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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**

Has the risk of small business failure halved?

According to new analysis of the BICS (Business Impact of Covid-19 Survey), produced by the Office for National Statistics conducted by the London School of Economics (LSE), only 5.7 per cent of companies were at risk of failure at the beginning of 2022 – down from 15 per cent at the beginning of 2021. At the heart of this trend was a growing resilience and improvements for companies with 50 employees or fewer.

The new research seems to be at odds with the anecdotal evidence and other recent studies, which suggest that SMEs feel at greater risk of failure due to a combination of issues, such as a rise in late payments, increasing costs and a skills shortage. Nevertheless, the LSE study found that the risk of failure among smaller businesses at the start of 2022 had shrunk most significantly among companies with fewer than 10 employees. This is a drop from 15 per cent at the start of the survey early last year to below five per cent in October, before rising to seven per cent at the beginning of 2022.

While it is true that many small businesses face considerable risks, the LSE said that the impact of the pandemic had skewed the previous year's figures, creating a spike which had been eased in the last 12 months by the vaccine rollout, financial support and the end of lockdown restrictions.

In fact, while the pandemic still technically trundles on, the changes to many of our lifestyles have meant that we now enjoy similar freedoms to those experienced pre-pandemic. This had led to greater spending and socialising that supported businesses across the economy by the start of this year.

Peter John Lambert, one of the Research Economists behind the report, said: "Since the beginning of the Covid pandemic, we have been predicting an exodus of failing businesses. Fortunately, Government

support schemes and a stronger-than-expected recovery in 2021 had hitherto kept many businesses afloat."

Despite the positive news, the latest BICs research showed that by March of this year, business confidence had started to stall. The LSE reports that the greatest stall was most pronounced in companies with fewer than 50 employees.

In fact, according to the research, the overall trend is well below 2020 levels but these recent rises in risk are a cause for concern. The study suggests that the tightening of border controls, supply chain disruption and the ongoing impact of conflict in Ukraine, including rising global inflation, were the primary issues now affecting many small businesses.

WHILE THE RISK OF BUSINESS FAILURE DID HALVE BY THE BEGINNING OF 2022, THE LONGER-TERM OUTLOOK IS LESS POSITIVE FOR SMES. IF YOU OR A CLIENT REQUIRE INSOLVENCY OR BUSINESS RECOVERY ADVICE IN RESPONSE TO THE CHALLENGES IN THIS ARTICLE, PLEASE GET IN TOUCH.

Recovery Loan Scheme – A failure set to be repeated?

The end of June marked the closure of the final piece of Covid finance support available, the Recovery Loan Scheme (RLS). This had been designed by the Government, and backed by a guarantee, to help small businesses access lending as they emerged out of the pandemic.

Launched in April 2021, it offered lenders an 80 per cent guarantee to give them the confidence to support small and medium-sized enterprises (SMEs). Loans were available via many accredited lenders on favourable terms, but according to the British Business Bank, it only provided £1 billion to businesses through 6,190 facilities.

Despite the funding provided, many banking experts have said that it ultimately failed to achieve its primary objective of unlocking commercial lending for SMEs. Gregory Taylor, Head of Banking and Finance at MHA, said the scheme was "notably less generous" than the previous loan schemes and, as a result, fewer SMEs had bothered making an application; adding: "With rising inflation and interest rates and the real possibility of a recession the Government should use the end of the RLS to reboot commercial lending for SMEs."

He isn't alone in calling for new support to help businesses, with several organisations and experts believing that a lack of access to finance could be a critical barrier to growth for many small businesses. In fact, research from Manx Financial Group has revealed that 22 per cent of SMEs that needed external financing over the last couple of years couldn't access it. This led to 27 per cent of small businesses pausing or stopping their plans.

Now the Government is understood to be considering a replacement to RLS, which could be announced imminently. Referred to as RLS2, it is thought to be less generous than its predecessor but aims to provide up to £3 billion a year over at least two years to support SME investment.

It is understood from reports in The Telegraph that the new funding will be a long-term finance offer and will ensure that the Government absorbs losses on loans made to businesses in a bid to boost lending by banks. It is now awaiting final sign-off by the Treasury and Department for Department for Business, Energy and Industrial Strategy.

FAILURE TO SECURE FUNDING FOR GROWTH COULD HAMPER THE SUCCESS OF MANY SMALL BUSINESSES AND LEAD TO DISTRESS AMONG OTHERS. IF YOU OR A CLIENT ARE STRUGGLING DUE TO AN INABILITY TO ACCESS FUNDING, PLEASE SPEAK TO US.

Further price rises put business confidence at risk

The British Chambers of Commerce (BCC) has revealed that a survey of 5,700 firms indicates that investment and long-term business confidence are in decline due to inflationary pressures. The study showed that 28 per cent of respondents predicted a decrease in profits as a result of rising prices – with two-thirds of firms expecting a further increase in their costs in the next three months

Energy, labour, fuel and raw materials were all said to be driving price rises higher, leading many firms to cut back and shelve investment plans, with three in four of those questioned saying they have no plans to do so in the near term.

David Bharier, Head of Research at the BCC, said: "This quarter's survey results clearly point to a weakening economic outlook amid unprecedented cost pressures and falling business confidence.

Domestic demand continues to show buoyancy, with almost half of respondents reporting increased domestic sales in the quarter.

"However, indicators for structural business conditions such as investment, and cashflow are showing no sign of improvement for most firms. Inflation remains by far and away the top concern, with our survey measures going beyond anything we've seen before in the history of the data.

"Businesses face an unprecedented convergence of cost pressures, with the main drivers coming from raw materials, fuel, utilities, taxes, and labour. The continuing supply chain crisis, exacerbated by conflict in Ukraine and lockdowns in China, has further compounded this."

BCC Director General Shevaun Haviland, added: "The red lights on our economic dashboard are starting to flash. Nearly every single indicator has seen a deterioration since our last survey in March. Business confidence has taken a significant hit and fears over inflation and cost pressures are at new record highs.

"It is not too late for the Government to take action to help businesses through these challenging times and put the economy on a more stable footing. The Government must swiftly demonstrate that it is on the side of business if confidence to invest is to be restored."

IS YOUR BUSINESS AT RISK DUE TO RISING PRICES? SPEAK TO OUR TEAM AT NEWMAN AND PARTNERS TODAY FOR ADVICE ON BUSINESS RESTRUCTURING, RECOVERY AND INSOLVENCY.

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