July 2023

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**

The risks inflation poses to potential insolvency

According to data from the Office for National Statistics (ONS) the core CPIH annual inflation rate was 7.9 per cent in the 12 months to June 2023, down from 10.1 per cent in March.

With the soaring cost of food and energy coupled with the ongoing war in Ukraine, inflation does not look likely to decrease drastically any time soon, which could pose greater risks of insolvency for businesses across the UK.

For businesses, inflation has seen higher costs for raw materials, labour and other operational expenses. If income doesn't keep pace with these rising costs, businesses can quickly find themselves in a position of debt, pushing them towards insolvency.

The Bank of England generally responds to higher inflation by increasing interest rates to cool the economy and bring inflation down. This is seen with the Bank of England's base rate rising to five per cent in June 2023, compared with it being just 1.25 per cent 12 months prior.

With higher interest rates, borrowing becomes more expensive. For businesses already anchored with debt, a higher loan rate will only exacerbate the risk of insolvency.

Cash flow problems can also rise during higher periods of inflation. Inflation can cause uncertainty which often leads to businesses tightening their belts and winding their operations in slightly.

Consumers may reduce their spending as prices increase, potentially leading to decreased revenues for businesses which could ultimately cause cash flow issues. If these cash flow problems are not resolved, the risk of debt increases and with it the chances of insolvency.

In times of high inflation, employees will often ask for wage rises to keep up with the spiralling costs of everyday items and energy bills. The current climate is no exception, as in June 2023, UK wages have risen at their fastest rate in 20 years.

While these salary demands are justified, businesses may find it hard to accommodate increased wages, particularly if they're already facing revenue shortfalls or increased costs. If not managed efficiently, wages can spiral and push a business closer to insolvency.

If left unchecked, inflation could lead to a higher risk of insolvency across the UK. The knock-on effect inflation has on the increased risk of insolvency serves as a reminder of the deeply interwoven economic web of cause and effect.

If you have clients who are worried about inflation and the risks it poses to their businesses, please **speak to our experienced team today**.

Insolvency scams - how to recognise the warning signs

The stress and burdens for business owners are already hefty when it comes to insolvency, but this anguish can be exacerbated by those who look to take advantage of those in financial difficulty by the way of malicious, calculated insolvency scams.

Fraudsters will use fear, urgency, and complex financial language as tools at their disposal to coerce businesses into making rash decisions and falling for their schemes.

With insolvency data in the UK fairly easy to obtain, fraudsters are easily able to target their victims, so it is paramount that business owners remain vigilant when dealing with anybody posing as an insolvency agency.

Recently, the Insolvency Service issued a warning to investors and its customers regarding a recent increase in fraudulent activity in this area. Scams most often attempted include recovery room scams and the impersonation of genuine Insolvency Service employees.

Recovery room scams

Victims are called by fraudsters pretending to be from a different company and will press for upfront charges for things such as tax, solicitor fees, and administrative fees.

These calls usually follow up on the back of an investment scam, where the victim has already lost money. The victim will often not spot the scam as they are worried about the money already lost and will overlook things to ensure they can recover their losses.

Fraudsters can emphasise their 'legitimacy' in the eyes of their victims by sending out fake letters with the Insolvency Service logo and using email addresses similar to those used by the Insolvency Service.

It is important to know that the Insolvency Service never ask for an upfront fee to recover money on a previously lost investment. Any letters should also be checked for similar claims, as well as ensuring that emails are coming from valid Insolvency Service addresses.

Insolvency Service impersonators

In a similar move to the above scam, fraudsters will impersonate legitimate employees of the Insolvency Service, again using fake letters and email addresses that look nearly identical to those used by Insolvency Service employees.

All email correspondence from the Insolvency Service will come from an email address with the @insolvency.gov.uk domain, so businesses must check this as fraudsters will attempt to cleverly disguise their email address by replacing a letter such as 'o' with the number '0'.

Other warning signs that a business may be the target of a scam are:

- **Unsolicited contact:** Insolvency fraudsters will usually contact their victims out of the blue, offering to help with their financial issues. The Insolvency Service and other reputable insolvency practitioners would not operate in such an intrusive manner, so this is something to be particularly wary of.
- **Unrealistic promises:** Fraudsters will often offer guaranteed solutions to financial problems and insist that they can be solved with little to no issues. These promises are too good to be true as there can never be any guarantees when dealing with insolvency.
- **Lack of transparency:** A genuine insolvency practitioner will always offer a comprehensive plan and structure about how they can assist businesses with insolvency matters. Fraudsters will obviously have no long-term plan so will appear vague about their services and the processes involved. They will also lack credentials and fail to provide concrete details about their company or past successes.
- **High-pressure tactics:** Fraudsters will have more chance of success if they can prevent their victims from thinking too clearly, so they will use pressure tactics to rush them into making decisions. Other tactics that can have similar effects include fearmongering and manipulation.

Spotting these warning signs earlier and remaining vigilant to anything out of the ordinary will greatly help businesses from falling victim to insolvency scammers. While there will be many other issues for a business to deal with during such a financially difficult time, preventing an insolvency scam will give business owners one less thing to worry about.

If your clients would like more advice about insolvency scams, **please contact us**.

Construction suppliers at risk of insolvency 'domino effect'

The UK construction sector has been grappling with increasing insolvency cases, according to the latest official Insolvency Service date. It has become a key contributor to the country's insolvency numbers in 2023, with almost 17 per cent of all insolvent firms, which is approximately 4,165 construction businesses, folding in the year leading up to March 2023

The UK construction sector has been grappling with increasing insolvency cases, according to the latest official Insolvency Service date. It has become a key contributor to the country's insolvency numbers in 2023, with almost 17 per cent of all insolvent firms, which is approximately 4,165 construction businesses, folding in the year leading up to March 2023.

The repercussions of this trend are far-reaching, with supply chains under the potential threat of a severe 'domino effect' should this pattern persist. Particularly alarming is the fact that most of these construction companies declare bankruptcy while being in heavy debt to their supply chains, amounting to tens of millions.

A case highlighted recently by the media is Tolent, a construction company that succumbed to insolvency in February due to losses on its Milburngate development – leaving an outstanding debt of £43 million to its supply chain.

The construction industry is besieged with immediate and upcoming challenges, according to Blanca Berruguete, Allianz's Global Industry Solutions Director for Construction. Speaking in Supply Management, she said an impending recession, rising equipment and material costs, increased procurement expenditure, and extended lead times are all adding to the industry's tribulations. Moreover, these issues are accentuated by the industry's thin profitability margins and fierce competition.

Of course, as we have seen many times before, the prospect of a company's insolvency poses a threat to other businesses in the same supply chain creating a trickle-down effect that puts many others at risk of insolvency. The industry is seemingly facing a 'perfect storm' of escalating demand and expectations while contending with diminished capacity and compromised supply chains.

For the construction sector to avert the current predicament, Berruguete advocates for an overhaul of risk management functions, with procurement playing a central role. She emphasised that companies must revise their procurement outlook to boost cost efficiency, ensure project timelines, protect profits and brand reputation, and pave the way for a sustainable future.

If your clients work within or alongside the construction industry, then they must be prepared for unexpected insolvencies amongst their customers and suppliers. If you need help building greater resilience to these shocks within your clients' businesses, please **speak to our team today**.

CAREFUL CONSIDERATION IS NEEDED BEFORE TAKING OUT ANY FORM OF FINANCE AND SPECIALIST ADVICE SHOULD BE SOUGHT. IF YOU HAVE ANY QUESTIONS, 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