February 2021

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**

Struggling with credit control? – Steps you can take now

Many businesses are struggling with credit control at the moment, especially as a result of the pressures on customers' cash flow due to COVID-19. Failing to get invoices paid on time can have a significant impact on a business's own cash flow, which could ultimately lead to a company's failure.

Late-paying customers are nothing new, which is why businesses have the option to seek repayment via the county courts. However, a significant backlog of claims at county courts have put over 600,000 UK companies at risk, according to a recent study. On top of this, more than 60 per cent of small businesses have unpaid invoices that are at least 60 days old, which indicates the scale of this issue. Businesses should take action now to strengthen their credit control processes. To help we suggest you take the following steps:

Create or review existing credit control procedures

Businesses need a clear and coordinated procedure for credit control – no exceptions! It should establish a realistic timetable, including all the stages that need to be completed by various team members within your business and outline credit terms that should be based on the needs of the business.

Once these elements are in place, a business can then prepare a process for chasing payments, including a schedule for sending reminders, including an initial notice of prompt payment, followed by letters, emails and phone calls. This process should also establish when it might be necessary to pass a debt over to a reliable, commercial debt collection agency. Having a record of this process ensures that all the parties to a sale are aware of the terms and conditions.

Research new clients

A small amount of due-diligence beforehand can help to streamline the credit control process. Undertaking a simple credit report on a new customer can help to reveal if they have had any issues making payments previously and identify which businesses pose the greatest risk to cash flow.

Credit checks can be conducted quickly and cost-effectively online. Undertaking these checks is no guarantee of payment, of course, but it allows a business to make informed decisions about the terms and conditions associated with each transaction.

It is worth creating a watch list of potential late payers who can be carefully monitored so that action can be taken to prevent late payment.

Be quick, be accurate

It isn't just the responsibility of customers to ensure payments aren't late. Ensuring your invoicing procedures are effective can make a massive difference. It is recommended that businesses:

- Send invoices as soon as orders are fulfilled
- Email or send invoices electronically rather than sending by post
- Ensure that the invoice is addressed to the right person
- Make sure that there are no mistakes in the invoices
- Confirm that the invoice has been received.

Acting early prevents delay and helps to build a rapport with your customer.

Cut late payers

While businesses usually try to retain work from the same client, in some cases, it may be necessary to cut ties with customers that regularly pay late or do not pay at all. This may be indicative of issues within their own company, which could leave a supplier overly exposed to debts should the struggling business fail.

If the regular late payment of invoices and debts is significantly affecting your cash flow then it may be time to end the relationship or contract. In some cases, this can incentivise the customer to improve their payment processes if they fear that the loss of your services may affect their ability to trade.

If your, or a client's, business is really struggling with credit control, then it may make more sense and be more cost-effective to seek professional support.

TO FIND OUT HOW WE CAN HELP BUSINESSES MANAGE THEIR CREDIT AND DEBTS, PLEASE SPEAK TO US.

Commercial landlords call on banks to shoulder the burden of restrictions and closures

With more than £4 billion of rent arrears built up since the COVID-19 pandemic began, landlords are looking to lenders to help share some of the costs. It is estimated that around one-fifth of commercial rent is behind at the moment and already regulators are urging banks to avoid taking too hard a line on recovering debts.

The Coronavirus Act passed in March 2020 imposed a tough three-month moratorium on commercial landlords' ability to evict non-paying tenants. This has been repeatedly extended throughout the pandemic and does not look likely to end now until March this year. This has prevented property owners from removing tenants and bringing in new businesses.

As landlords wait, once again, for shops, restaurants and businesses to re-open they are left wondering when their next rental payment may come and how they can manage mounting debts on the properties they mortgage and maintain.

Already, the retail sector has indicated that it shouldn't be blamed entirely for the mountain of debt that has been amassed. The calls from retailers are backed up by pleas from the Property Owners Forum – an organisation that represents about 200 UK landlords. It has written to several Government agencies requesting lenders' forbearance. They believe that landlords should be given holidays on interest and capital repayments for loans secured against properties where rent hasn't been paid due to the emergency rules. As well as waiting for businesses in hibernation to reopen, landlords have also had to contend with more than 5,000 stores closing in the UK during the last year as major retailers, including the Arcadia Group and Debenhams collapsed.

In response to the difficulties faced by businesses and their landlords the Bank of England has already asked lenders to "consider carefully their responses to potential breaches of covenants arising directly from the COVID-19 pandemic and its consequences." Despite these calls for restraint, lenders already appear to be increasing the pressure on some landlord borrowers. As an example, the owners of the Devonshire Square complex in the City of London were forced to inject cash in December to cure a breach of the terms of their mortgage bonds after a private members club on the estate filed for bankruptcy and the main tenant WeWork Co. curtailed its expansion plans, according to filings to bondholders.

Landlords and their lenders must now wait to see what happens in the weeks ahead as the Government outlines its 'road map to re-opening the economy', which it promises to do some point on or around 22 February. This will shortly be followed by the Budget on 3 March 2021, which may offer additional support to businesses.

IF YOU ARE AWARE OF A COMMERCIAL LANDLORD THAT IS STRUGGLING WITH DEBTS DUE TO RENT ARREARS OR FACES THE PROSPECT OF INSOLVENCY, PLEASE CONTACT US.

Winding up: The advantages of Business Asset Disposal Relief

Recently released research from the Federation of Small Businesses (FSB) has indicated that as many as 250,000 small businesses could fail within the next 12 months. Although many businesses continue to trade with the help of the Government's COVID-19 financial measures, fears are growing that when the furlough scheme, grants and loans are withdrawn later this year, many businesses will collapse.

There is already growing evidence to suggest that many businesses are teetering on the edge or have become completely reliant on Government funding. This is particularly prevalent in the most hard-hit sectors such as tourism, leisure and hospitality, which have borne the brunt of the pandemic restrictions and who are likely to continue to suffer as the economy slowly re-opens later this year.

Faced with a tough decision of whether to continue on or shut up shop, some directors and shareholders may decide that it is time to wind up their business and dispose of their shares. With the Chancellor's next Budget just on the horizon on 3 March 2021, and rumours of changes to the tax system, now may be the time for businesses and shareholders to take advantage of Business Asset Disposal Relief (BADR).

This relief, previously referred to as Entrepreneurs' Relief, allows shareholders to draw funds out of their business as capital via the disposal of their shares. While such a disposal would normally create a Capital Gains Tax charge at a rate of 20 per cent, thanks to BADR this is reduced to just 10 per cent (if certain conditions are met). This relief is available for individuals up to a lifetime amount of £1 million. However, to benefit from this the company must have ceased trading in the last three years, the shareholder must hold more than a five per cent stake for at least two years or been a director of the company for at least two years.

To achieve this tax-efficient withdrawal of company funds, the business would need to be placed into a members' voluntary liquidation (MVL) so that the distributions made after liquidation are treated as capital and not income. This would require the company to be wound up.

IF YOU ARE AWARE OF A BUSINESS OWNER THAT NEEDS ASSISTANCE WITH WINDING UP THEIR BUSINESS USING AN MVL OR OF ANY COMPANIES FACING INSOLVENCY, PLEASE CONTACT US TO SEE HOW OUR EXPERIENCED TEAM CAN HELP.

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