Canadian
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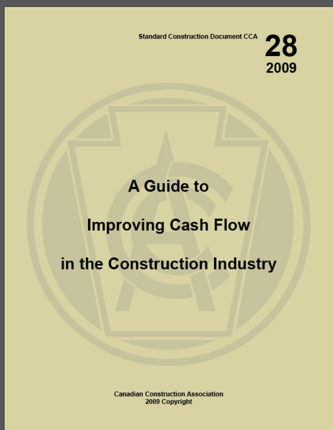
CCA 28 - 2009

CCA Standard Construction document


Standard Construction Document CCA 28 2009

A Guide to
Improving Cash Flow
in the Construction Industry

Canadian Construction Association
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CCA 28 identifies where cash flow problems occur in a construction project and suggests possible solutions. The goal is to secure the quick release of funds from the owner and to ensure the smooth and efficient distribution of funds within the contractual chain.

For copies of CCA 28, please contact your local construction association.

For more information, please visit the CCA website cca-acc.com.

A guide to improving cash flow in the construction industry

Cash flow is an important issue in the construction industry. You are often pressured to assume initial and interim financial responsibility for projects. Failure to ensure sufficient cash reserves to meet your financial obligations can result in serious consequences: impaired credit standing, interim financing at unfavourable terms or even bankruptcy. In fact, good cash flow management can be more important than the ability to generate a sale.

Principles that underline good cash flow management include:

- understanding the contract conditions;
- understanding the established invoicing procedures and following them faithfully;
- carrying out the work properly;
- correcting deficiencies promptly;
- establishing a co-operative relationship with the customer;
- agreeing to isolate disputes from regular payments.

CCA 28 explains the important steps to improving cash flow on a project:

- understanding your client's financial strength (see also CCA 50 – 2003 'A prime contractor's guide to project financing and payment security'),
- understanding the contract conditions,
- reviewing the payment terms (payment period, supporting documents, material on-site, etc.),
- reviewing the dispute resolution process.

CCA 28 also discusses effective billing and collection procedures to ensure that accounts receivable are paid as expediently as possible:

- application,
- collection,
- lien legislation,
- credit rating,
- changes in the work,
- release of holdback.

Insufficient positive cash flow on a project can necessitate interim financing; and therefore, it is essential that you establish a good relationship with your bank. CCA 28 will discuss how you can best work effectively with your bank. A model cash flow statement is also provided to illustrate the three basic elements for cash flow forecasting: current bank balance, anticipated receipts and anticipated disbursements.