

R&M POLICY · SUPPLY CHAIN

Financial Due Diligence and Subcontractor Selection Policy

R&M Property Group Ltd

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1. Purpose

R&M Property Group Ltd engage a range of subcontractors, suppliers, consultants, and commercial partners across our development projects. The financial stability, tax compliance, and commercial integrity of these parties directly affect R&M's ability to deliver projects on programme, protect the interests of our Client Organisations, and maintain the company's own financial health. A subcontractor or supplier that fails financially mid-project can cause programme delays, cost overruns, defect liability gaps, and reputational damage to the partnership.

This policy establishes the financial due diligence procedures that R&M applies when selecting, appointing, and monitoring subcontractors, suppliers, and other commercial counterparties. It also sets out the checks we undertake on clients and development partners where R&M is entering into joint venture, partnership, or development agreement arrangements. The policy ensures that R&M only enters into commercial relationships with parties whose financial position has been assessed and found to be satisfactory, and that tax compliance obligations - including the Construction Industry Scheme (CIS) are met in full.

2. Scope and Application

This policy applies to all financial and commercial due diligence undertaken by R&M in connection with:

- Subcontractors engaged to carry out construction works, specialist installations, or trade packages on R&M projects
- Suppliers of materials, plant, equipment, and services
- Professional consultants including architects, engineers, surveyors, and planning consultants
- Joint venture partners, LLP members, and SPV co-investors under framework arrangements
- Client Organisations where R&M is entering into a Development Agreement under a framework and the client's financial capacity to meet its obligations is relevant to project viability
- Any other party with whom R&M enters into a financial commitment or contractual arrangement

The policy applies to all new appointments and is also applied on a periodic basis to existing supply chain partners and ongoing commercial relationships. Louis Howard, R&M's Procurement Manager at Enabl, is responsible for coordinating the due diligence process in conjunction with Ian Skates (Financial Director) and Phillip Hollingworth (H&S Adviser, Spectra Safety).

3. Financial Position and Credit Assessment

Credit Reference and Financial Reporting Agencies

Before appointing any subcontractor, supplier, or consultant, R&M obtains a financial assessment from a specialist credit reference and business intelligence agency. These checks

provide an independent, data-driven assessment of the counterparty's financial health and are used to inform the appointment decision. The assessment includes:

- Credit rating and credit score - an overall measure of creditworthiness based on filed accounts, payment behaviour, county court judgments, and other financial indicators
- Credit limit recommendation - the maximum level of financial exposure recommended for dealings with the company, used to assess whether the proposed contract value is proportionate to the counterparty's financial capacity
- Payment behaviour and days beyond terms - how promptly the company pays its own creditors, which is a leading indicator of cash flow stress
- County Court Judgments (CCJs) and legal filings - any outstanding or satisfied judgments, statutory demands, or winding-up petitions that may indicate financial distress
- Directors and shareholders - identification of the individuals behind the company, including any history of director disqualification, prior insolvencies, or associations with failed businesses
- Filed accounts analysis - review of the most recent filed accounts including turnover, profitability, net assets, and working capital position

R&M uses recognised credit reference agencies such as Creditsafe, Dun & Bradstreet, or Experian Business to obtain these reports. The specific agency used may vary depending on the nature and value of the engagement. Reports are obtained at the point of initial assessment and are refreshed annually for ongoing supply chain relationships, or more frequently where the contract value or risk profile warrants closer monitoring.

Companies House Verification

In addition to the credit reference check, R&M verifies each counterparty's status directly through Companies House. This verification confirms:

- The company is active and not dissolved, in liquidation, or subject to a striking-off action
- The registered office address and company number match the details provided by the counterparty
- Confirmation statements are filed up to date - overdue filings can indicate administrative neglect or more serious governance issues
- Accounts are filed on time - persistent late filing is a red flag for financial management capability
- The named directors correspond to the individuals R&M is dealing with, and there are no unexpected changes in directorship that might indicate instability
- No charges have been registered that were not previously disclosed or that might affect the counterparty's ability to perform the contract

These checks are quick and free to perform and provide an important cross-reference to the credit agency report. Any discrepancies between the credit report and the Companies House filing record are investigated before the appointment proceeds.

