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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**

Proposed Coronavirus insolvency legislation to permanently alter UK law

The Corporate Governance and Insolvency Bill (the Bill) has been introduced in Parliament to support businesses that are struggling as a result of the Coronavirus pandemic.

The Bill includes six new insolvency and two corporate governance measures that seek to address the challenges that businesses are facing. Amongst the new measures in the Bill are:

- A new moratorium to give companies breathing space from their creditors while they seek a rescue.
- A law that prohibits termination clauses that engage on insolvency, preventing suppliers from ceasing their supply or asking for additional payments while a company is going through a rescue process.
- A new restructuring plan that will bind creditors to it.
- A temporary suspension of personal liability for wrongful trading from directors who try to keep their companies afloat through the emergency.
- A ban on creditors filing statutory demands and winding up petitions for Coronavirus related debts in certain circumstances.
- Rules that ease the burdens on businesses by enabling them to hold closed Annual General Meetings (AGMs), conduct business and communicate with members electronically, and by extending filing deadlines for:
  - confirmation statements
  - annual accounts
  - registrations of charges (mortgage)
  - event-driven filings, such as a change to a company's directors.

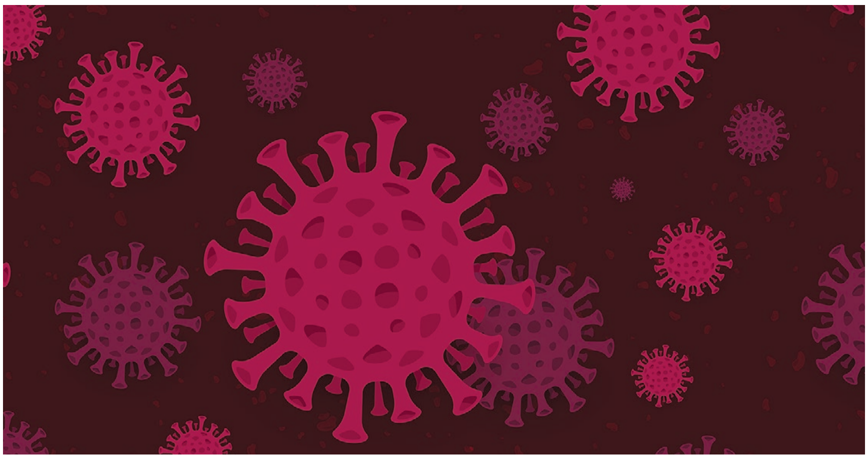
These measures will be applied retrospectively so as to be as effective as possible. It is hoped that the Bill and its measures will help the insolvency regime to flex and meet the demands of businesses that have been affected by the current crisis.

The Bill must now make its way through Parliament. Many of the measures in the Bill will need secondary legislation before they come into force, and this will be introduced in due course. Nothing will change until legislation is formally introduced.

Many of these changes will remain a permanent part of UK insolvency law after the crisis has passed. In particular, the new moratorium, restructuring plans, which will be akin to existing company voluntary arrangement (CVA) and the rules surrounding termination clauses in supply contracts, will become important parts of the UK's insolvency regime.

These new rules, once introduced, will offer new opportunities to help businesses with their restructuring and recovery. If you are aware of a business that is in financial difficulty it is important that they seek help at the earliest opportunity. Our team can help businesses to review the options available to them and put the necessary steps in place.

CONTACT US TODAY TO FIND OUT HOW WE CAN HELP.



The Treasury is to help failing businesses with 'last resort' support

The Treasury has said that businesses facing failure, whose collapse would "disproportionately harm the economy", might be offered additional support on a "last resort" basis. The additional assistance from the Government will only be offered in exceptional circumstances, where a business had exhausted all other options.

Although nothing formal has been agreed yet, the Treasury has acknowledged that additional help may be available in the future. When asked about the potential for bailouts, a Treasury spokesperson said: "We have put in place unprecedented levels of support to help businesses get through this crisis. Beyond that many firms are getting support from established market mechanisms, such as existing shareholders, bank lending and commercial finance.

"In exceptional circumstances, where a viable company has exhausted all options and its failure would disproportionately harm the economy, we may consider support on a 'last resort' basis. As the British public would expect, we are putting in place sensible contingency planning and any such support would be on terms that protect the taxpayer."

It comes after the Chancellor Rishi Sunak recently revealed that the UK will experience significant difficulties as a result of the current crisis. He said: "It is now very likely that the UK economy will face a significant recession this year, and we're already in the middle of that as we speak."

The economy has already shrunk considerably in the UK, with the OECD just recently announcing that UK GDP will see a fall of 11.5 per cent this year – the highest decline in a developed nation.

The Treasury has said that it will notify Parliament where spending incurred as a result of any deal. It stressed that there was a difference in being approached for support and agreeing to give it.

It is understood that the Government is currently working on a post-COVID-19 economic stimulus plan which may be revealed in July. This plan will need to consider the end of important financial support measures, such as the Coronavirus Job Retention Scheme, and its impact on employment and the rate of business failure.

While it is good to see that the Government is considering a number of options to help businesses survive the impact of COVID-19 there are likely to be many businesses already in distress. If a client or contact is facing the prospect of insolvency then our team can help.

CONTACT US TODAY TO SEE HOW WE CAN ASSIST THEM.

Institute of Directors calls for action on business debt

The Government is being called upon by the Institute of Directors (IoD) to tackle the growing burden of debt on small and medium-sized businesses, especially as they attempt to rebuild and recover. The IoD believes that banks, lenders and the Government must work together to tackle the country's corporate "debt mountain" or else the UK faces a slow road to recovery.

The IoD has surveyed 720 company directors which has found that more than half believe the debt taken on as a result of the pandemic would affect their business negatively. A further 57 per cent of respondents in the IoD poll said that the debt that they had accumulated would delay investment plans for the next two years.

The call from the IoD ties in with new analysis from financial services industry body, TheCityUK, which suggests that companies in the UK could be burdened with as much as £105 billion in unsustainable debt. Of this amount, around £20 billion is directly connected to the Coronavirus Business Interruption Loan Scheme with more linked to Bounce Back Loans taken out by small businesses.

To make matters worse a report in the Financial Times from banks has warned that only half of the Bounce Back Loans provided to UK SMEs are likely to be repaid. Senior bankers at accredited lenders estimate that between 40 and 50 per cent of the borrowers could default on the debt, which has been 100 per cent guaranteed by the Government.

To help businesses deal with debts the IoD has suggested that small companies should be able to convert their existing Government-backed loans into something similar to a student loan. This would mean that repayments are only made once a company has achieved a certain level of profit.

In its survey, four out of 10 directors said they would favour a student loans-type model, compared to just five per cent who favoured converting debt into equity held by a public body. Jonathan Geldart of the IoD said: "Using a student loan style system for small companies could provide one way of lifting the burden from British business, while still ensuring that those that can pay do."

"A range of responses will be needed depending on the size and type of business. These figures emphasise that while Government support has prevented even deeper damage, the work of rebuilding the economy is only just beginning."

Corporate debt levels in the UK have risen significantly as a result of the COVID-19 crisis.

IF YOU KNOW OF A BUSINESS THAT IS STRUGGLING AS A RESULT OF DEBT, PLEASE CONTACT US.

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