CONSTRUCTION CASH CRUNCH LOOMS WHEN MORATORIUM ENDS

Up to 10% at risk of failure warns sector restructuring specialist

Scotland's construction sector could see a high risk of business closures with the expiry of temporary measures introduced under CIGA (Corporate Insolvency and Governance Act 2020) and the removal of financial support schemes such as Furlough, both due to end on 30th September, a leading construction sector restructuring specialist is warning.

CIGA introduced a number of temporary measures to provide protection for businesses impacted by the pandemic and for directors running companies have become insolvent. Those temporary measures, including restrictions on winding-up processes and the suspension of wrongful trading rules have likely prevented a significant number of business failures.

Additional measures, such as the Furlough scheme and government-backed loans and grants were also introduced to sustain employment levels and provide businesses with vital cash flow and the time to adapt to the pandemic.

Blair Milne, Head of Restructuring at Azets in Scotland and a specialist on the construction sector is warning that the end of the temporary measures introduced by CIGA and the withdrawal of financial support schemes, together with the introduction of new VAT and IR35 taxation rules will cause serious problems for the construction sector. Sub-contractors are expected to be disproportionately affected with many businesses and sub-contractors unable to continue trading.

There are around 21,000 construction businesses in Scotland employing 143,000 with a GVA (gross value added) of £7.8bn.*

Explaining the new VAT and IR35 rules, Blair Milne said: "The VAT reverse charge system introduced on 1st March this year means that VAT must now be paid directly to HMRC by the main contractors rather than be passed down the supply chain to sub-contractors. Many sub-contractors will have previously used VAT to assist with their cash flow prior to their quarterly VAT return. This cash flow benefit is now being removed in its entirety and many small businesses or contractors will not have the reserves to continue trading.

"Cash flow pressure will be further impacted for many following the new IR35 legislation which will require more contractors to pay tax and NIC directly from their pay. The end of the moratorium and withdrawal of the Furlough scheme will almost certainly result in main contractors refocusing their cash flow priorities, potentially to the detriment of sub-contractors and those impacted most by the recent VAT and IR35 changes.

"Unfortunately, the outlook for the construction sector and sub-contractors in particular is very uncertain, and we are likely to see a significant number of smaller businesses close and sub-contractors leaving the industry. Wider issues such as raw material and labour supply shortages, rising costs, reduced margins and ongoing trading uncertainties arising from the pandemic are well documented and simply add to the scale of the pending problem. Regrettably, we could see around 10% of construction businesses and sub-contractors either failing or closing voluntarily by the end of 2022."

Blair Milne concluded by urging concerned business owners to act sooner rather than later: "Directors and owners concerned about these changes should review their trading and cash flow forecasts as a priority and maintain a regular dialogue with their banks and funders. Careful and early planning could help many businesses lessen the impact of these issues and from the cash flow pressures arising from the withdrawal of support measures at the end of September."

Ends   Date: 12.7.7.21

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***Data on Scottish construction sector**
https://www.scottish-enterprise.com/learning-zone/research-and-publications/components-folder/research-and-publications-listings/scotlands-construction-facts