

FRESH JCT



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Avoiding Bad Debt in Construction

Entering 2023 financial experts estimated there was roughly £300m in bad debt in the UK construction industry, this I suspect was an under estimate with the true figure a lot higher.

Those same financial experts predicted this could have risen to £1bn by the start of 2024 because of the consequence caused by the number of large insolvencies in 2024.

How accurate those estimates are is almost immaterial as what is not in dispute is that thousands if not tens of thousands of small to medium SME suppliers and subcontractors' business are at risk because of bad debts and late payments.

Covid loan repayments, rising material and labour costs, interest rates and general inflation are compounding outstanding and stretched payment terms with no company large or small immune.

Even more than ever Business Owners and Company Directors need to focus on cash and cash collection in particular to avoid becoming a 2024 statistic.

The old mantra of "Cash is King" has never been more relevant than in today's Construction Industry.

The Fresh JCT "Cash is King Key 10" for Construction Suppliers & Subcontractors are:-

1. Do not enter into JCT or Bespoke Construction Contracts with onerous and unfavourable payment terms. You must negotiate security of payment terms that reflect your expenditure on the contract and ensure you are cash positive throughout.
2. Make sure you negotiate payment for materials off site (use vesting certification to overcome the Main Contractor objections)
3. Make sure your contracts have clear and quick recourse in the event of late payment.
4. It sounds obvious but you would be amazed how many companies fail to send invoices (or applications) on time and in advance of the valuation date.
5. Have a strict and strong credit control regime.
6. Don't be afraid to contact your client before the payment date to ensure there are no issues preventing payment and chase immediately by telephone and in writing if payment is not received on the due date.
7. Don't compound or increase a bad debt by continuing to work and incur further costs.
8. Be prepared to "walk away" from that contract with potential customers with a record of late or non-payments.
9. Avoid, Manage, and Quickly Resolve Disputes before they escalate. "Time is not a healer" and does not get you paid!
10. Have visibility and manage your current cash position and cash flow forecasts at a project / customer level as well as a business level.

If you need help, guidance and advice in negotiating construction contracts payment terms or managing bad debts contact **FRESH JCT** for a no obligation chat on 07563 246975 or e-mail alan@freshjct.co.uk.

**FRESH JCT WILL PROTECT YOUR BUSINESS WITH
YOUR OWN BESPOKE TERMS & CONDITIONS**