

Newman & Partners

Licensed Insolvency Practitioners

RECOVERY & REVIVAL BULLETIN

Welcome to the latest issue of our Recovery and Revival Bulletin, designed to keep you up-to-date on insolvency matters that may be of interest to you. If you have any feedback on this bulletin, or would like to know more about our services or how we can help you, please contact us on **020 8357 2727** or at insolvency@newmanandpartners.co.uk

Commercial rent collection problems hit record highs in face of economic challenges

The recent dip in rent collection by UK commercial landlords may signal potential risks for investors in the sector, according to data from Remit Consulting. The new research shows that at the beginning of this year, landlords collected only 63 per cent of the rent due to them by the late March deadline for Q2. Remit Consulting said that this is the first significant drop in rent collection since the onset of the pandemic.

Rent collection has remained relatively stable in the last year, with collection rates ranging between 67 and 69 per cent over the last three quarters. However, the latest dip may threaten the sector's recovery, just as commercial property faces falling valuations due to rising interest rates and growing lender caution due to the recent banking turmoil.



Historically, around 97 per cent of rent would be paid on the quarter due date, according to Lawrence Hutchings, CEO of shopping centre landlord Capital & Regional speaking in the Financial Times (FT). He said that despite rent collection for his company's portfolio returning to pre-Covid levels, there are concerns that the weakening trend may reduce cash flow for investors. This would leave them less able to cover rising debt costs and further threaten property values.

Elijah Lewis, a research consultant at Remit Consulting, shared these concerns with the FT, stating that rent collection levels had been gradually increasing each quarter since December 2020. Rent collection previously bottomed out at 38 per cent in June 2020 due to widespread lockdowns and has not fully recovered since.

Tenants taking longer to pay and extending beyond quarterly deadlines is a key driver in this trend. Retailers have experienced the most significant drop in March payments, falling from 71 per cent in December to 62 per cent in March. These businesses are carefully monitoring and managing their cash flow as they deal with rising costs for products, transportation, energy, and staff, as well as falling consumer demand.

As an accountant, it is crucial to monitor these trends and consider their potential impact on the commercial property sector and investors, as well as on the value of any assets held by businesses.

The weakening rent collection could pose significant risks, and it is essential to remain vigilant and proactive in addressing these concerns. If you are aware of any investors or businesses struggling as a result of this issue, please **contact us**.

UK growth stalls and nation falls in G20 ranking – despite claims of future growth, should businesses be worried?

The International Monetary Fund (IMF) recently reported that the UK is expected to be one of the worst-performing major economies in 2023 among the G20 nations – with growth slower than sanctions-hit Russia. It is essential to remain informed about these economic forecasts and their potential implications for their clients so that you can help clients navigate these challenging times.

The IMF previously forecasted that the UK would experience a downturn in 2023 and rank at the bottom of the G7 group of advanced economies. Despite the UK topping the group in 2022 during the pandemic rebound, the IMF now predicts a 0.3 per cent contraction in the UK economy this year, followed in 2024 by just one per cent growth. This updated forecast, however, is an improvement from the previous prediction of a 0.6 per cent contraction made in January.

Several factors have contributed to the UK's sluggish economic performance. The latest data from the Office of National Statistics (ONS) shows that a stagnant GDP growth rate of 0 per cent in February, was primarily the result of industrial strikes affecting productivity, and inflationary pressures. While the UK is likely to avoid a recession, the economic outlook remains uncertain.

Inflation and interest rates

Inflation continues to be an issue within many aspects of the economy. In March, the annual growth in food and non-alcoholic beverage prices unexpectedly jumped to its highest level since 1977, which resulted in inflation remaining above 10 per cent. This is despite previous forecasts that inflation would fall. Nevertheless, it is expected that inflation will still decrease by half by the end of the year due to the drop in wholesale gas prices. In fact, the Bank of England's policymakers anticipate that inflation will fall below the two per cent target next year.

Despite the downward trajectory of inflation, a poll of City economists has predicted a 97 per cent chance that the Bank of England's Monetary Policy Committee (MPC) will increase interest rates one more time in May.

Sector performance

According to ONS, there has been significant variation in sector performance, with the services sector delivering weaker performance and the production sector struggling with industrial action. In contrast,

the construction sector has seen 2.4 per cent growth. The retail sector, excluding motor vehicles and motorcycles, has also performed well in the last few months.

