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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 business distress at record low

Only a quarter of UK businesses show key indicators for distress, according to the latest Business Distress Index from insolvency trade body R3 – a record low for British businesses.

The report also looked into the individual indicators of a distressed company and found that 10% of businesses are experiencing decreased profits, 11% are experiencing falling sales volumes, 6% are seeing market share fall, 8% are regularly using their maximum overdraft, and 6% are making redundancies.

Phillip Sykes, President of R3, said: “Having stayed constant throughout 2014, UK business distress levels have fallen once more. Many companies will feel they have successfully negotiated the trickier parts of the rapid economic growth we saw last year. As growth slows, businesses are less at risk of over-extending themselves. The flip side of this is that signs of growth may start to become rarer as business growth hits a plateau.”

However, the research also showed that the share of businesses experiencing at least one sign of growth increased (68%), but also showed that the share of businesses reporting individual signs of growth was dropping. For example, the proportion of businesses investing in new equipment fell from 42% in October 2013 to 27% in April 2015.

“While the level of growth has returned to its peak, the pace of growth is weakening slightly. A higher number of businesses are seeing at least one indicator of growth but fewer are experiencing multiple growth signals,” added R3’s President, Philip Sykes.

The index also showed that sole traders were recording the most significant drop in signs of distress, with only 20% of sole traders reporting one or more signs of distress, compared to 50% in November 2014. Business confidence was also strong with just 4% of businesses expecting their activity to decrease in 2016, while 47% expect it to increase and 48% think it will stay the same.

Phillip said: “Although the largest businesses continue to experience the fewest signs of distress, it is encouraging to see difficulties for smaller businesses easing. It’s been a particularly difficult few years for many sole traders and they’re only now beginning to see recovery.”

“Looking ahead, businesses face a mixed picture. Although the likely date of an interest rate rise continues to be moved further into the future, a rise will come eventually. The Bank of England’s growth outlook remains solid but has been downgraded. And a referendum on British membership of the EU could cause uncertainty for business.”

This news is very good for Britain’s businesses, but there are still a large number of companies out there that are experiencing distress. If any of your clients are struggling with the indicators highlighted in this article, such as decreased profits, redundancies or a decline in their number of sales, please contact us.

Think tank warns household debt at record levels

A new report by the Centre for Social Justice (CSJ) has revealed that the amount of household debt held in the UK has soared to record levels. In their latest report, the CSJ revealed that household debt has risen by more than £34 billion in less than three years and is currently £1.47 trillion.

The report, based upon research commissioned by JPMorgan Chase Foundation, discovered that some 8.8 million people in the UK (approximately 13.5% of the population) are "over-indebted." It also found that borrowing on bank overdrafts, credit cards and pay day loans amounted to more than £170 billion of debt in 2014 – the highest amount in four years.

The report, by the right-leaning think tank, said that 15 million people were going into debt in the UK to cover their bills and that a new system of lending was required immediately. Writing in the report's preface, Dr Alex Burghart, policy director at the CSJ, said: "Without access to financial services that meet their needs, families are forced to take out expensive loans that they then struggle to pay off."

This new research shows, that despite the lessons of the last economic crisis, many households are still too reliant on credit. While to some taking on credit may seem like the logical step with the current interest rates, any sudden change in the economy could leave you vulnerable. If any of your clients are heavily indebted and would like assistance with their finances, please contact us.

Is bankruptcy on its way out?

Bankruptcy is one of the most feared aspects of personal insolvency and creditors have for a long time wielded it as a potent threat to debtors. However, this could all be set to change following the Government's decision to reform the bankruptcy threshold.

Later this year the bankruptcy threshold will increase from £750 to £5,000 – an approximate increase of 675%. This will be the first time since 1986 that the threshold, which is the minimum amount of debt that a creditor can force a debtor into bankruptcy, has increased.

This move, which is due to come into force in October 2015, will signify a massive change in creditor/debtor relationships and will effectively lift thousands of people from the prospect of bankruptcy. In the past, people have been known to lose their house and many of their possessions due to a small debt that has spiralled into bankruptcy. However, for those who underwent bankruptcy proceedings and gained the stigma and limits attached to bankrupts, this action is too little too late.

While the UK's growing number of debtors may be celebrating this increase in the threshold, the country's creditors have been left with fewer options to pursue low-value debts, who will only really be left with two effective options: an informal agreement with the debtor for repayment, or formal court proceedings in the civil court that will result in either a judgement or a negotiated resolution. However, both of these options ultimately lack the clout of bankruptcy and the latter could prove more costly than the original debt.

Alongside the changes to bankruptcy, the Government have also announced changes to Debt Relief Orders (DROs). From October 2015 debtors with debts of no more than £20,000 and assets of £1,000, plus a vehicle (worth no more than £1,000) will be able to apply for a DRO. Previously, DROs have only been available to debtors with less than £300 in assets and more than £15,000 in debts.

DROs are designed to provide debt relief to people who would otherwise be excluded from existing procedures and are meant to support financial rehabilitation by offering individuals an incentive to solve their debt issues by providing protection from those debts included in the Order, preventing enforcement of the debts and discharging them at the end of the DRO.

It would seem then that debtors have been given a greater opportunity to prevent

themselves from becoming bankrupt. However, with the high levels of debt experienced by some individuals the increase in the threshold to £5,000 may not be sufficient for them. If your clients are concerned about their debts and would like help, or if your clients are creditors worried about outstanding payments, then our team of highly qualified insolvency practitioners at Newmans and Partners can help you. To find out more, please contact us.

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