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Construction industry access to Covid-19 emergency loan and finance schemes

Purpose of this paper

The aim of this paper is to set out how accessible the Government's Covid-19 emergency loan and finance schemes are for the construction industry. This includes the following schemes:

- Coronavirus Business Interruption Loan Scheme (CBILS)
- COVID-19 Corporate Financing Facility (CCFF)
- Coronavirus Large Business Interruption Loan Scheme (CLBILS)

The paper also puts forward a range of options for improving accessibility to the schemes, particularly for smaller contractors and SMEs operating in the construction industry.

Why is construction industry accessibility so important?

The construction industry is critical to the UK's economy contributing approximately £117 billion in Gross Value Added annually, whilst the industry also employs roughly 2.4 million people.[1]

In all there are 343,715 construction businesses in the UK, which operate in a highly integrated supply chain.[2] The annual turnover bands of these businesses breaks down as follows:

- £0-<45m (343,090)
- £45-<500m (580)
- £500m+ (45)

The indefinite closure of construction sites and operations threatens the survival of many of these businesses.

Recent OBR forecasts have indicated that construction output for the second quarter of 2020 will reduce by 70%.[3] Without suitable government intervention pressures on cash flow could see a significant number of businesses in the construction industry forced into liquidation; jeopardising the delivery of many major projects that were already critical to the wider economy prior to an anticipated recession.

[1] House of Commons Library (2019) The construction industry: statistics and policy
[2] ONS (2019) Analysis showing the count and turnover (£'000s) of VAT and/or PAYE base enterprises in the United Kingdom for UK SIC 2007 divisions in Section F-Construction by turnover
[3] Office for Budget Responsibility (2020) Coronavirus reference scenario

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Key Covid-19 emergency loan and finance schemes accessibility issues for the construction industry

The following section of this paper focuses on outlining the accessibility issues that businesses in the construction industry have been or are experiencing in accessing the key Covid-19 emergency loan and finance schemes.

Table 1 provides a snapshot of application success rates across the construction industry to the Government's support schemes and Table 2 sets out the motivations underpinning applications. The results are based on a representative industry survey of a range of construction businesses during the week commencing 13th April 2020. The results relate specifically to CBILS and CCFF as CLBILS was not open when the survey was conducted.

Successfully applied for CBILS and CCFF			
Yes	**No**	**Application under consideration**	**Total**
19	49	97	165
11.52%	29.70%	58.79%	100%

Table 1: Success rate of construction business applications to the Government's loan schemes

Reason for CBILS or CCFF application			
A short term facility to tide the business over until additional government assistance such as the furlough scheme allows corporate cash flow to recover	**Up to 2 years of additional funding to help cover all costs incurred during the current shutdown and its associated disruption**	**A longer term source of funding of up to 5 years until the sector returns to full activity and the company has been able to rebuild its finances to where they were before the current hiatus**	**Total**
65	78	21	164
39.63%	47.56	12.80%	100%

Table 2: Reason for CBILS or CCFF application (*one CBILS/CCFF applicant failed to respond to this survey question)

Whilst there are a range of unique accessibility challenges depending on the scheme in question, there is concern across the breadth of the construction industry that its already highly-leveraged position is preventing banks from putting forward the loans that it requires.

It is therefore necessary to consider scheme specific challenges within this overall context i.e. without a fundamental shift in thinking around the viability of the construction industry for lending then the Government's emergency schemes are likely to fall short.

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Coronavirus Business Interruption Loan Scheme (CBILS)

CBILS was put in place to support businesses with an annual turnover of up to £45 million with loans or finance up to the value of £5 million.[4] Successful loan recipients are not liable for interest payments during the first 12 months and the Government has committed to underwrite 80% of loan values.

The success rate of applications across the construction industry has been low (see Table 1), with businesses reporting a range of challenges in accessing CBILS.

These include:

- The absence of a clear and consistent application process
- No standardisation in the approaches being taken by banks to measure business viability
- Applications stuck in long queues as the banks struggle with the large volume of applications
- Instances in which banks have defaulted to selling existing products and services

There are also other more systemic limitations that are being reported, particularly in relation to the requirement of businesses to provide cash flow forecasts for the months ahead in order to secure funding. Businesses have expressed concern in being able to do this accurately given that it is not yet known how long disruption to trading activities will last and what the landscape will look like when they do resume.

For some applicants a perceived lack of flexibility on the length of the payback period, following the initial 12 month interest free period, is considered a handicap to business agility and growth in the longer term. The point being that these were viable businesses prior to coronavirus and what they require is a temporary solution to ease immediate cash flow problems that are increasingly acute whilst they wait for cash, for example, from furlough payments to materialise.

The changes announced by the Chancellor on 3rd April[5] that prevent banks from requesting personal guarantees on loans under £250,000 has been welcomed and resulted in some applications being made that would have otherwise not.

Overall, there remains frustration among many businesses that access to CBILS is proving so difficult. In most cases these businesses have longstanding relationships with their banks and who hold a wealth of historic data and information that should enable them to draw conclusions on business viability.