Solicitor Verification and Legal Due Diligence

For higher-value engagements, joint venture partnerships, LLP formation under a framework, and Development Agreement arrangements under a framework, R&M instructs its solicitors to carry out enhanced legal and financial due diligence on the counterparty. This typically includes:

- Verification of the counterparty's legal identity, corporate structure, and beneficial ownership - particularly important where the counterparty is a subsidiary, SPV, or part of a group structure
- Review of the counterparty's constitutional documents (articles of association, partnership deeds) to confirm that the individuals signing on behalf of the entity have authority to do so and that the entity has the power to enter into the proposed arrangement
- Anti-money laundering (AML) and Know Your Customer (KYC) checks in accordance with the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017, including verification of the identity of beneficial owners and persons with significant control (PSCs)
- Land Registry and title searches where the counterparty is contributing land or property to a partnership or development
- Review of any existing charges, encumbrances, or security interests that may affect the counterparty's assets or its ability to perform under the proposed arrangement
- Assessment of any litigation history or pending proceedings that may represent a financial or reputational risk to R&M

The results of solicitor due diligence are reported to Ian Skates and Thom McKenna before any binding commitment is entered into. Where the due diligence identifies material risks, R&M may require additional protections such as parent company guarantees, performance bonds, escrow arrangements, or adjusted payment terms before proceeding.

4. Construction Industry Scheme (CIS) and Tax Compliance

CIS Verification and Obligations

R&M Property Group Ltd is registered as a contractor under the Construction Industry Scheme (CIS) administered by HMRC. Under the CIS, R&M is legally required to verify the tax status of every subcontractor before making payments for construction operations, and to make the appropriate deductions from payments where required. R&M's PAYE and accounts team manages this process rigorously for every subcontractor engaged on every project.

Before any subcontractor is engaged or any payment is made, R&M carries out the following CIS checks:

- **HMRC CIS Verification** - every subcontractor is verified through HMRC's CIS online service before their first payment. This verification confirms the subcontractor's Unique Taxpayer Reference (UTR), confirms whether the subcontractor is registered for CIS, and determines the correct deduction rate: gross payment status (0% deduction), standard deduction (20%), or higher rate deduction (30%) for unregistered subcontractors
- **UTR and National Insurance Number** - for sole traders, R&M records the individual's UTR and National Insurance number. For limited companies, R&M records the company UTR and company registration number. These details are verified against HMRC's records through the CIS verification process
- **Gross Payment Status review** - where a subcontractor claims gross payment status, R&M verifies this through HMRC at each verification. Gross payment status can be withdrawn by HMRC at any time, and R&M must apply the correct deduction rate based on the most recent verification result, not on the subcontractor's claim
- **Monthly CIS returns** - R&M submits monthly CIS returns to HMRC by the 19th of each month, reporting all payments made to subcontractors and the deductions applied. These returns must be accurate, complete, and submitted on time to avoid penalties

Employment Status and IR35

R&M assesses the employment status of all individuals engaged as subcontractors or self-employed workers to ensure compliance with HMRC's employment status rules and, where applicable, the off-payroll working rules (IR35). This assessment considers the nature of the working relationship, including mutuality of obligation, control, substitution rights, and financial risk. Where HMRC's Check Employment Status for Tax (CEST) tool or other assessment indicates that the engagement is one of employment rather than self-employment, R&M will either engage the individual through its PAYE payroll or require the individual to work through a compliant umbrella company or their own limited company with appropriate tax treatment. R&M will not engage individuals on a self-employed basis where the true nature of the relationship is one of employment, as this exposes both R&M and the individual to tax liabilities, penalties, and reputational risk.

VAT Registration Verification

For all subcontractors and suppliers who charge VAT, R&M verifies the VAT registration number through HMRC's online VAT registration checker before processing the first VAT-inclusive invoice. This confirms that the supplier is genuinely VAT registered and that R&M can legitimately reclaim the input VAT. Where a subcontractor is not VAT registered but their turnover may be approaching the VAT registration threshold, R&M will flag this to the subcontractor as a matter of good practice. R&M also applies the domestic reverse charge for VAT on construction services where required, ensuring that the correct VAT treatment is applied to all construction subcontract payments in accordance with HMRC's domestic reverse charge rules.