Supporting clients

The following steps can be taken to help prevent clients from becoming insolvent:

- **Cash flow management:** Encourage clients to focus on cash flow management, ensuring they have sufficient reserves to weather economic fluctuations.
- **Diversification:** Clients should consider diversifying their revenue streams, customer base, and investments to mitigate the risks associated with a struggling economy.
- **Cost reduction:** Identify opportunities for clients to reduce costs and improve operational efficiency.
- **Debt management:** Work with clients to assess their debt levels and develop strategies for repayment or refinancing.
- **Contingency planning:** Help clients develop contingency plans to deal with potential economic challenges, such as rising interest rates or inflation.

Although the UK's economic outlook is uncertain, accountants can play a crucial role in helping their clients navigate these challenges by staying informed about economic trends and offering proactive advice. By focusing on cash flow management, diversification, cost reduction, debt management, and contingency planning, you can help clients build resilience and successfully adapt to changing economic conditions. If you or any of your clients require assistance with business insolvency or restructuring advice, please speak to our team.



Tax debt - managing the risks

Tax debts often play a significant role in the collapse of many businesses. Unexpected tax bills, building interest and HM Revenue & Customs (HMRC) investigations can be extremely stressful for business owners. In recent months, the impact of tax debts has been amplified by the increasing HMRC interest rate, which rises in line with the Bank of England's base rate.

As professionals, we must help businesses navigate the dangers of tax debts and implement effective strategies to manage them. That is why it is important to recognise the risks associated with tax debts and provide actionable tips on how to manage them to prevent business failure.

The dangers of tax debts

There is a wide range of immediate dangers from tax debts that businesses cannot afford to ignore. On their own, they may not be the sole cause of business failure, but combined they can have a crippling impact on businesses and their owners. Some of the main dangers of tax debts include, but aren't limited to:

- **Interest and penalties:** When a business fails to pay its taxes on time, the tax authorities impose interest and penalties on the outstanding amounts. These additional charges can quickly compound and lead to an unsustainable debt burden for the business.
- **Cash flow disruptions:** The need to pay off tax debts can disrupt the cash flow of a business, making it difficult for them to invest in growth opportunities or cover their day-to-day expenses.
- **Reputational damage:** Tax debts can tarnish the reputation of a business, leading to a loss of customers, suppliers, and potential investors. This can have a long-lasting, negative impact on the business's growth prospects.

As an accountant, you will be more than aware of the dangers and the steps that can be taken to minimise them for your clients, but it doesn't hurt to revisit some of the main aspects of preventing and managing tax debts, which include:

- **Accurate record keeping:** Maintaining accurate financial records is the first step towards managing tax debts. Ensure that all transactions are correctly recorded and categorized to facilitate the preparation of accurate tax returns.
- **Regular tax planning:** Encourage your clients to engage in regular tax planning to identify potential tax liabilities and implement strategies to minimize them. This includes taking advantage of available tax deductions, credits, and incentives.
- **Timely tax payments:** Advise businesses to prioritize paying their taxes on time to avoid interest and penalties. This can be achieved by setting up payment reminders or using payment scheduling services offered by tax authorities.

- **Negotiating payment plans:** If a business is struggling to pay its tax debts, it can negotiate a payment plan with the tax authorities. This can help spread the debt over a longer period, making it more manageable for the business.
- **Proactive communication:** Encourage businesses to maintain open and transparent communication with you. This can help them stay informed about any changes in tax laws, deadlines, or payment options that may impact their tax liabilities.

If a business is unable to manage its tax debts, it should consider seeking the assistance of specialist tax advisers. These professionals can help negotiate tax settlements or other solutions to help the business get back on track.

You play a crucial role in helping businesses manage their tax debts and avoid the pitfalls that can lead to insolvency. By implementing the strategies mentioned above, we can support businesses in maintaining their financial health and ensure their long-term success. Remember, prevention is always better than cure. Together, let's work towards a more financially stable future for our clients.



CAREFUL CONSIDERATION IS NEEDED BEFORE TAKING OUT ANY FORM OF FINANCE AND SPECIALIST ADVICE SHOULD BE SOUGHT. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT US.

Newman & Partners Insolvency
Lynwood House
373/375 Station Road
Harrow
Middlesex HA1 2AW

T: 020 8357 2727
F: 020 8357 2027

E: insolvency@newmanandpartners.co.uk
W: www.newmanandpartners.co.uk

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