

Final Report

Executive Summary

Best Practices for “Optimizing the Flow of Money”

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for:



Alberta Construction Association

In partnership with:



EDMONTON
CONSTRUCTION
ASSOCIATION

Best Practices for “Optimizing the Flow of Money”

EXECUTIVE SUMMARY

Surveys have concluded that delay of payment puts undue pressure on the cash flow of many contracting businesses and consultants. Despite existing Canadian Construction Association policy and associated industry standard documents, the problem is growing. The Alberta Construction Association, in partnership with the Calgary Construction Association and the Edmonton Construction Association, created a three part Workshop process to create shared understanding.

The Workshop was structured to have individuals and organizations look at the current state of how payment flows and commit to finding solutions for better processes through a visual, participatory process. By looking at how to make the process better, the natural outcome is Best Practices that can be shared and adopted by others.

The uniqueness of the Workshop was not only engaging all OAEC partners (Project Owners, Architects, Engineers, and Contractors i.e. General Contractors, Subcontractors, Sub-Subcontractors and Suppliers), but engaging the accounting people from each partner (those who actually process the payment) to hear their perspectives and for them to hear from others in the supply chain. A Buyer of Construction Services (Project Owner) rarely has a contract directly with a Subcontractor or a Supplier and thus little to no knowledge of their world.

The Workshop was not only important for the direct value it produced (a formal list of Best Practices), but also the informal process of collaboratively discussing a topic that is affected by all in the supply chain of a construction project. Without all partners collectively discussing and agreeing to solutions, it becomes a one-sided exercise that then requires buy-in once the solutions are presented.

Integral to “Optimizing the Flow of Money” is ethics. Without continual discussion about the core values of ethical behaviour (integrity, transparency, trust, fairness, honesty), we are just “talking the talk and not walking the walk”. An ethical company culture is a foundation for “Optimizing the Flow of Money”.

There is a view that “Prompt Payment” legislation will be the answer to “Optimizing the Flow of Money”, but without creating efficient and effective processes in each of the partners offices for getting money to flow, we can’t expect legislation to solve the issue.

Summing it all up is the fact that the construction industry needs to CHANGE its approach and practices to “Optimizing the Flow of Money” otherwise we live the definition of insanity, “doing the same thing over and over expecting different results”! By working collaboratively to create business cultures that thrive on integrity, transparency, trust, fairness, and honesty we can make a difference.

Requests for copies of the entire Final report should be addressed to the Executive Director, Alberta Construction Association (www.albertaconstruction.net).

Best Practices for “Optimizing the Flow of Money”

PURPOSE

Three critical issues facing the construction industry in Alberta include: the economy, ethics, and **payment**. The lack of “*true*” collaboration among all partners to address these issues fosters unbalanced contract language to emerge that can create a bigger issue than it solves.

The construction industry across Canada has identified that very often payment for work that has been satisfactorily completed is needlessly delayed as it flows from the Project Owner to the Prime Consultant or General Contractor, to the Subconsultants or Subcontractors and to the Sub-subcontractors and Suppliers. This needless delay puts undue pressure on the cash flows of many businesses in the construction industry. Surveys conducted across Canada found:

- This issue crosses all parts of the industry – public and private projects, commercial, institutional and industrial.
- The majority of survey respondents said they had payment delays either all or most of the time.
- Respondents reported an average minimum time for invoice to payment was 60 days or more.
- The delays created significant cash flow problems.
- Consequences of delayed payments include: added financing costs, choosing not to bid to some Project Owners or Contractors, reduced working capital, and fewer bids.
- There is a feeling among Contractors that current contract enforcement provisions are inadequate to address delayed payment.

The Canadian Construction Association (ACA) adopted in September of 2016 a new CCA policy statement (4.15) on payment as follows:

“CCA advocates contractual payment and related terms that are fair, reflecting the industry consensus expressed in CCDC and CCA standard documents. Further, CCA advocates that Project Owners, Prime Contractors, Subcontractors, Suppliers, payment certifiers and other stakeholders in the payment chain comply with all statutory/legal requirements and honour commitments and contractual obligations on time, and in the spirit of the following general principles:

- a. Contracting parties, both payers and payees, should be responsible for understanding all agreed contractual terms affecting obligations to make and entitlement to receive payment; and
- b. Project Owners should share with others in a project payment chain the dates on which they make payments to Prime Contractors to enable parties to comply with and benefit from contract payment provisions with confidence.