COVID-19 Corporate Financing Facility (CCFF)

CCFF enables the Bank of England to buy some debts from large companies experiencing short-term funding squeezes.[6]

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[4] Department for Business, Energy and Industrial Strategy (2020) Apply for the Coronavirus Business Interruption Loan Scheme
[5] HM Treasury (2020) Chancellor strengthens support on offer for business as first government-backed loans reach firms in need
[6] Department for Business, Energy and Industrial Strategy (2020) Apply for the COVID-19 Corporate Financing Facility

CCFF is primarily aimed at organisations that are of investment grade. Notwithstanding the points made above around cash flow cycles in construction, the highly-leveraged position of businesses in the construction sector (coupled with stagnantly low profit margins) means that access to CCFF is largely unattainable.

Coronavirus Large Business Interruption Loan Scheme (CLBILS)

CLBILS was opened to applications on 20th April to provide loans of up to £25 million to businesses with annual turnovers of between £45 million and £500 million, with the Government underwriting 80% of bank lending.[7]

Prior to its opening a number of accessibility concerns were reported, which remain live. These are principally around whether or not CLBILS comes with an initial interest free period as per the smaller CBILS scheme and if there are setup fees payable. There has also been no clarity on the length of payback periods and what interest rates will look like.

A key issue to consider is that a number of businesses eligible in this category are reporting that short term cash flow continues to be manageable. Project lifecycles for these businesses are dictating that cash flow problems are likely to emerge in a few months' time even after construction sites have reopened; begging the question will support still be available then?

It was confirmed on 16th April[8] that the Government is extending eligibility for CLBILS to businesses with annual turnovers in excess of £500 million. Businesses that would qualify for support have welcomed this decision.

However, given how highly-leveraged many of these businesses already are, a key access concern is the extent to which positions on existing loans and future access to credit would be impacted by CLBLIS. Likewise, these businesses (typically Tier 1 contractors and large consultants) foresee challenges further down the line rather than immediately because of the nature of their cash flow cycles.

Improving the Covid-19 emergency loan and finance schemes for the construction industry

Construction businesses have described a number of options for overcoming accessibility challenges to CBILS and CLBLIS. All options would require rapid action from government, the banks and the construction businesses themselves. Businesses believe that the greatest impacts would be achieved if adjustments were made to government lending guarantees, alongside reforms to insolvency practices and if rolling credit facilities were introduced.

Although not desirable as a blanket measure, a Government commitment to underwrite 100% of the value of loans to businesses most in need of accessing them would serve to mitigate the exposure to risk for banks

[7] Department for Business, Energy and Industrial Strategy (2020) Apply for the Coronavirus Large Business Interruption Loan Scheme
[8] HM Treasury (2020) Chancellor expands loan scheme for large businesses

and improve their confidence in lending into the construction industry. Construction businesses believe that this should be based upon criteria measuring the criticality of works or projects that different applicants are engaged in. For example, businesses engaged in the continued safe and uninterrupted operation of core infrastructure networks such as the railways or energy and water supplies would expect priority treatment.

Some businesses with immediate cash flow challenges have described how specific adjustments to insolvency practices could ensure their survival. This would work by adding provision to CBILS and CLBLIS to lend to companies in or forced to enter into insolvency; initiating bankruptcy proceedings as part of a standard pre-planned capital restructuring from which businesses could exit from shortly thereafter. This process would take precedence over all other obligations that a company is exposed to.

In other circumstances whereby cash flow impacts are expected in the months ahead, businesses require reassurance that emergency loan schemes will remain accessible well into the future is urgently required. The introduction of a rolling facility (specifically for the CLBILS scheme) that can be drawn down during the period of economic recovery would also help these businesses to more effectively manage currently unknown cash flow challenges as they arise.

Other rapid steps that construction businesses believe should be taken:

- Introduction of flexibility to the length of payback periods, alongside clarification on interest rates and early repayment charges.
- Led by the banks, the simplification and standardisation of application processes to mitigate the reported confusion being experienced by applicants.
- Introduction of prioritisation criteria to ensure that the most urgent applications are fast-tracked. Criteria should be linked to the criticality of the works that applicants are engaged in.

Concluding takeaways

Businesses across the construction industry are facing different challenges in relation to the interruption of operations caused by coronavirus, with some immediate and others likely to be further down the line. It is integral that CBILS, CLBILS and other future emergency loan schemes recognise this so that different businesses can access support when they most need it.

It is equally important that the emergency loan schemes are positioned as a joined-up package that help support all parts of the construction industry from its large businesses, down to its SMEs. The consequences of failure at one point in the supply chain will have significant knock-on effects for other businesses, large and small.

Infrastructure and construction projects of all sizes will be integral to the UK's economic recovery from the coronavirus pandemic, but their delivery depends on there being a supply chain ready to go when lockdown restrictions are lifted. Without rapid adjustments to the Government's emergency loan schemes this will simply not happen.

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The views expressed in this paper

The views expressed in this paper follow interviews with a range of construction businesses, including large contractors and consultants, alongside the various sub-contracting organisations and suppliers that together comprise the construction supply chain.

Interviews focused on identifying the following:

- Obstacles for construction businesses in accessing the Covid-19 emergency loan schemes and how effective changes made to the schemes on 3rd April have been in improving accessibility
- Additional modifications that should be made to the schemes in order to overcome the most significant challenges facing construction businesses in gaining access
- Gaps in the market that may require new schemes or alternative forms of provision

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