5. Insurance Verification

Before appointing any subcontractor or consultant, R&M verifies that the party holds adequate insurance cover for the scope of work being undertaken. The following insurances are checked:

- **Employers' Liability Insurance** - minimum cover of £10 million (statutory requirement for any business employing staff). R&M verifies the certificate of insurance, including the policy number, insurer, expiry date, and indemnity limit
- **Public Liability Insurance** - minimum cover of £5 million for standard appointments, rising to £10 million for higher-risk or higher-value works packages. This covers third-party injury or property damage arising from the subcontractor's activities
- **Professional Indemnity Insurance** - required for all consultants and any subcontractor providing design services. Minimum cover of £2 million or as specified by the Client Organisation. PI cover must be maintained for a minimum of six years after practical completion (twelve years for projects involving residential dwellings under the Building Safety Act 2022)
- **Contractor's All Risks / Works Insurance** - where not provided under R&M's project-level policy, subcontractors must demonstrate adequate cover for their works, including materials on site and in transit
- **Product Liability Insurance** - required where the subcontractor is manufacturing or supplying products that will be permanently incorporated into the building

Copies of insurance certificates are obtained before work commences and held on file. Expiry dates are tracked, and subcontractors are required to provide renewed certificates promptly.

Any lapse in cover will result in suspension of the subcontractor's activities until adequate insurance is reinstated.

6. Risk-Based Approach to Due Diligence

R&M applies a proportionate, risk-based approach to financial due diligence. The depth and breadth of checks are scaled according to the value of the engagement, the criticality of the works or services to the project programme, and the nature of the commercial relationship:

Standard Due Diligence (all engagements)

Applied to all subcontractors, suppliers, and consultants regardless of value:

- Credit reference agency report
- Companies House verification (or sole trader identity verification)
- CIS verification through HMRC
- Insurance certificate verification
- VAT registration check (where applicable)
- Right to work checks for all individuals attending site

Enhanced Due Diligence (engagements over £50,000)

For subcontract packages or supply contracts with a value exceeding fifty thousand pounds, R&M applies additional checks:

- Detailed review of the counterparty's most recent filed accounts, including assessment of turnover trends, profit margins, net asset position, and working capital adequacy
- Assessment of whether the proposed contract value is proportionate to the counterparty's turnover and financial capacity - as a general guideline, R&M will not place a single contract representing more than 25% of the subcontractor's annual turnover without additional safeguards
- Trade references from at least two other clients or main contractors
- Assessment of the subcontractor's current order book and resource capacity to deliver the works alongside their other commitments

Full Due Diligence (partnerships, JVs, and high-value engagements)

For joint venture partnerships, LLP arrangements, Development Agreements, and any engagement with a contract value exceeding two hundred and fifty thousand pounds:

- All standard and enhanced checks as above
- Solicitor-led legal and financial due diligence as described in Section 3.3
- AML/KYC checks on beneficial owners and PSCs
- Review of the counterparty's banking references
- Assessment of parent company strength and availability of parent company guarantee where the contracting entity is a subsidiary or SPV
- Review of any pending or threatened litigation, regulatory action, or insolvency proceedings

7. Client and Development Partner Financial Assessment

Where R&M is entering into a development partnership, joint venture, or LLP arrangement - particularly under framework arrangements - the financial position of the Client Organisation or development partner is also assessed. While public sector Client Organisations typically present low credit risk, R&M still carries out proportionate due diligence to ensure that the partnership is structured on a sound financial basis. This includes:

- Understanding the Client Organisation's capital contribution commitments and the source of those funds (general fund, ring-fenced capital receipts, Homes England grant, borrowing)
- Assessing the Client Organisation's track record of meeting financial commitments on similar partnership arrangements
- Where the partner is a private sector entity (for example, a registered provider or a co-investment partner), applying the same financial due diligence as for a high-value subcontractor engagement
- Ensuring that the Members Agreement or Development Agreement includes appropriate financial protections, including provisions for default, capital call mechanisms, and dispute resolution

Ian Skates leads the financial assessment of development partners, working with R&M's solicitors to ensure that partnership financial structures are robust and that R&M's exposure is managed within prudent limits.