The fact that payment problems are growing despite the existence of the following industry standard documents that address best practices for improving the “flow of money” suggest what is missing is shared understanding:

- CCA 28 – 2009: Guide to Improving Cash Flow in the Construction Industry
<http://www.cca-acc.com/wp-content/uploads/2016/07/cca28promo.pdf>
- CCA 50 – 2003: A Prime Contractor's Guide to Project Financing and Payment Security

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<http://www.cca-acc.com/wp-content/uploads/2016/07/cca50promo.pdf>

- CCA 53 – 2016: A Trade Contractor's Guide and Checklist to Construction Contracts

<http://www.cca-acc.com/wp-content/uploads/2016/07/cca53promoe.pdf>

WORKSHOPS AS A FORUM FOR COLLABORATION

The Alberta Construction Association in partnership with Calgary Construction Association (CCA) and Edmonton Construction Association (ECA), realized the topic of **payment** (“Optimizing the Flow of Money”) was an opportunity for collaborative dialogue with all OAEC (Project Owners, Architects, Engineers, Contractors) partners in the construction industry.

A three part Workshop was designed as a collaborative approach with the goal of finding Best Practices for “Optimizing the Flow of Money”. All OAEC partners have a role to play or are affected by the payment process. The Workshop was structured to have individuals and organizations look at the current state of how payment flows and commit to finding solutions for better processes through a visual, participatory process. By looking at how to make the process better, the natural outcome is Best Practices that can be shared and adopted by others.

In order to effect change, everyone in the payment chain needs to participate, and all construction industry partners need to have open and respectful dialogue to accomplish a collaborative approach to creating Best Practices. Therefore, it was VERY important to have participation in the Workshop by staff who internally touch the payment process.

Because the top of the supply chain is not contractually connected to the bottom of the supply chain, there was an awakening about the implications to Subcontractors and Suppliers when money doesn't flow promptly. It is not often that those in the trenches of processing payment are given an opportunity to engage in solution-seeking dialogue with the entire contract chain.

ACA thanks all Workshop presenters and participants for their commitment to sharing perspectives, learning, and leading by example.

Given the utmost importance of collaborative dialogue, the following Best Practices should be viewed as a living document. It is ACA's intent that the Best Practices will evolve with construction associations hosting similar and additional workshops (such as specifically on change orders) to test and add knowledge for the benefit of all.

RECOMMENDED BEST PRACTICES FOR ALL PARTNERS FOR “OPTIMIZING THE FLOW OF MONEY”

Guiding Mottos

1. *“Treat the processing of the payment as if it was your own paycheck.”* - General Contractor, Accounting
2. *“We’re all in this together.”* - Project Owner
3. *“When the work is done, we all have an obligation to pay in a timely manner.”* - General Contractor, Accounting
4. *“Constructing a project is good, getting paid is great. We are all Stakeholders working together for greatness in the Construction Industry!”* - Subcontractor, Project Manager
5. *“We are all partners!”* - Project Owner
6. *“Working as One for Our Pay Cheques”* - General Contractor, Accounting
7. *“If you want to keep your project on schedule, keep the payment schedule and the money flowing. Contractors move their workforce to jobs that are paying promptly and regularly.”* – Subcontractor, Project Manager
8. **“RESPECT”** - Project Owner, Project Manager

RIGHT PEOPLE
ETHICAL PRACTICE
SOLVING ACCURACY
PAPERWORK DILIGENCE
EDUCATION
COMMUNICATION
TIMELY TURNAROUND

Best Practices for “Optimizing the Flow of Money”

All

1. Build trust and collaboration at the start of the project
2. We must do things DIFFERENTLY for a different result
3. Foster a culture of ethical values by all partners taking ethics training together
4. Hold ALL professional designations to their code of ethics
5. Standardize the Statutory Declarations
6. Be as authentically interested in the payment of others as you are in your own paycheck
7. Delegate the advancement of payment when you are away
8. Educate and train all parties to understand payment terms
9. Bring problems to the forefront and address
10. Use multiple methods of communication depending on importance; not just one. Pick up the phone if necessary
11. Contract for quality performance
12. Use technology to track requirements for hourly time, streamline processes and improve communication
13. Perform a credit check on non-public Project Owners

Best Practices for “Optimizing the Flow of Money”

