pick up the pieces; or, procuring the works on a construction management basis led by the developer itself. The latter approach leap-frogs the extinct contractor and re-appoints the supply chain directly. But it requires a sophisticated developer equipped to manage the administration of a considerable number of contracts.

Experience will also suggest that some early stage projects may need to pause or even abandon the scheme in its present (or any) form.

ECHOES OF CARILLION'S COLLAPSE?

Comparisons with Carillion's liquidation in 2018 may be premature. A House of Commons' inquiry later cited many contributing factors and when the dust settles the ISG failure can be better understood too.

However, ISG's downfall reminds us that construction companies compete fiercely on fine profit margins. Some have failed to weather rising costs driven by surging inflation, high borrowing costs and economic uncertainty; supply chains disrupted by Covid-19 and geopolitical upheaval; or to forecast correctly the sheer complexity of delivering ever more challenging projects in multiple regions.

In the six years since Carillion, lessons will have been learnt. Early detection and preparatory advice will have been sought so this time around the shockwaves may prove less catastrophic to the industry. To hope for the best, we must continue to prepare for the worst, it seems. Let's hope the learning continues.

This article was first published in Property Week: [Key lessons from collapse of ISG](#)

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