

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

Bank of England raises concerns over high-risk borrowing

The Bank of England has sounded the alarm over 'high-risk borrowing' and will pressure high street banks to strengthen their financial position in coming weeks amid fears of unsustainable growth in consumer credit. According to reports, Threadneedle Street is advising banks to set aside up to £11.4bn in additional capital over the next 18 months.

The move – which comes shortly after the Bank's Monetary Policy Committee (MPC) announced that it would introduce 'stress tests' on banks in a bid to assess levels of consumer credit – follows research published in April which revealed a ten per cent rise in consumer lending year-on-year.

More recent research published this month has found that the number of Britons taking out car finance loans is rising at a rate of 15 per cent a year, while credit card lending is growing by nine per cent a year and personal lending is rising at a rate of seven per cent a year.

Speaking towards the end of June, governor of the Bank of England Mark Carney, said: "Consumer credit has increased rapidly. Lending conditions in the mortgage market are becoming easier. And lenders may be placing undue weight on the recent performance of loans in benign conditions."

Mr Carney is now calling on banks to 'rejig' their current resources in a bid to open up more capital in order to protect the financial system from Britain's 'borrowing binge'. Mr Carney has stressed that "Monetary policy is the last line of defence to address financial stability issues."



His comments come after various debt charities voiced concerns that some 8.8 million Britons are now relying on credit in order to pay essential household bills. Last month, the Trade Union Congress (TUC) estimated that unsecured household debt across the UK

will hit a record figure of £13,900 per household by the end of 2017.

Our team at Newman and Partners can provide help to you if your client is struggling with debt issues. To find out more about our services, please contact us.

What would a base rate rise mean for insolvencies?

The very real possibility that the Bank of England's base rate will be increased in coming months has led to mounting concerns that an increasing number of individuals and businesses already facing financial distress could very well be tipped over the edge.

Senior policymakers such as Ben Broadbent and Bank of England governor Mark Carney have said that the UK is not ready for a rise in interest rates amid today's backdrop of political and economic uncertainty. On 20 June 2017, Mr Carney announced that the base rate would stay on hold – but this decision was abruptly disputed by fellow Threadneedle Street chief economist Andy Haldane, who said that he was 'seriously considering' opposing the governor's move.

Simply put, economists and policy makers remain at loggerheads over whether the existing rate of 0.25 per cent will remain – and concerns abound that interest rates cannot possibly remain at currently

historic lows for much longer, implying that a drastic change could be right around the corner.

Amid economic concerns, many Monetary Policy Committee (MPC) members believe that now is time to hike the base rate back to 0.5 per cent – but it is worth noting that the MPC famously increased the base rate as high as 5.75 per cent in 2007, shortly before the global financial crisis took hold.

Back in March this year, a study published by the Insolvency Service (IS) revealed the drastic repercussions that even a very modest base rate rise could potentially have on the UK's businesses. It found that an increase of as little as

0.5 per cent would result in an additional 9,700 personal and corporate insolvencies across the UK.

Furthermore, the report suggested that an increase of as little as one per cent would spell disaster for more than 18,000 UK businesses by 2020 – 8,100 of which would be likely to go down before the end of 2019.

Our team at Newman and Partners can provide help to you if your client is struggling with debt issues or facing insolvency. We can also offer proactive advice on personal bankruptcy and corporate insolvency. To find out more about our debt management services, please contact us.

Thousands of businesses ceased trading in first quarter of 2017

Research highlighted by the press in recent weeks has revealed that almost 4,000 UK businesses ceased trading in the first quarter (Q1) of 2017, suggesting that an increasing number of British firms are finding themselves facing financial distress.

According to reports, more than two thirds (68 per cent) of the 3,967 company insolvencies recorded in Q1 of the year were voluntary – representative of a 4.5 per cent rise in voluntary insolvencies in comparison with figures recorded during the final quarter of 2016.

Amongst the industry segments hit hardest by financial distress at the beginning of the year were retail operators, hospitality businesses and construction firms. Construction firms were reportedly the worst hit by insolvencies, making up 16.4 per cent of all UK businesses that ceased trading during Q1.

Meanwhile, 13.2 per cent of all businesses that ceased trading were retailers, while 11.2 per cent were hospitality companies, the report reveals. These figures echo recent concerns

raised last month that businesses working in the supply chain – such as retail wholesalers and logistics companies – are struggling with rising food and fuel costs.

Such struggles have been exacerbated of late by low sterling values and the UK's burgeoning late payments crisis. In fact, research suggests that cash flow complications are now one of the most prominent issues today's struggling businesses face.

A separate study carried out by insurance company Zurich earlier this year estimated that one in ten small and medium-sized enterprises (SMEs) are now owed more than £100,000 in late payments – while one in five are owed more than £25,000. Collectively, Zurich estimates that Britain's struggling SMEs are owed a grand total of £44.6bn in late payments.



Providing the right advice to your clients during a period of financial difficulty is crucial, and concerns regarding insolvency are always best explored sooner rather than later. To find out more about our proactive services, please contact us.

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