

DO YOU FIND YOURSELF IN A PANIC EVERY MONTH  
DASHING FOR CASH TO MEET YOUR BILLS?

# 8 WAYS WE HELP CONSTRUCTION BUSINESSES BECOME PROFITABLE AND TAX EFFICIENT

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It wasn't long ago when the industry witnessed the shock demise of Carillion and the effects it had on contractors and trade people.

Fast-forward a few years, and we're all dealing with a bigger global issue that has already made a dent in the cash flow of many contractors.

Let's say it's mid-month.

You've checked your business bank balance and a slight panic has set in. The balance is lower than expected. Perhaps you had to pay a tax bill last minute, the additional expenses in connection with cleaning, sanitising, disinfecting, staff isolating and the extra equipment are all taking their toll on your cash.

You might not meet all month-end expenses including perhaps some payroll or CIS payments.

What do you do?

Here are 8 steps to avoid panic and get your cash inflow.

# 1. Confirm The Shortfall

The first step to avoid panic is to find out how much extra cash you will need in the bank account to cover payroll and other essential outgoings. Once you've ascertained that number, consider whether you have personal funds to loan to the business or whether you need to look at other short-term sources of finance. Perhaps a Covid Recovery Loan? And review if you're up to date with the current government support grants.

At this stage, it's all about having options but not necessarily using them. We simply want to remove the panic and get you to work through the steps below.

If you end up having to lend cash to your construction business, please do formalise this and charge the company interest. There is a tax benefit because part of this interest can be tax-free.

# 2. Get Hold Of Your Cashflow Statement

The next step is to find out where the money went. And you will get the answer from a little-used financial statement called Cashflow Statement (not the Cashflow Forecast). This is a very useful document, usually one page with about 7-8 line items. It reconciles your previous cash balance to your current cash position and tells you where the funds went. It may well be that you did not make enough profits that month and this document will tell you that. Or perhaps you are not collecting cash fast enough.

You simply work through the line items on this document (with the help of your accountant) and come up with ways to get cash into the business within 2-3 weeks. Make a note of the action plan for the purpose of step 7 below.



# 3. Calculate Your Cash Conversion Cycle

Obtain your aged debtors and aged creditors list and ask your accountant to confirm the average number of days parents take to pay you.

Let's say it's 45 days. Then confirm the average number of days you take to pay your suppliers. Let's say its 30 days. If you have cash tied up in stock, do confirm how long it's been tied up for, say 10 days.

Your Cash Conversation Cycle will be  $45\text{days} + 10\text{ days} - 30\text{days} = 25\text{ days}$ . So you are paying your suppliers 30 days but then you are receiving cash from your customers 15 days later.

On top of this, you have 10 days where cash is tied up in stock. What steps can you take to reduce this negative 15 days? Make a note of this for the purpose of step 7 below.



## 4. Discuss, Delay and Defer Payments

Pause most of your supplier invoice payments and pick up the phone, be honest and re-negotiate a better payment terms. Let them know that you are committed to paying them but can they grant you extra days or weeks after month end? For some suppliers, you may need to offer something back to maintain the goodwill in relationship including a promise to pay them an interest on the balance outstanding or 15 days early on their next invoice.

If you have any tax payments (VAT and PAYE in particular) coming up, then ring HMRC or sign upto to their time to pay service online straight away to give you a breathing space.



## **5. Review Your Aged Debtors And Pick Up The Phone**

Now that you have the debtors list from step 3, get finance/admin to pick up the phone to clients who have not paid.

According to research by a debt recovery company Echo Managed Services, 40% of debt gets paid after a telephone call reminder.

You will usually outsource the credit control to remove any emotional connection you may have with clients. Your credit control department, accountants, or lawyers can draft series of strong debt collection letters and add interest in accordance with your contract.

However, where you find yourself in an unexpected short-term cashflow problem and depending on your setup, you will need to make an exception to the rule and make some of the important calls yourself because time is of the essence.

## **6. 30 – 60 day Cashflow Forecast**

Put together a very basic short term cashflow forecast for the next 30 to 60 days. Avoid spending long time on complicated spreadsheet which might be out of date by the time you're done and which may consume resources that should be deployed on getting cash in. So simply start with the cash at bank now, add any possible short term finance (step 1 above) and add any cash inflows to the business from steps 2 to 5 above.



## 7. Cash Acceleration Action Plan

It's very important to then document an action plan from the above and put a due date on them. We've had clients increase their operating cash flow within weeks of working through the above.

A key part of their success is the focus on this Cash Acceleration Action Plan, which documents all the ideas, who is going to do what, by when and the likely impact on cash.

## 8. Get Additional Help

There are other key drivers of cash in your Construction business beyond the immediate steps outlined above. And depending on your situation, you may need a combination of Cash control, Profit protection, and a Reduction in costs strategies.

And if you find yourself in regular cash flow problems, then a further approach including pricing, margins, efficiencies, and business model review would be required.

Either work closely with your accountant or seek help from a profit and cash specialist.

Handling cash flow problems goes way beyond the traditional cash flow forecast approach.

**NEED HELP?  
BOOK A CALL WITH US**



## **ABOUT THE AUTHOR**

Jonathan Amponsah CTA FCCA is an award winning chartered tax adviser and accountant who has advised many clients over the last decade on tax.

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