Practice Note
Cash neutrality in the mobilisation phase

EXPLANATORY NOTE:

This Practice Note is a product of the Construction Industry Leadership Forum. It provides a principle-based strategy with options that are available to procuring agencies in response to the identified challenge. Implementation of options may necessitate change to existing government policy or procurement rules to give them broader application.

PRINCIPLE:

Commercial structures on major infrastructure projects where significant up-front costs are expected should enable the contractor to:

» mobilise at a cash neutral position; and
» pass down equivalent commercial arrangements where applicable, to enable subcontractors to mobilise at a cash neutral position.

This treatment is to support the contractor and its supply chain to access and attain a sustainable cash flow position from project commencement through their own responsible financial management, and does not imply or infer that responsibility for financial management is transferred away from the contractor or its supply chain.

CURRENT CHALLENGE:

Major infrastructure construction projects can require contractors to provide significant early cash outlays, which place the contractor at a negative cash flow position at the outset of a project. At the outset of the delivery phase the successful contractor is also carrying the cost of participating in the tender process.

The strain that this places on the cash flow of head contractors can have knock on effects down the subcontracting chain, impact the contractors' bonding facilities and their ability to satisfy financial capacity conditions associated with licensing and pre-qualification requirements and introduce commercial motivations into the sequencing of delivery that are not 'best for project', for example, programming early activities to maximise cashflow rather than to optimise sequencing for overall efficiency.

OPTIONS:

Set out below are options available to address the principle as applicable to the particular circumstances of a project. Application will depend on:

» The significance of up-front costs, which should be considered during the early planning phase of the project and through early market soundings.
» The contract type and procurement model. For example, the principle is unlikely to apply as between the Government and a Project Co on a PPP project, however, may apply to the downstream arrangements between the Project Co and its subcontractors).

The practices identified below should not be considered mutually exclusive. An approach could be to involve a mix of options.

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1	Mobilisation payment to the contractor on contract award for substantiated start-up costs E.g. mobilisation of personnel, equipment, supplies and incidentals to the project site, establishment of offices, buildings and other facilities necessary for the works. For major projects involving substantial bid participation costs, the mobilisation payment may also bring forward payment of agreed bid costs which would otherwise have been included in the contract price over the term.
2	Advance payment to the contractor to engage in preparatory activity for commencement of a project such as purchase of long lead items and to secure production slots.
3	Requesting proposed mechanisms for cash neutrality at project commencement to be bid in the proposal.
4	Major variations during the life of the project should be approached consistently with the principle and practices above.

These practices may be contingent on the contractor providing a mobilisation management plan during the bid phase and security under the contract.