

2 July 2020

1.0 INTRODUCTION

1.1. The coronavirus (COVID-19) pandemic has had an unprecedented impact on many firms in the construction supply chain. The industry has been, and continues to be, proactive in responding to these challenges but reduced productivity, and increased levels of risk and uncertainty, may have an impact on surety appetite and provision. As bonds are often a key contractual requirement, inability to access or secure bonds risks preventing projects from being awarded, starting as well as adding significant cost to construction projects.

1.2. Bonds are a type of surety that is frequently required by employers in construction projects. Bonds protect against contractual disruptions or financial loss due to a company's failure to complete a project or failure to meet contract obligations, they help mitigate losses incurred by the company's employer in the event of such a failure.

1.3. The Insurance and Surety Working Group for the Construction Leadership Council (CLC) COVID-19 Task Force has produced the following guidance to assist companies in preparing to access surety. This guidance aims to provide practical advice and considerations for discussions with brokers and providers when seeking bonds. It includes recommendations on the information that should be collected and presented.

1.4. In the first instance this guidance is to assist SMEs. However, it is anticipated that the principles and information requested will be useful for all in the supply chain.

1.5. This advice is specifically for accessing all bond types through the surety market. These include: performance bonds; advance payment bonds; retention bonds; and section bonds. Bonds are also available from banks. Therefore, it is recommended that professional advice is sought when deciding which bond to secure.

2.0 FINANCIAL INFORMATION FOR THE SURETY MARKET

2.1. It is recommended that companies keep in regular dialogue with their broker or provider, explore the whole market and that advice is sought at the earliest opportunity when looking to secure surety. Feedback from brokers and providers is that a strong and open relationship is especially important in times of uncertainty.

2.2. As more normal patterns of trading gradually resume there is a recognition that, in most cases, balance sheets will have weakened considerably. Supplying up-to-date information on the financial performance of businesses will therefore be of heightened importance over the coming months. It should be

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noted that detailed up-to-date management information will be of paramount importance especially where there are no recent statutory accounts available, for example where a company has applied for an extension to their filing deadline, caused by the coronavirus (COVID-19) pandemic.

2.3. It is recommended that a company's coronavirus (COVID-19) information pack should include the following items:

- Bond application form – signed
- Proposed bond wording
- Latest statutory accounts
- Latest management accounts
- Dividend plan – are dividends being reduced or suspended?
- 12 to 36 month cash flow forecast (depending on provider requirements)
- Secured order book
- Workload schedule (template included in Appendix 1)
- Aged debtors and creditor report
- Bank information form
- Confirmation of no bad debt, problem contracts and/or ongoing legal disputes. Where exist, details should be provided.
- Coronavirus (COVID-19) statement.

3.0 PREPARING A CORONAVIRUS (COVID-19) STATEMENT

3.1. In order to prepare the company's coronavirus (COVID-19) statement, the following information should be collected and answered as it will likely be expected of the company when liaising with the broker or provider:

A. General

- What mitigating actions and processes is the company/group developing or implementing due to coronavirus (COVID-19) to ensure that they continue to operate as effectively as possible as a business?
- Are any employees or subcontractors of the company/group self-isolating due to the virus and if so, how many?

B. Site Operation Performance

- Have any of the company's/group's current sites been closed and is the company/group continuing to work on a fully functioning basis on all their projects? If not, how many sites have been closed or are only partly operational?
- Is the company/group able to obtain construction supplies to ensure continuity of work?
- Are all subcontractors continuing to work on existing sites? If not, what is the expected impact on progress of existing contracts?

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- Are all employers continuing to pay the company/group promptly in line with contracted terms?
- Have any employers issued pay less notices or attempted to significantly reduce interim valuations for example?
- Has the company/group issued extension of time notices due to coronavirus (COVID-19) and if so, what is the relevant event under the contract? Do any such events carry an entitlement for a claim for loss and expense (prolongation)?

C. Liquidity

Please note that it will be expected that the company/group has undertaken cash flow forecast modelling on the basis the virus will have inevitably affected production on site, and the company/group should provide the best, most likely and worst case forecast scenarios.

- What actions have been taken/are continuing by the company/group, if required, to preserve liquidity and reduce cash outflows in the coming months and have any of these already been initiated?
- Has the company/group applied for any government aid or loans at the present time and if so, what is the amount they are seeking or potentially available and is the outcome of the application known?
- What available liquidity does the company/group currently have including cash balances and committed bank/lending facilities? Has any been preemptively withdrawn, to ensure access to funds? If so, where is it being held?
- What alternative liquidity sources (if any) can the company/group draw upon if necessary? Has the company/group engaged in any discussions with their lenders (banks) and shareholders regarding additional financial support and if so, what was the outcome?
- Considering potential bad debt, what steps have been taken in protecting the company's position concerning client base involved in the retail, leisure and commercial office sectors.

4.0 CONCLUSION

4.1. It is hoped that this guidance provides support to construction businesses during these challenging times - encouraging early and collaborative dialogue with surety brokers and providers, and providing practical advice to companies in the preparation of financial and management information for those discussions.

4.2. This document provides general guidance. It does not guarantee access to surety nor does it constitute legal advice. If in doubt, professional and/or legal

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advice should be sought.

4.3. The Insurance and Surety Working Group for the CLC COVID-19 Task Force continues to monitor the situation. It is recognised that the situation is continually evolving, and as such, this guidance will be revised if necessary.

4.4. If your company is facing difficulties or issues in accessing or securing bonds, you may wish to report these to your trade association so that they can be raised with the Working Group. Alternatively, you can make a report to the group using the email below. The Group will not be able to help individual companies secure bonding but the information will help to build up intelligence regarding any difficulties that may be faced.

4.5. If you have any comments or feedback, please email:
construction.enquiries@beis.gov.uk

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APPENDIX 1 - TEMPLATE WORK IN PROGRESS SCHEDULE (including work completed)

Name of business: _____

Date: _____

Please give details of uncompleted contracts (whether bonded or not).

Contract Name and Employer	Date Commenced	Original Contract Completion Date	Anticipated Completion Date	Original Contract Price ,000's	Amount Certified ,000's	Tendered Margin	Current Margin	Current Contract Value ,000's	Estimated Final Account ,000's	Fixed Price Yes/No