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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**

UK experiencing a late payment crisis

New research from the Federation of Small Businesses (FSB) shows that more than 440,000 small businesses could fail as a result of a late payment crisis. The national organisation has called for the Government to step in and take urgent action to improve how companies are paid.

According to the FSB study, 30 per cent of small businesses have seen the late payment of invoices increase over the last three months, of which almost eight per cent said that the problem was so bad that it might force them to close. This crisis is nothing new, and for years SMEs have struggled with delinquent payments, especially from bigger companies.

While smaller companies wait to get paid, they must continue to pay their suppliers, bills and staff wages. The effect of persistent past due payment problems is that it has a ripple effect throughout the wider economy forcing other companies to close their doors as well.

The FSB estimates that more than 400,000 small firms have shut during the pandemic, with late payments being a key factor in the failure of many companies. However, it predicts that as many SMEs again may be forced to shut up business in the next few months due to late payments alone.

FSB National Chair, Mike Cherry, said: “Late payment was destroying thousands of small businesses even before the pandemic hit – the pandemic has made matters worse. In the past, the Government has rightly identified greater board accountability as key to spurring change in this area, but delivery has been slow.”

Unfortunately, overdue payments are not the only challenges small businesses face, Mr Cherry said, as they get to grips with input cost inflation, higher energy bills and new customs checks on imports from the EU. Further rules on compliance and increasing wages are also having a significant impact on the success and survival of many firms.

“Today, it is a fresh wave of admin for importers and exporters – in three months, it will be a hike to the jobs tax, which is National Insurance contributions, a rise in dividend taxation, business rates bills and an increase in the National Living Wage. On top of that, operating costs are surging – many will soon be trying to strike energy deals without the clout of big corporates, or the protections afforded to consumers,” he added.

The FSB wants to see every business and Government agency abide by the existing prompt payment code. They argue that 30-day payment terms should be “the norm for those who are committed to environmental, social and governance best practice”. However, it has gone further saying that every big UK corporation should have a dedicated director that is focused on improving payments to small businesses.

Alongside its findings on late payments, the FSB survey of 1,200 small businesses also found that many companies expect their performance to worsen during the next three months, more so than expect any improvement. These concerns are particularly keen in the retail, accommodation and food industries, which have been hit hardest by the pandemic.

In response to the FSB’s finding and call for action, a Government spokesperson said: “The Government is making significant reforms to help small businesses get paid on time, including halving the payment period in the prompt payment code and consulting on fines and other new powers for the Small Business Commissioner. There is plenty of support available to ensure small businesses are well-positioned to comply with UK border processes, including one-to-one advice through the Export Support Service.”

IF YOU OR SOMEONE YOU KNOW IS PLAGUED BY LATE PAYMENT ISSUES OR ARE FINDING CURRENT TRADING CONDITIONS PARTICULARLY CHALLENGING IT IS IMPORTANT TO SEEK HELP. OUR INSOLVENCY AND BUSINESS TURNAROUND SPECIALISTS CAN HELP YOU GET BACK ON TRACK SO PLEASE GET IN TOUCH.

Lending to companies is falling, but debt is still persistent

It is predicted that lending to companies will fall this year, in part because some businesses have begun repaying the debt that they amassed during the pandemic. Businesses, both large and small, were reliant on finance and credit throughout the Coronavirus crisis, with many taking out loans via the Bounce Back and Coronavirus Business Interruption Loan schemes, which were Government-backed.

These offered businesses 12 months free of payments and interest, but this period has now come to an end for all borrowers. Many businesses are now, therefore, beginning to repay their debts.

According to the latest EY Item Club research, net bank lending to businesses is expected to fall by 0.3 per cent to about £478 billion in the months to come, after a stronger than expected economic recovery from the Coronavirus crisis. In fact, the latest data from the Office for National Statistics (ONS) shows that gross domestic product (GDP) expanded by 0.9 per cent between October and November. This was higher than many predictions and means that the economy was 0.7 per cent larger than in February 2020, before the pandemic.

The forecasted fall in lending comes after 12 months where lending increased. Last year banks saw an eight per cent leap in borrowing. This amounted to a net increase of £35.5 billion, as companies borrowed to bolster their finances.

Anna Anthony, a Managing Partner at EY, described the decision by companies to prioritise debt reduction this year as “a double-edged sword.” She said: “While the debt burden for many has been reduced, the focus on loan repayment over investment will have a long-term impact on growth, and for the banks facilitating lines of credit, the fall in borrowing activity – combined with the low-interest-rate environment – will have squeezed margins.”

In comparison personal lending has remained low during the last two years as individuals were able to save instead of borrowing and spending. Those people who were not furloughed or did not lose their employment have repaid significant amounts of pre-pandemic debt. In fact, net lending through personal loans and credit cards fell 9.8 per cent as a result in 2020. This year’s EY Item Club is forecasting a further 0.7 per cent dip to £201 billion.

ALTHOUGH IT IS A POSITIVE SIGN TO SEE DEBT BEING REDUCED THERE ARE STILL LIKELY TO BE MANY BUSINESSES OUT THERE STRUGGLING WITH THEIR FINANCES. IF YOU OR A CLIENT NEEDS DEBT ADVICE OR ASSISTANCE WITH INSOLVENCY, PLEASE SPEAK TO US.

Insolvency Service crackdown on ‘unfit’ directors

The Insolvency Service has been given new powers to investigate, disqualify and potentially prosecute company directors who abuse the company dissolution process. The Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act will also help tackle directors dissolving companies to avoid repaying Government-backed loans taken out during the Coronavirus pandemic.

Under the terms of the Act, the Insolvency Service, on behalf of the Business Secretary, will be able to investigate and tackle ‘unfit’ directors who place their firm in administration to avoid paying subcontractors and suppliers. If misconduct is found, directors can face sanctions, including being disqualified as a company director for up to 15 years or, in the most serious of cases, prosecution.

The Business Secretary will also be able to apply to the court for an order to require a disqualified director of a fraudulently dissolved company to pay compensation to creditors who have lost out due to their actions.

Business Secretary Kwasi Kwarteng said: “We want the UK to be the best place in the world to do business and we have provided unprecedented support to businesses to help them through the pandemic. These new powers will curb those rogue directors who seek to avoid paying back their debts, including government loans provided to support businesses and save jobs. The Government is committed to tackling those who seek to leave the British taxpayer out of pocket by abusing the COVID financial support that has been so vital to businesses.”

In addition, the Insolvency Service will be able to investigate live companies where there is evidence of wrongdoing, such as misuse of COVID support. This new legislation is, therefore, potentially far-reaching, preventing rogue directors from simply dissolving insolvent companies without putting them through a formal insolvency process, thereby cheating creditors, including the Government. The proposals are, however, limited in effect since they effectively require an aggrieved creditor to initiate action which due to limited resources, the Insolvency Service may decline.

The Act also supports the Government commitment to rule out COVID-19-related changes as grounds for a material change of circumstances (MCC) business rate appeals. This is because market-wide economic changes to property values can only be carefully considered at general rates revaluations. Nevertheless, to support businesses in need the Government is providing £1.5 billion in business rates relief to sectors that have suffered the most economically over the pandemic and have not been eligible for existing support linked to business rates.

IF YOU OR A CLIENT ARE CONCERNED ABOUT HOW THESE NEW RULES COULD IMPACT A FUTURE INSOLVENCY PROCESS, WE ARE HERE TO HELP. OUR TEAM AT NEWMAN AND PARTNERS CAN ENSURE THAT ANY FUTURE ACTION MEETS THE REQUIREMENT OF THESE NEW REGULATIONS.

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