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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**

Thousands of UK SMES 'at risk of going bust'

The clock is ticking for thousands of UK small business owners, with almost half a million companies at risk of going under within weeks, according to the Federation of Small Businesses (FSB). Speaking recently to the BBC, the FSB chairman, Martin McTague discussed how the current cost-of-living crisis put many businesses and their employees at risk.

While Mr McTague applauded measures by the Government, such as its recent £15 billion cost of living package, he said it wouldn't be enough to prevent some people from losing their jobs unless more support was given to employers. Since his speech, the most recent Office for National Statistics (ONS) figures show unemployment has already risen by 0.1 per cent this month.

"We don't have any problem with the way the Chancellor dealt with consumer needs," McTague told BBC Radio 4's Today programme. "But there is still a massive problem with small businesses. They are facing something like twice the rate of inflation for their production prices, and it's a ticking timebomb. They have got literally weeks left before they run out of cash and that will mean hundreds of thousands of businesses and lots of people losing their jobs."

The head of the FSB said that figures from the ONS laid bare the crisis within many small firms, with data showing that around 40 per cent of the UK's small businesses, equating to around two million firms, had less than three months' worth of cash left to support their operations. The same report also showed that of the two million businesses facing a cashflow crisis, around 10 per cent were already in "serious trouble" and another 300,000 "have only got weeks left".

Mr McTague added: "It is a very real possibility because … they don't have the cash reserves. They don't have any way they can tackle this problem." Going further he said he knew of one hotel owner in Scarborough who had their profits wiped out by soaring energy bills, which were five times higher than normal. "They weren't able to trade any longer without essentially trading at a loss and, therefore, damaging the future of their business and everybody that worked for them," he added.

Looking ahead the situation doesn't look much better for businesses, with many economists already predicting that inflation will rise even higher than the nine per cent figure recorded in April, driven in part by rising energy and fuel prices. In fact, according to the RAC in the last month, the price of petrol has hit a new high every day. As a result, the Bank of England has estimated inflation will peak at about 10 per cent later this year and in response it is expected to increase the base rate, driving up the cost of borrowing.

Similar research has shown that the costs businesses are facing have also soared, with the latest factory input price index increasing by a record high of 18.6 over the past year. As a result, many businesses are being forced to increase their prices to deal with rising costs, which is, in turn, adding to inflationary pressures across the country.

Mr McTague concluded the financial support used to keep businesses afloat through the COVID-19 pandemic would be wasted if additional support wasn't urgently provided to SMEs.

He said: "The Chancellor spent approximately £45 billion making sure those businesses survive the Covid crisis. Are we seriously expecting him now to abandon them just as they've managed to get through one crisis and effectively lose that money for the taxpayer?"

IF YOU OR A CLIENT IS ADVERSELY AFFECTED BY THE SPIRALLING COST OF RUNNING A BUSINESS AND YOU HAVE CONCERNS ABOUT YOUR CASHFLOW OR SOLVENCY, PLEASE SPEAK TO OUR TEAM TODAY.

Cost of living crisis leads a quarter of UK businesses to face late payments

According to a new study from Barclays more than a quarter of UK small or medium-sized enterprises (SMEs) have seen the number of late payments they experience increase since the cost of living began. The new research indicates that price inflation has started to affect the payments between businesses, with 16 per cent of SMEs reporting that they are also finding it more difficult to pay suppliers.

This issue is more pronounced in manufacturing and the construction and real estate sectors, where a third of businesses report that they have struggled to pay suppliers on time. Late payments are one of the key factors affecting cashflow within many businesses and can often be a prime reason for a company becoming insolvent.

Even where it doesn't plunge a business into insolvency, late payments can stall new hiring opportunities or investments. Barclays found that 10 per cent of SMEs said that the amount they are owed in late payments could be used to recruit more staff, while 12 per cent couldn't expand their products or service offering due to the issue, ultimately preventing their overall growth. It should come as no surprise then that 58 per cent of businesses said they would refuse a job with a potential customer if they were well known for being a late payer.

Beyond the financial impact of late payments, Barclays also questions business owners about the emotional effect on them. Just over a quarter said they have felt anxious as a result of late payments and a fifth responded that they have had lost sleep over the issue.

DON'T LOSE SLEEP IF YOU ARE AFFECTED BY LATE PAYMENTS OR PUT YOUR BUSINESS AT RISK OF INSOLVENCY. SPEAK TO OUR EXPERIENCED TEAM TODAY FOR ADVICE.

Insolvencies double as latest crisis bites

The latest data from the Insolvency Service for April showed that 1,991 insolvencies were registered, more than double the number registered in the same month in the previous year. This is also 39 per cent higher than the number registered before the pandemic, showing the scale of the current cost crisis.

The rise in corporate insolvencies in the last year has been expected for some time, but with the Government's temporary pandemic restrictions on the enforcement of creditor and landlord remedies having ended it was almost inevitable that a spike would occur. These measures, combined with ongoing financial support, had suppressed the number of business insolvencies during the last 12 months, but with these now removed businesses are finding it harder.

To make matters worse, an expected recovery from the pandemic has been hindered by the new crises created by the war in Ukraine and a general increase in inflation both in the UK and worldwide. This is driving up the price of essentials for businesses and individuals, which is helping to fuel rising corporate insolvencies.

The biggest increase was in creditors' voluntary liquidations (CVLs). These are generally employed where a company has no ongoing business, and often when there are few remaining assets of value. During April, there were 1,777 CVLs, which is more than double the number in April 2021 and almost three quarters higher than before the pandemic.

This is indicative of a large number of businesses that had their assets exhausted by ongoing crises, effectively leaving owners with little or no business left to rescue. This may have been compounded in some businesses, where they were expected to repay bounce back loans or other government assistance.

Some experts have suggested that the economy is just clearing itself of businesses that were destined to fail anyway and that the numbers of administrations and company voluntary arrangements used by troubled businesses, which might be rescued, remained lower than before the pandemic.

In fact, there were 113 administrations, which is 51 per cent higher than April 2021 but 22 per cent lower than April 2019 and 10 CVAs, which is double the amount in April 2021 but 62 per cent lower than April 2019. This suggests that businesses with ongoing interests are, for the moment at least, remaining afloat. This may be due to their ability to access debt finance or steps taken already to restructure their business.

AT NEWMAN AND PARTNERS, WE WORK WITH A WIDE RANGE OF BUSINESSES AND THEIR PROFESSIONAL ADVISERS TO HELP THEM RESTRUCTURE AND MANAGE THEIR BUSINESS TO AVOID TOUGHER INSOLVENCY MEASURES. TO FIND OUT HOW WE CAN ASSIST YOU, PLEASE SPEAK TO US.

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