Newman & Partners
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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**

Fears grow that coronavirus may spark a global recession

The UN Conference on Trade and Development (UNCTAD) has told businesses and individuals around the world to brace themselves for a global recession. The body warned that the COVID-19 economic "shock" could end up costing the world £760 billion of lost income, which could lead to the closure of businesses and the loss of millions of jobs.

In this scenario, UNCTAD said the virus "will cause a recession in some countries and depress global annual growth this year to below 2.5 per cent - the recessionary threshold for the world economy". The UN was the first international institution to officially raise concerns about a global slowdown, as it says that global growth could drop as low as 1.7 per cent this year. In comparison, the International Monetary Foundation has forecast growth this year of around 2.7 per cent.

The UN believes that a number of countries, including Italy and Japan, will face recessions in the coming months, while the UK will only just avoid a recession with economic growth of 0.5 per cent. Despite its initial warnings already seeming fairly bleak, UNCTAD's director of Globalization and Development Strategies, Richard Kozul-Wright, has warned that the eventual outcome could be worse still.

"Back in September we were anxiously scanning the horizon for possible shocks given the financial fragilities left unaddressed since the 2008 crisis and the persistent weakness in demand," he said. "No one saw this coming - but the bigger story is a decade of debt, delusion and policy drift."

He added that the falls in share prices and drop in consumer demand could trigger a "more vicious downward spiral" for the world economy. "Widespread insolvency and possibly another 'Minsky moment' - a sudden, big collapse of asset values which would mark the end of the growth phase of this cycle cannot be ruled out," he said.

In the UN's modelling a worst-case scenario could see global economic growth drop to 0.7 per cent in 2020, costing a total of $2 trillion (£1.52 billion) in foregone income. This would put it on a scale just behind the last financial crisis in 2008 but would make 2020 the worst year for the global economy in the last decade.

With reports of the value of worldwide markets dropping on a daily basis and with many businesses seeing a reduction in orders and use of their services, there are growing fears of a surge in redundancies and insolvencies over the next year as world Governments attempt to get a grip on this global crisis. During these difficult and uncertain times, it is important that you have the right support so that you can advise your clients correctly. To find out how our team can help, please contact us.

Construction industry struggling as insolvencies rise

New data provided by Creditsafe shows that a total of 36 construction companies entered into administration in February 2020, while a further 246 companies were involved in the stages of liquidation. Alongside this, 82 formally held meetings with creditors meaning that 364 construction companies were involved in an insolvency process last month.

The latest analysis of data looked at formal insolvency documents filed within the last month and covered firms of all sizes registered as working in the construction sector, as either their primary or secondary business activity. It indicates, for example, that administrations are up by 14 from January's total of 22.

The largest insolvency in this period was refurbishment and fit-out specialist S&T (UK), which had revenue of £114 million according to its latest accounts from December 2017. The company had shortened its accounting period twice before it went into administration, which is why no new records are available, but many experts say that this was a sign the company was in financial danger.

Construction Products Association (CPA) economics Director, Noble Francis said: "It was a tough end to 2019 for many firms, given the slowdown in activity since the summer. Sentiment in the construction industry improved after the general election but it's also been a difficult start to the year, particularly for some companies that were already in trouble."

"Persistent rain in the last few weeks has meant that it has been difficult getting on site and this has exacerbated problems for firms down the supply chain that were already suffering due to not having been paid for work already done a few months ago."

Meanwhile, Creditsafe UK and Ireland Chief Executive, Chris Robertson said: "The fall of a Crawley-based contractor who had been trading for 24 years, demonstrates that companies need to display much more due diligence, especially when it comes to working with existing customers and suppliers."

As the worldwide economy slows in response to the ongoing crisis surrounding coronavirus it is likely that the construction sector may see a further slowdown as companies and developers restrict investment in the months and years to come. If you work with a client in the construction industry that is concerned about the prospect of insolvency then it is important that they seek help. Speak to our team at Newmans and Partners.

Spotting the warning signs that a customer or supplier may be failing

Corporate insolvencies have been rising steadily over the last few years, achieving a five-year peak in the penultimate quarter of 2019. There were 485 administrations during this quarter, up by 20 per cent from the previous three months.

With the prospect of further rises in insolvency, it is important that businesses can identify the signs of a struggling business. Businesses facing serious financial distress may be entering a formal insolvency procedure such as administration, a Company Voluntary Arrangement (CVA) or liquidation, which could significantly affect connected businesses and creditors.

Creditors have no control over when a business fails, but it is them who are affected by a debtor that closes. That is why preparing for and implementing measures to protect against financial volatility can be key to assure survival.

During difficult periods it is important that all businesses look at their contracts and incorporate key protection clauses, including potential fines for late payments if appropriate. Businesses can also request personal guarantees from directors or shareholders and revaluate credit terms to ensure that they are protected.

It is also important that businesses monitor the financial health of customer and suppliers and keep a note. If they can spot the small signs, then they can take steps to protect a business. These signs might include ignoring payment reminders, the loss or redundancy of staff members or an increase in the amount of time it takes to pay for a product or service.

All of these signs may be indicative of wider cashflow issues in a business and therefore raise concerns about long-term stability. Where a business notices these signs it is important that they take appropriate steps to prevent their own business from being affected.

If you or a client are concerned about a debtor and feel that they may not be able to make future payments it is important that you take action early. We have helped a number of businesses faced with the loss of income from the collapse of another business, please contact us to find out how we can help you and your clients.

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