

How to cure financial headaches



COST MANAGEMENT

TIM COLE

Managing project costs amidst the maelstrom of construction pressures requires focus on priorities. The cashflow and profitability of a project depend on how well procurement, accruals, valuation and payment applications are managed.

Time is always tight. Profit margins are tighter. If contracted client payments as well as project costs are tied to progress there should be a link between expenditure and income.

The financial goal of a successful project is to receive timely payments from your client - this both funds your operations and confirms progress is being made against agreed milestones.

Have a plan in mind

Therefore, from the outset, you need to have a clear plan that ties together the cash outgoings with the cash payments you will receive.

If payments have been linked to defined milestones then expenditure should, where possible, be planned around the same milestones.

Similarly, work plans need to progress in the same way. If the proposed payment milestones are not logical, these need to be re-negotiated so that the relationship between activity and income works for both parties.

Specialist costing software, can help maintain cashflow control, but only where controls

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facilitate the relationship between expenditure, consumption and income. Simply knowing that you have spent a large amount on concrete does not mean you have sufficient evidence to submit a specific payment application.

Managing project costs is never a task with a single dimension. Cost management to one person is another's value management, payment plan or cashflow.

On successful projects these objectives align and everyone understands what they will be paying; when they will be paying it and why.

A practical approach

In a structured approach income and expenditure could be planned in the following way:

1. Payments from the client are linked to project milestones.
2. Expenditure allowances are identified against the same project milestones.
3. Purchase orders raised create a 'committed cost' (a confirmed plan that will be linked to a payment in the future).
4. Matching a material or service delivery against a purchase order converts the committed cost into an accrual (an expense for which an invoice is due).
5. Matching accrued costs to invoices establishes a creditor.
6. Valuations produced and payment certificate (application for payment) sent to the client.
7. Payments are made by client.

Such an approach provides a clear monitoring structure and early visibility of discrepancies which could jeopardise a project. Overspends need to be flagged up so that the causes can be analysed and addressed.

Project costing, if managed around a clear process and supported by specialist software, delivers cashflow management and the visibility to analyse progress in real time. This helps you spot problems early and receive payments in a planned and timely manner.

Tim Cole is a director at Causeway Technologies and will be writing regularly on cost management

Why should bosses bear the blame?

By Colin Wood

Fortunately for directors, when the Corporate Manslaughter Bill was finally enacted in July, it contained a significant change to the original draft.

Initially, it was thought that individual directors should be held personally liable for actions within the company which led to a fatality. This could have meant that in some cases directors would lose their liberty whilst the person responsible got off scot-free.

But any individual can still be held liable for gross negligence manslaughter if he or she was personally responsible for the fatality. This has not changed and is covered by existing legislation.

But I don't see why it is only the bosses who should carry the can.

Currently, if an individual causes a road accident on their way to work, they are held accountable by the police.

But immediately they drive through the site gates their personal responsibility appears to end and it is the directors of the company who become accountable. This is illogical. If well-trained employees are a direct cause of the accident, then they should bear responsibility.

A prosecution or a serious warning letter to the individual concerned will send the right message to the workforce. Such direct action is the only way we will make a quantum leap in reducing fatal accidents.

Directors must be committed to reducing accidents and injuries. However, under the Health and

Safety at Work Act, every employee needs to take responsibility for his or her own safety together with the safety of those working around them. In fact, recent research suggests up to nine out of ten accidents are because of poor safety behaviour.

Employees can be trained up to the hilt, but if they then choose to ignore their training, for whatever reason, then let them take their share of the punishment.

Colin Wood is chief executive of the Construction Plant-hire Association and will be a regular contributor to the Doing the Job section.

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