

# Managing Risk and Cash Flow in a Volatile Construction Market

## Implications of the Middle East Conflict for NSW Building Businesses

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Australia's construction sector entered 2026 already under pressure. Elevated inflation, labour shortages and feasibility constraints—particularly in medium and high density residential projects—have led to revised down housing forecasts across NSW and nationally.

The escalation of conflict in the Middle East has added a new and immediate risk layer. Fuel price volatility is now flowing rapidly through supply chains, freight, materials and site operations, creating a cost shock that industry participants are comparing to early COVID era disruption.

While the duration of the conflict remains uncertain, builders should treat this as a live cost risk environment, not a short term anomaly.

### How the conflict is impacting construction businesses

The escalation of conflict in the Middle East is feeding directly into construction costs through fuel, which acts as a system wide cost multiplier. Rising diesel and energy prices are increasing costs across transport and logistics, quarries and raw material extraction, energy intensive manufacturing (including cement, steel, bricks and PVC), site plant and machinery operations, and imported or long lead materials. The result is a cascading effect—fuel price increases do not sit in isolation but lift the cost base of almost every construction input, placing further pressure on already tight margins.

At the same time, disruption to key global shipping routes near the Strait of Hormuz has increased freight, shipping insurance and fuel surcharges, adding volatility to supply chains. In addition to fuel and PVC, large builders are reporting growing supply constraints in electrical conduits, with reduced availability and extended lead times emerging as a critical issue on major projects. Suppliers are responding with shorter pricing validity periods, fuel levies and emergency surcharges, a reduced willingness to absorb pricing risk, and longer lead times or availability constraints.

These pressures are particularly acute for businesses operating under fixed price or lump sum contracts, where margins of only 1–3% can be quickly eroded if abnormal fuel or material cost increases cannot be recovered, placing otherwise viable projects at commercial risk.

### What construction businesses can do now

The priority in uncertain cost environments is protecting cash flow, not just chasing turnover.

#### **1. Strengthen cash flow forecasting (weekly, not monthly)**

To improve early visibility of stress points and support better decision making before cash shortages arise, builders should move to rolling weekly cash flow forecasting, including:

- Updated supplier pricing assumptions
- Contingency buffers for fuel and freight volatility
- Realistic timing of progress claims and retentions
- Maintaining a separate record of all price increases and Extension of Time (EOT) claims arising from the conflict, so resulting cost forecast increases can be monitored and discussed with clients

- Explicitly factoring material availability risks into forecasts—particularly current constraints in fuel, PVC and electrical conduit supply, which are driving extended lead times and program risk

## 2. Actively manage contract risk

Where possible:

- Assess subcontractor capability and liquidity risk, including their ability to absorb cost increases and complete contracted works without disruption
- Review escalation clauses, rise and fall provisions and variation rights
- Engage principals early where cost shocks are demonstrably external and abnormal
- Avoid taking on new long term fixed price risk without risk sharing mechanisms

In addition to this, maintaining early and transparent communication with clients is critical. This includes open discussions with clients about additional costs, critical path impacts and potential Extension of Time (EOT) claims. Where issues are clearly understood, clients may be able to support timely decision making, program adjustments or other practical measures to reduce delay and cost impacts. Ensure contracts are administered strictly in accordance with their terms, particularly notice requirements and time limits, to preserve entitlements.

## 3. Tighten working capital discipline

Practical steps include:

- Prompt invoicing and follow up on progress claims
- Enforcing payment terms with customers and subcontractors consistently
- Reviewing retention balances and release timing
- Actively managing inventory to avoid tying up cash unnecessarily
- Actively managing bonding retentions

Small improvements here can materially improve liquidity during volatile periods.

## 4. Communicate early and often with lenders and advisers

Banks and financiers understand the current environment but expect early transparency:

- Share revised forecasts proactively
- Explain cost pressures and mitigation actions
- Reconfirm covenant headroom where relevant

Likewise, regular engagement with accountants and advisers ensures tax, cash flow and financing strategies stay aligned.

## 5. Re price future work conservatively

For work still in tender or negotiation:

- Include shorter validity periods
- Build in clear assumptions around fuel and freight

- Avoid under pricing simply to "keep work flowing" if that work compounds risk

Preserving balance sheet strength is critical if disruption persists.

## 6. Strengthen internal management and coordination

In volatile operating environments, strong internal coordination helps issues surface early and reduces the risk of cost and program pressure escalating unnoticed:

- Consider establishing a small internal workgroup, meeting regularly (every few days where conditions warrant), to share what is happening across the business — including supply availability issues, operational challenges and supplier price increase notifications.
- Centralise oversight of cost increases, with a clear point of accountability to review, challenge and approve proposed increases before they are accepted or passed on, ensuring consistency and commercial discipline.
- Apply additional scrutiny to tenders before submission, including reviewing assumptions, exclusions, escalation exposure and risk allocation, to improve protection against unforeseen cost and program impacts.

## Lessons from COVID still apply

During COVID, businesses that survived best were not necessarily the busiest - they were the ones that:

- Knew their numbers
- Controlled cash
- Negotiated risk early
- Made decisive, informed commercial calls

The current fuel driven cost shock, while different in origin, requires a similar mindset.

While global events sit outside the control of individual building businesses, financial resilience does not. By actively managing cash flow, tightening commercial discipline and engaging early with stakeholders, construction businesses can improve their ability to withstand volatility and position themselves to benefit when conditions stabilise.

## How Nexia can assist Master Builders NSW members

Nexia works closely with construction businesses across NSW, supporting cash flow forecasting and scenario modelling, contract and margin analysis, financial viability reviews, lender and stakeholder engagement support, and external audit and assurance services.

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We specialise in several key industries, including Real Estate and Construction, and cater to a wide range of clients, from small to medium-sized businesses to large private company groups, not-for-profit entities, subsidiaries of international companies, publicly listed companies, and high-net-worth individuals. We've had the privilege of working with market leaders in many sectors of Australian and New Zealand business, and we're here and ready to help you too.

**We take pride in being responsive, progressive, and proactive in identifying and implementing the solution to your success.**

## Contact us

Learn how Nexia Australia can help set you and your organisation up for success. Contact your local Nexia Advisor below to get started.



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