July 2020

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**

£107bn of ‘unsustainable’ business debt due to COVID-19 crisis

It has been estimated that by March 2021 UK businesses are likely to have accrued between £97bn-£107bn of unsustainable debt. It is believed, according to TheCityUK Recapitalisation Group (RCG), that almost half of this debt (£35bn-£40bn) will be owed by SMEs.

The RCG industry task force that carried out the study has said that a failure to reduce this significant debt burden could risk businesses’ recovery from the Coronavirus crisis. In comparison to SMEs, the UK’s medium-sized businesses have accumulated around £16bn-£17bn of debt.

Although some of the debt that businesses face pre-dates the pandemic, it is thought that around £32bn-£36bn of business debt is due to the various Government-backed support loans. This means that around a third of the total debt accrued by the end of March 2021 is linked directly to support offered during the current crisis.

Of the sectors reviewed by the RCG’s study, property was the most exposed to unsustainable debt – representing 24 per cent of the total. This sector was followed by accommodation and food services (16 per cent) and construction (11 per cent).

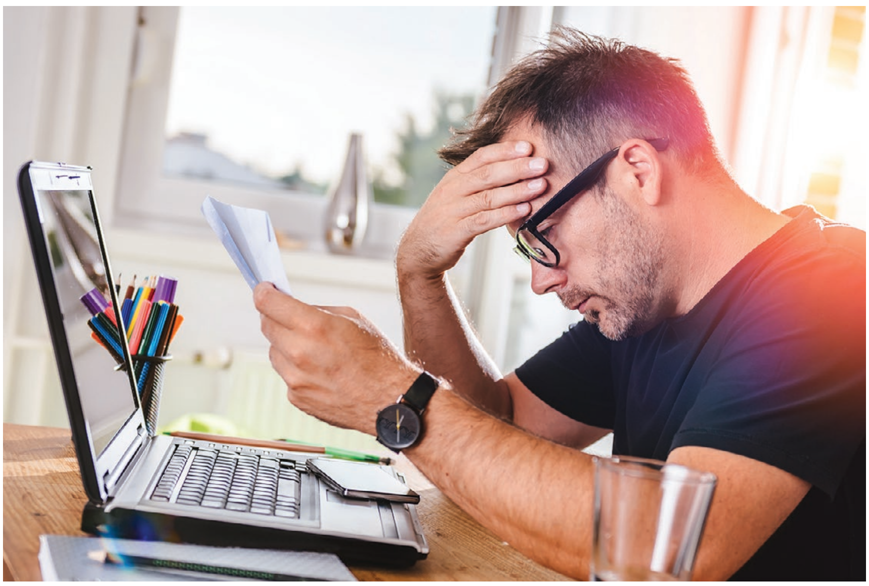
Miles Celic, CEO of TheCityUK, said: “SMEs are the engine of the UK economy. Lifting the debt burden from the shoulders of otherwise viable businesses will be essential to supporting a robust and sustainable economic recovery.

“However, this is a huge and complicated challenge. It is already clear that there won’t be a one-size-fits-all solution. We need a range of viable options, which, between them, can help to support the unique needs of those SMEs, and the many different types of investor who could form part of the solution.”

The report suggests enhancing the role of private equity and unlocking capital from UK insurance and pension funds to help with the recapitalisation of debt-laden businesses. If this cannot be achieved and firms continue to suffer from cash flow issues there are concerns that many won’t be able to repay or service their debts – forcing them to become insolvent.

If your clients are burdened with debt and are concerned about how they will repay creditors they must take action as soon as they can.

TO FIND OUT HOW WE CAN HELP THEM TO RESTRUCTURE THEIR BUSINESS AND DEBTS, PLEASE CONTACT OUR TEAM.



FCA calls for fair treatment of debt-laden firms

The head of the Financial Conduct Authority (FCA) has asked banks and lenders to treat debt-laden businesses fairly to prevent levels of business failure similar to the recession in 2008. The FCA's Chairman, Charles Randall, asked for banks to take a measured approach with businesses during an online roundtable at the start of July.

Mr Randall said that it was "an inescapable fact" that many businesses in the UK would be affected by unsustainable levels of debt due to COVID-19 and that repayments should be dealt with "quickly and fairly". He believes that if banks do not act responsibly then they could risk further diluting public trust in financial organisations and institutions.

He said: "It must not become a drag on the recovery. Lenders and regulators – and the Government and the British Business Bank as the authorities standing behind the loans – will need to apply a shared understanding of how to treat borrowers in difficulty.

"We can't allow this to become a replay of the 2008 crisis where the treatment of some small business borrowers did such serious damage to people and to trust in financial services."

To date, more than £38.2bn worth of government-guaranteed loans have been lent to 913,110 UK businesses since the start of the crisis, according to the most recent Treasury figures. Banks are keen that the loans are repaid and have been shifting significant resources to deal with a surge in business customers struggling to repay their debts.

Much of their focus is on October when many debt repayment holidays on loans and other forms of finance come to an end. The 31 October is also the end of the Coronavirus Job Retention Scheme (CJRS), which has been supporting the payment of employment costs for 9.4 million workers and around 1.14 million businesses – a large proportion of which are SMEs.

The next few months may be a make or break period for some businesses, especially as Government support is withdrawn and payment holidays end.

IF YOU ARE AWARE OF A BUSINESS THAT IS STRUGGLING DUE TO THE CURRENT CRISIS, PLEASE CONTACT US.

Cash flow was an issue for UK businesses before COVID-19, according to a study

Newly published research has found that many UK businesses were already dealing with cash flow problems prior to the Coronavirus crisis. Conducted by BDO, the study showed that businesses in the UK converted just 2.6 per cent of the value of their sales into free cash flow on average last year.

The firm's analysis also revealed that housebuilders suffered the greatest cash flow issues converting just 0.8 per cent of sales into free cash flow, followed by car retailers at 1.3 per cent.

Cash flow has been a significant issue for many years and has remained low after falling to an average of just 3.3 per cent ahead of the EU referendum. The issue of cash flow is particularly bad for small and medium-sized firms, which only managed to convert sales to free cash flow at an average rate of just 2.5 per cent prior to the pandemic.

In comparison, some of the UK's largest businesses, with annual turnovers above £3 billion, were able to convert sales into cash flow at a rate of 9.6 per cent on average. Previous studies have tended to show that SMEs suffer more due to poor payment practices at these large businesses.

When breaking down the data regionally, businesses in London and Edinburgh were least likely to be affected by cash flow issues, due in part to the size and nature of the businesses that operate in each city. In comparison, cash flow was more of an issue in Lincolnshire and Dorset, which recorded the lowest sales to cash conversion rates in the study.

Cash flow concerns in UK businesses have had to compete with other priorities in recent years, including price, innovation and quality. This has been made harder due to a general slowdown in the country's economy and uncertainty over Brexit.

The COVID-19 restrictions and the subsequent slowdown in growth means that many businesses are now dealing with substantial cash flow problems.

POOR CASH FLOW CAN OFTEN BE A PRECURSOR TO INSOLVENCY, SO IF YOU KNOW OF ANY BUSINESSES THAT ARE STRUGGLING, 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