Project Owners

1. **Create “Coles Notes” of the Contract Payment Terms**
 - a. Outline key points in plain language (SOP - Standard Operating Procedures)
 - b. Focus on invoicing and payment terms
 - c. If critical to payment, create an invoice template for use by the General Contractor
 - d. Use a collaborative site to store payment information so all can access
2. **Ensure Right People in the Start-Up Meeting**
 - a. Hold a separate meeting for payment or at the end of the regular start-up meeting; ideally electronically
3. **Create a Project Contact List as Part of Project Plan/Charter**
 - a. Include appropriate people for specific issues: Project Owner Project Manager, Contractor Project Lead, Consultant Project Lead and Accountants from all parties
4. **Improve the Approval of Payments**
 - a. Reduce the number of touch points
 - i. Delegate responsibility to approve payment, but keep accountability with senior management
 - ii. If invoice amount matches backup and is within payment terms, pay the invoice
 - iii. If Prime Consultants approves the invoice, the Project Owner should process the payment for the portion in agreement
 - iv. The Project Owner should communicate to Subconsultants the payment to Prime Consultant
5. **Utilize Electronic Approval and Signatures**
6. **Standardize the Progress Claim and Change Documents per Project Delivery Method**
7. **Utilize Electronic Funds Transfer Versus Cheques**
8. **Communicate Processes with Internal/External Project Teams**
 - a. Project “Drivers”: Budget, Schedule, Quality, Communications
9. **Add a Financial Component to Every Regular Meeting with the General Contractor**
 - a. Payment Status
 - b. Cash Flow projections

Best Practices for “Optimizing the Flow of Money”

Design Consultants

1. **Hold Project Design Team Start-Up Meeting to Align Language and Expectations**
 - a. Clearly define scope
 - b. Invite Project Owner, Consultants, Subconsultants and Contractors as per delivery method
 - c. Discuss schedule of values as known for design fees
 - d. Include draft invoice format
 - e. Discuss recourse if actions/requests not met or when scope changes
 - f. Read contract and advise when contract will be executed
 - g. Have a specific agenda for the meeting
 - h. Discuss design schedule
 - i. Discuss delivery method if not determined or review what was originally anticipated
 - j. Distribute contact list including A/R and A/P
 - k. Consider direct payment to subconsultants
2. **Hold Project Start-Up Meeting to Align Language and Expectations**
 - a. Discuss specifications
 - b. Invite Project Owner, Consultants, Subcontractors and General Contractor
 - c. Discuss schedule of values as known
 - d. Include draft progress claim format
 - e. Discuss recourse if actions/requests not met
 - f. Read contract
 - g. Have a specific agenda for the meeting
 - h. Distribute contact list including A/R and A/P
 - i. Discuss project schedule
 - j. Discuss how changes will be handled and that the General Contractor is responsible for communicating to Subcontractors
3. **Be Accountable to Payment Related Timelines**
 - a. Meet on site to discuss payment details
4. **Track General Contractor Payments in the Meeting Minutes**
5. **Establish Team Risk Matrix to Arrive at the Highest Degree of Cost Certainty**
 - a. Reassess risk and mitigate accordingly at every phase
 - b. Update the design and construction cash flow forecast to anticipate changes to construction; adjust budgets in advance
 - c. Discuss cash flow projections
6. **Align Consulting Fees for Work Based on Project Type and Complexity**
 - a. Create a collaborative process for bi-lateral agreement on work contributions
 - b. Cutting design fees is not a cost savings to the project
 - c. Reduce communication complexity on the design side to make the processes more streamlined
 - d. Allow for cost uncertainty through a risk matrix assessment

Best Practices for “Optimizing the Flow of Money”

7. When Invoicing by Project Phase, Consultants to Invoice Based on Actual Work Completed
8. Involve Construction Specialists at the Outset (Stage Zero)
 - a. “Pull Plan” design to forecast for cost certainty
 - b. Risk is best managed early; not on site
9. Create “*Engineering Value*” not “*Value Engineering*”
 - a. Remove waste, not value; removing costs for a short-term gain has implications to the life span of the building
 - b. Be proactive, not reactive
 - c. Use Quality Based Selection not lowest fee
10. Don’t be a Slave to the Process
 - a. Look for efficiencies in the process for the success of the whole project

Best Practices for “Optimizing the Flow of Money”