8. Ongoing Financial Monitoring

Financial due diligence is not a one-off exercise at the point of appointment. R&M monitors the financial health of its key supply chain partners and commercial counterparties on an ongoing basis:

- Credit monitoring alerts are set up through our credit reference agency for all subcontractors on active projects, providing automatic notification of any significant changes in credit score, CCJ registrations, director changes, or filing of accounts
- Annual re-verification of CIS status for all subcontractors on the approved supplier list, ensuring that deduction rates remain correct
- Annual renewal of insurance certificates, with tracking of expiry dates and follow-up where certificates are not provided promptly
- Proactive monitoring for signs of financial distress during the contract period, including late requests for payment, requests for advance payment or payment outside normal terms, failure to pay their own supply chain (evidenced by complaints or adjudication notices), unusual changes in key personnel, or deterioration in quality or programme performance that may indicate under-resourcing

Where monitoring identifies concerns about a subcontractor's financial position during an active project, R&M takes immediate steps to protect the project: assessing the risk to programme and quality, identifying alternative subcontractors who could step in if necessary, reviewing the payment position to ensure that R&M is not over-exposed, and engaging directly with the subcontractor's management to understand the situation and agree a way forward. In extreme cases, R&M will exercise its contractual right to terminate the subcontract and re-procure the works to protect the Client Organisation's interests and the project programme.

9. Record Keeping and Audit Trail

R&M maintains a complete audit trail of all financial due diligence carried out on subcontractors, suppliers, and commercial partners. Records are held securely and include:

- Credit reference agency reports and the date obtained
- Companies House search results
- CIS verification confirmations from HMRC, including the verified deduction rate
- Insurance certificates and expiry dates
- Solicitor due diligence reports (where applicable)
- Trade references received
- Employment status assessments
- The approval decision, including any conditions or additional safeguards required
- Records of ongoing monitoring, including credit alert notifications and annual re-verification results

These records are maintained by Louis Howard and are available for inspection by Client Organisations, the Framework Manager, and auditors as required. Records are retained for a minimum of six years after the end of the commercial relationship, or longer where required by HMRC for CIS records or by the terms of a framework or partnership agreement.

10. Dealing with Non-Compliant or High-Risk Counterparties

Where the due diligence process identifies concerns about a potential counterparty's financial position, R&M will take one of the following actions depending on the nature and severity of the risk:

- **Minor concerns** (e.g. slightly below-average credit score, short trading history) - R&M may proceed with the appointment subject to additional safeguards such as reduced payment terms, retention of a higher percentage, performance bond, or parent company guarantee
- **Moderate concerns** (e.g. low credit rating, CCJs, late-filed accounts, contract value disproportionate to turnover) - the appointment will be referred to Ian Skates for a risk assessment and will only proceed with explicit director approval and appropriate commercial protections in place
- **Serious concerns** (e.g. credit score below minimum threshold, active winding-up petition, director disqualification, failure to register for CIS, evidence of tax evasion) - R&M will not proceed with the appointment. The counterparty will be informed of the decision and may be invited to reapply once the issues have been resolved

R&M will not engage any subcontractor who is not registered under the Construction Industry Scheme, who cannot provide a valid UTR, or who cannot demonstrate that their tax affairs are in order. This is a non-negotiable requirement driven by R&M's legal obligations under the CIS and our commitment to operating a compliant, transparent supply chain.

11. Ethical and Regulatory Considerations

Financial due diligence is one component of R&M's broader approach to responsible supply chain management. The financial assessment process is complemented by:

- Modern slavery and labour exploitation risk assessment, in accordance with R&M's Modern Slavery Policy and the Modern Slavery Act 2015
- Health and safety competence assessment, including verification of relevant accreditations (CSCS, SSSTS/SMSTS, CHAS, Constructionline)
- Environmental and sustainability assessment, including review of the subcontractor's approach to waste management, carbon reduction, and environmental compliance
- Equality, diversity, and inclusion assessment, ensuring that supply chain partners share R&M's commitment to fair and inclusive employment practices
- Payment practices assessment, ensuring that subcontractors who themselves engage sub-subcontractors or labour are paying their workforce fairly and on time

These assessments are managed through R&M's supply chain onboarding process and are reviewed in conjunction with the financial due diligence to build a holistic picture of the counterparty's suitability for engagement on R&M projects.

12. Policy Review

This policy is reviewed annually by the Financial Director and the Compliance Officer and approved by the Director. The next scheduled review date is June 2027. The policy will also be reviewed following any significant change in legislation (including changes to CIS rules, employment status regulations, or AML requirements), following any incident where a subcontractor or supplier financial failure causes material impact to an R&M project, or upon feedback from Client Organisations or the Framework Manager.

Approved and Signed

Name: Thom McKenna

Position: Director, R&M Property Group Ltd

Date: 24 June 2026

This policy will be published on the R&M Property Group Ltd website and available to all employees, supply chain partners, and framework clients upon request.