DECEMBER 2013

Newman & Partners

Licensed Insolvency Practitioners

FOCUS ON INSOLVENCY BULLETIN

Welcome to the latest issue of our Focus on Insolvency 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**

Interest rate rise could tip firms into insolvency

News out in November confirmed that the rate of unemployment fell closer to the Bank of England's target of 7 per cent, which could lead it to consider raising interest rates within the next 18 months. Some fear that this may tip struggling businesses into insolvency. Firms that are currently clinging on for dear life - commonly referred to as zombie companies - are likely to come to the end of the road since historically, once economic growth takes hold and interest rates start to rise, zombie companies find they cannot continue.

Firms like this usually hit trouble as soon as they take on orders and are unable to get working capital, but there are real fears that the banks may be more inclined to pull the plug on such debtors, possibly because bank balance sheets would be strong enough to crystallise losses and also because there could be more buyers for assets. However, others believe that with an improving economy there could be a clear out by the banks as some have recently developed a culture of forbearance and assistance.

In addition, R3, the Association of Business Recovery Professionals, suggests that there may well be fewer zombies in existence now and calculated that the number of such firms fell from 160,000 last November to 102,000 in August, adding up to only 6 per cent of businesses with a turnover of at least £50,000. However, using a wider definition of corporate distress, some analysts believe that the number of zombies could be as high as 432,000 and that this number could lead to insolvencies rising over the next two years. Meanwhile, the Institute for Turnaround, said that up to two-thirds of the zombies in existence could be made viable, and that half of them could even contribute to economic growth.

Newman & Partners Insolvency provide a range of expert guidance for your clients and their businesses, including tailored solutions to help them when trouble strikes. For more information, please contact us.

SMEs faring better with insolvency

Recent figures have revealed that insolvency numbers remained stable for the 12 months up to the end of August, with smaller firms faring better than larger ones. In comparing insolvency rates by company size, it appears that the biggest falls were among firms with 51-100 employees, down from 0.19 per cent to 0.14 per cent, whereas the insolvency rate amongst businesses with more than 501 employees rose again in August from 0.06 per cent in 2012 to 0.17 per cent.

Unfortunately, other research has revealed that the number of so-called 'zombie' companies in the UK is at a four-year high, with a huge one in seven businesses only just managing to stay solvent. This means that around 432,082 firms are only just generating enough income to pay the interest on their debts and keep creditors at bay, this is a 16 per cent rise in three years.

According to the research, professional services, real estate and property services and the support services sectors have the highest proportion of 'zombies', with 78,415 of them in 2013. South East, London and the Midlands were the worst affected areas across the four sectors. Researchers found that there was clear evidence that these firms were prohibiting the growth of healthy businesses and having a negative impact on the UK economy.

The study makes it clear that the sectors highlighted in the research are people and/or service-based businesses, which have far less in the way of tangible assets to fall back on if a reduction in trading occurs, as their net assets or liabilities tend to be driven by activity and turnover levels and chargeable time. Interestingly though, they are also the businesses that might find it easier to adjust to an increased demand for their services as the existing workforce is likely to be more flexible.

At Newman & Partners Insolvency, our insolvency and recovery specialists can provide expert advice on all effective routes for businesses in danger of becoming insolvent. They can also offer alternative solutions where the main aim is to preserve value and safeguard jobs. For more information, please contact us.

Accusations towards ministers of dropping review into insolvency laws

Ministers have recently been accused of "quietly dropping" an extensive review of the insolvency laws covering high-street retailers by the shadow business secretary Chuka Umunna. Mr Umunna demanded an update on progress made, given the collapse of both Blockbuster and Barratts in November along with promises made last December by the Business Secretary Vince Cable.

Ministers were also asked when a report on the circumstances surrounding the demise of electrical retailer Comet would be completed, since no action has yet been taken a year after Mr Cable promised to review the way insolvency works after having seen how the well-known brand fell. Now in liquidation, the Comet brand is still held by administrators and, at the time, nearly 6,000 staff lost their jobs despite the chain's owner, OpCapita recouping almost £117m and retaining its lucrative warranties business. A spokesperson for the Department of Business, Innovation & Skills (BIS) said in response that the Insolvency Service was leading the investigation into Comet and that it was still "proceeding".

Some critics of the insolvency laws have demanded a review of legislation allowing "pre-packs", where owners arrange a deal to jettison under-performing stores into administration, and then buy the better ones back, free of debt.

A new report by the Adam Smith Institute has claimed that economy may be being held back by up to 108,000 zombie companies which are only still going because of the ongoing low interest rates. The report says these companies threaten to cause a "lost decade" of economic stagnation. Meanwhile, the latest research from Experian has shown that around a quarter of small and medium-sized businesses (SMEs) have used personal finance funding, such as re-mortgaging, to shore up their businesses, which has left many at risk of bankruptcy.

It is always recommended that businesses or individuals who may be at risk of insolvency seek professional advice to help them find a workable solution to the difficulties they may be experiencing. For more information, 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

Newman & Partners
Licensed Insolvency Practitioners