

# 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](mailto:insolvency@newmanandpartners.co.uk)

### Self-employed, low earners and students more at risk of unsecured debts

**A new report from the Association of Chartered Certified Accountants (ACCA), entitled *Britain's debt: How much is too much?*, has warned that a significant increase in consumer credit since the financial crisis means over-indebtedness is reaching 'massive' levels among the UK's most vulnerable groups.**

In light of the report and its findings, the ACCA has called for improvements to financial education for the next generation, and a new ethical marketplace for lending, in order to slowdown the growth in debt amongst the self-employed, low earners and students.

Commenting on the report's findings, Anthony Walters, head of policy for ACCA UK, said: "The increasing use of credit cards and the debt levels of vulnerable groups are of great concern and require immediate attention. What's more, savings are on a downward trajectory and the numbers of both self-employed people and students – two of the most vulnerable groups – are rising."

The report suggests a number of measures to help student groups, as Anthony Walters explains: "Introducing monthly maintenance payments instead of paying one-third of the annual amount at the beginning of each term is a simple change with big potential benefits. This already happens in Scotland and mirrors how payment is received in the working world much more closely, so helping students learn the valuable skill of managing their finances over time.

"Under-eighteens should be offered a matched savings account based on an ISA incentive," Walters added, "whereby if the account holder saves, say £1,000, the Government would match this amount once the young person enters further or

higher education. Around 40% of full-time students leave education with an overdraft. The average balance among them is £894 in debt. A savings buffer of £1,000 could therefore save the majority of students from having an overdraft at all.

"Once the next generation leave education and enter the world of work, we know that an increasing number of them are seeking a new type of career with flexibility at its core. This has clear benefits to Britain's economic future, but also comes with risks. A sound understanding of financial management that is practical enough to be applied to the real world is vital to becoming successful, worry-free adults. Helping people understand their relationship with debt and credit at an early stage is a crucial part of that."

The report also goes on to look at the growth of loan websites and apps, as well as the digitisation of debt and lending. Anthony Walters said: "Digital innovations are making credit, and therefore debt, ever-easier to access. There is however an opportunity if we act quickly to use these technological advancements to introduce a new, ethical lending market that puts responsible lending and the needs of borrowers, particularly those from vulnerable groups, ahead of profitability."

He said by improving education and harnessing the power of technology it may be possible to reduce the reliance on bad



credit among the most vulnerable groups and create a more manageable level of personal debt in this country. He called on those with low and 'sporadic' income to plan ahead and start saving for tougher more uncertain times and hinted that the upcoming EU referendum could cause issues for those with an unreliable income source, which may encourage them to take on unnecessary debt.

A number of reports in recent months have heavily hinted that the UK has a growing personal-debt problem. The reports have been joined by a number of leading experts issuing warnings regarding these debts and the potential future of the UK economy. If you client or their business has a large amount of unsecured debts and they are concerned about the prospect of insolvency then we can assist them. At Newman and Partners we have years of experience helping businesses and individuals deal with debt and insolvency. Please contact us to find out more.

# Insolvency on the rise, but still below last year's levels

**The Insolvency Service's latest figures show that nearly 3,700 companies entered insolvency during the first three months of 2016; an increase of more than 5.4 per cent on the previous quarter.**

This was the first increase since the first quarter of 2014, but was 3.6 per cent lower than the first quarter of 2015. The increase was mainly driven by a rise in compulsory liquidations, which were at their highest level since Q1 2015.

In total, 804 companies were subject to a compulsory winding-up order in Q1 2016, a 36 per cent increase on the previous quarter, but 11.5 per cent lower than Q1 in 2015. Meanwhile, an estimated 2,515 companies entered creditors' voluntary liquidation (CVL) during the first quarter of the year, which was in line with recent trends.

There were also an estimated 301 administrations in Q1 2016, a decrease of 11.1 per cent on the previous quarter

and 10.9 per cent lower than Q1 in 2015. Meanwhile, there were an estimated 75 company voluntary arrangement (CVAs) in Q1 2016, a decrease of 7.4 per cent on the previous quarter and 12.8 per cent lower than the same quarter last year; placing them at the lowest level since Q1 1998 and administrations at their lowest level since Q4 2003.

During the same period, the number of personal insolvencies in England and Wales was 20,383; a 0.3 per cent increase on the previous quarter, but 2.2 per cent lower than the same quarter in 2015. During this period the number of debt relief orders (DROs) went up by 3.4 per cent compared to the previous quarter, at 6,722, which was 8.2 per cent higher than Q1 2015. The Insolvency Service put the increase down

to a change to eligibility criteria effective from October 2015: about a quarter of DROs in Q1 2016 involved qualifying debts greater than the previous threshold of £15,000. In comparison both bankruptcy orders and Individual Voluntary Arrangements (IVAs) declined slightly. In the 12 months ending Q1 2016, 1 in 576 adults became insolvent, the lowest rate since the 12 months ending Q4 2005.

If your client or their business is facing the prospect of insolvency then our team at Newmans and Partners can help. Our team of qualified insolvency practitioners can provide expert advice and specialist services to meet the requirements of a wide range of businesses and individuals. To find out more about our insolvency services, please contact us.

## Creditors need to provide 'breathing space' to help struggling companies, say R3

**The insolvency trade body, R3, has called for the introduction of legislation that will grant businesses up to six weeks grace, free from creditor pressure, in order to plan a suitable recovery or rescue. It believes the introduction of a new 'business rescue moratorium' would help save more companies suffering severe financial strain, saving jobs and ultimately improving creditor returns.**

R3's President, Phillip Sykes said: "The UK insolvency regime is flexible and effective but it needs a simple moratorium procedure to give companies time to plan when there is a chance of rescuing a business and preventing insolvency. It is too easy for anxious creditors to undermine potential rescues with a winding up petition.

"As a result, rescue deals are arranged quickly and confidentially, which can leave unsecured creditors in particular feeling left out. Additionally, faced with losing control of their company when entering an insolvency procedure, directors often wait until it is too late before trying to take decisive action needed to turn their company around." He believes a short moratorium would also give struggling companies a chance to be open with their creditors and negotiate a way out of their problems in a transparent fashion.

Under R3's proposals, creditors would not be able to pursue debts owed by companies in a moratorium for 21 days. This period could be extended for a further 21 days with court approval. During this period, directors would remain in control of their company, with the supervision of a qualified insolvency practitioner, who would act as a 'moratorium supervisor' to ensure the directors are using the moratorium as intended.

Any company could enter the proposed moratorium, including insolvent companies which might otherwise enter a formal insolvency procedure immediately. R3 stressed that the moratorium could be used to put in place plans to restructure a company, negotiate alternative payment terms with creditors, negotiate a CVA, or prepare for an administration or liquidation.

A 2014 European Commission recommendation on business failure and insolvency called on member states to introduce a 'stay' (moratorium) of at least four months for struggling businesses. However, Phillip Sykes said four months "is too long to ask creditors to wait" and he raised concerns that there might be a danger that in a longer moratorium a company would 'drift' rather than focus on dealing with its problems.

If your client is facing insolvency or is under pressure from their creditors then having the correct planning in place is key. At Newman and Partners we can work to strict timelines and unique requirements to ensure the needs of your client are met.

To find out more about our services, 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](mailto:insolvency@newmanandpartners.co.uk)  
W: [www.newmanandpartners.co.uk](http://www.newmanandpartners.co.uk)

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