General Contractors

1. Create a Checklist of Payment Details for Accounting Groups
 - a. Created by Project Owner and General Contractor
2. Hold Payment Kick Off Meeting
 - a. List project specific Accounting people in checklist
 - i. List for all in the supply chain
 - b. Clearly define who is to receive the invoice
 - c. Communicate clearly timelines in checklist
 - d. Provide schedule of values in advance of 1st application
 - e. Note progress due dates in construction schedule
3. Utilize Electronic Fund Transfer
4. Create a Contact List for Payment Escalation Channels
 - a. Create relationships and connections within all departments
5. Create Flexible Transparent Payment Terms with Quick Turnaround
 - a. Send payment checklist with each PO
6. Create a Clear Communication Process about Required Paperwork, Submission Format, and Details
 - a. Communicate to the Subcontractors/Suppliers when the invoice is incorrect so it can be modified expediently and resubmitted
 - b. Accounting and Project Manager to be issued invoices at the same time
7. Establish Baseline Invoice Format for the Project with the Project Owner and Consultant
 - a. If critical to payment, create an invoice template for use by Subcontractors
 - b. Confirm the importance of numerical accuracy to the cent as this can cause payment to be rejected
 - c. Create an invoice (even for a small amount) at the first opportunity to test the payment process
10. Provide Draft Subcontractor Contract Agreement at Tender Stage so the Terms are Understood Before Pricing to the General Contractor
 - d. State the version number of the contract so that the Subcontractors know whether it is the same as last time or changed
11. Share Prime Contract with Subcontractors and Suppliers
12. Inclusive Project Start-Up Meetings to Provide Early Communication
 - a. Include Project Owner, Consultants, General Contractors, Subcontractors, Suppliers, Accounting
 - b. Meetings both in person and electronically
13. Educate Internal Personal About the Accountability of Payment
 - a. Treat the importance of payment like your own paycheck
14. Do Not Proceed on Work Without Written Authorization
15. Schedule of Values to be Accurate and Transparent
16. Ensure Project Codes are Established and Active Prior to Billing

Best Practices for “Optimizing the Flow of Money”

17. For Payment for Delivery of Materials to the Site:
 - a. Material needs to be secured and insured
 - b. Negotiate with the Project Owner prior to signing the Contract
18. General Contractor Should Take a Draft Invoice to the Start-Up Meeting
19. Improve Communication
 - a. Have a phone conversation and then follow up with an email
 - b. Communicate when substantial completion is achieved
20. If Deficiencies Are Present:
 - a. Only bill for what is actually due
 - b. The Project Manager to monitor and diligently manage the project deficiencies
 - c. Make visual reminders of the deficiencies using Post-Its, photos, technology
 - d. Communicate deficiencies with the Subcontractors on a timely basis
21. Partial or Complete Payment?
 - a. Depending on delivery method, whether Lump Sum or Construction Management, when the prime is paid, the cash will flow to the Subcontractors as promptly as possible on a properly submitted invoice
22. To Expedite the Payment Process, Pursue Electronic Fund Transfers (EFTs)
23. Progressive Release of Holdback
 - a. Should be negotiated with the Project Owner
 - b. Make sure the billed amount reflects the completed defined scope of work
24. Use Legal or Lien Only as a Last Resort
 - a. Communicate with those above in the contract chain prior to taking action

Best Practices for “Optimizing the Flow of Money”

Subcontractors/Suppliers

1. **Hold/Attend Internal/External Payment Start-Up Meetings**
 - a. Attendance by General Contractor and their Accounting staff, Subcontractors and their Accounting staff, and others throughout the contract chain
 - b. Hold additional meetings for staff changes and as refreshers
 - c. Have full disclosure to the entire construction team of percentage of financing in place
 - d. Have payment certifier meet to pre-validate work percentage prior to billing date
 - e. Discuss the checklist of expectations:
 - i. Timing
 - ii. Contact list
 - iii. What needs to be on the invoice including level of detail
 - f. Utilize web technology for meetings i.e Skype, Go to Meetings
2. **Ensure Invoice has Correct Details**
 - a. Address GST or HST as applicable; the sales tax that applies in your customer's province or territory is generally applicable
3. **Better Communication Through All Levels of the Contract Chain**
 - a. General Contractor or Project Owner to announce when payment is released from the Project Owner to General Contractor
 - b. Ensure ALL are aware of the documentation needed to process payment
 - c. Communicate when substantial completion is achieved
4. **Every Subcontractor Should Provide Cash Forecasting to the General Contractor**
5. **Identify Deficiency Holdback Terms Upfront**
 - a. Be proactive with timely review and communication of problem areas
 - b. Do not mix Builders' Lien Holdback with deficiency holdback; consider calling deficiency a retention.
 - c. Create ONE comprehensive deficiency list
6. **Utilize Technology On-Site to Address Changes**
 - a. Streamline systems so that Subcontractors and Suppliers do not need to pay for each General Contractor's different programs.
7. **Progressive Release of Holdback**
 - a. When applying for Progressive Release of Holdback, be TOTALLY complete not just substantially complete

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WORKSHOP RESOURCE SPEAKERS

Paul Heyens – Alberta Glass and Chairman, ACA

Neil Kjelland – Alberta Infrastructure

Bob Robinson – Westcor Construction

Paul Stocco – Brownlee LLP

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Vik Maraj – Unstoppable Conversations

Ray Bassett – Travelers Canada and Canadian Construction Association

Bob Gillis – Concept Group

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