

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

Over-indebtedness - the legacy of the pandemic and cost-of-living crisis

The aftermath of the COVID-19 pandemic and the escalating cost-of-living crisis have left a profound impact on the global economy, with the UK being no exception. The economic turbulence has caused businesses across the country to become overindebted, leading to a wave of business failures in recent months. At the heart of this issue lies a staggering figure of £77 billion – the total amount drawn under Government-backed business loan schemes.

As a response to the pandemic, the UK government launched several loan schemes, including the Bounce Back Loan Scheme (BBLS) and the Coronavirus Business Interruption Loan Scheme (CBILS). These schemes were designed to support struggling businesses by providing much-needed financial aid. However, the debt accumulated through these schemes is now proving to be an unforeseen burden.

Out of the total £77 billion drawn, £38 billion (nearly half of the total loans drawn) is still outstanding and businesses are still actively repaying their debts years on from the initial crisis. On a brighter note, £14.5 billion has been fully repaid by borrowers, indicating that a section of businesses is emerging from their indebted state.

However, not all businesses have been able to manage their financial obligations. Loans that are in arrears, meaning they have overdue payments, have an outstanding balance of £3.2 billion that hasn't yet progressed to default. Additionally, loans defaulted (i.e. loans where the borrower has failed to meet their legal obligations of loan repayment) has an outstanding balance of £1.2 billion.

Furthermore, the outstanding balance of loans claimed, i.e. loans where the lender has claimed the government guarantee, but which haven't yet progressed to settled, stands at £1.8 billion. All these figures collectively paint a grim picture of the financial health of many businesses in the UK.

As of now, the total settled amount, the amount paid out to lenders under all schemes guarantee agreements, stands at £4.4 billion. This points to the Government's commitment to supporting lenders in the event of a borrower's default. However, it also emphasises the gravity of the situation, as these payments were made due to a business's inability to repay their loans.

Since the pandemic businesses have been gripped by a cost-of-living crisis fuelled by growing inflation and interest rates. Those that have had to borrow further during their recovery have, therefore, faced higher costs to repay the debts that they hold, which has placed considerable pressure on their cash flow.

The legacy of the pandemic and the cost-of-living crisis has triggered a cascade of over-indebtedness, which is leading to business failure. As businesses struggle to repay their loans, the financial strain is likely to be a driving force of insolvencies in the coming years. It is a long road ahead for those businesses with considerable debts but with the right strategies and support, the journey can be less arduous. If you have clients struggling with debt as a result of recent crises, **please speak to our experienced team today.**



Insolvencies hit a three-year high in England and Wales

The latest statistics from the Insolvency Service (IS) show that monthly insolvencies in England and Wales have reached a three-year high. The data is the latest indication that businesses and individuals are struggling with mounting costs, higher interest rates and soaring inflation.

Given the report's findings, accountants and advisors must stay on top of their client's affairs, especially as 2,457 businesses failed in March – up 16 per cent compared to the previous year and a significant rise from 1,784 insolvencies recorded in February. Furthermore, this figure represents a staggering 55 per cent surge from the pre-pandemic levels witnessed in March 2019, when 1,581 companies faced insolvency.

The Insolvency Service highlights that creditors' voluntary liquidations, which allow directors to formally close insolvent companies, were the primary driver of corporate insolvencies in March. Additionally, individual insolvencies experienced a sharp increase, although they were slightly down by one per cent compared to the previous year.

The President of the Insolvency and Restructuring Trade Body R3, Christina Fitzgerald, has explained that many business owners, after enduring three years of economic uncertainty and the pandemic's impact, are opting to close their businesses proactively rather than risk having the choice taken away from them in the face of a turbulent trading climate.

As a result, many within the insolvency profession expect a continued upward trend in corporate collapses throughout the year as businesses contend with persistent inflationary pressures and rising interest rates, while economic growth remains stagnant. These factors have placed companies in a precarious financial position, resulting in the latest surge of insolvency cases.

In particular, R3 points to the removal of the energy bill relief scheme in March as a pivotal point for businesses. It predicts that numerous companies will experience further cost increases at a time when they can least afford them.

Since the publication of these worrying figures, there has been an additional update from the Insolvency Service to show that in April the new number of companies registered insolvent was 15 per cent lower than the previous year.

The latest data shows that 1,685 companies were registered insolvent last month in England and Wales. Although the number of insolvencies is significantly less than a year earlier, following the big rise in March, they still remain higher than levels seen before the COVID-19 pandemic.

Accountants need to be well-versed in the latest insolvency trends and developments so that they can provide timely and informed advice to their clients or help to signpost them to insolvency practitioners who can offer specialised advice. The current landscape calls for proactive measures to address mounting financial pressures, explore alternative financing options, and evaluate the viability of businesses in light of these challenges.

If you or your clients require help during these challenging times, **please contact us.**



Could the Government be doing more to tackle late payments?

A consultation on the Payment Practices and Performance Regulations has concluded. This Government review of the current rules will look to assess the effectiveness of existing regulations in addressing the issue of late payments. Many of you will have seen first-hand and understand the profound impact that late payments can have on your clients.

Late payments continue to be a pressing concern for small and medium-sized enterprises (SMEs) across the UK. In fact, a recent report from alternative finance specialist, Time Finance, revealed that approximately three-quarters of SMEs are worried about cash flow difficulties arising from late invoice payments in 2023. It found that smaller UK companies are owed £250,000, on average, in outstanding invoices.

This is exacerbating existing cash flow crises that many SMEs face and hampering business growth and productivity by preventing owners from making essential investments. As a result, many SMEs are struggling to realise their ambitions – or simply meet the ever-growing cost of overheads. Furthermore, the study highlighted that chasing overdue payments damaged customer relationships.

The government has acknowledged the severity of the late payment crisis and has made efforts to combat poor payment practices. The Payment Practices Reporting duty, for example, aims to increase transparency in payment behaviour and facilitate improvements in payment practices. Additionally, it provides suppliers with essential information to make informed decisions

about whom they trade with and encourages large business customers to enhance their payment practices.

While the Government has emphasised the importance of a cultural shift in payment practices and inter-business relationships, there are growing calls for stronger action from small businesses. They believe that legislative measures are necessary to address the power dynamics that perpetuate late payments.

Understanding the scale of late payments is vital to the service we provide as professional advisers. It is incumbent upon us to support viable businesses and help them avoid preventable insolvency. By proactively addressing the late payment crisis by offering advice, and where suitable, the right action, we can contribute to a business environment where prompt payment practices are prioritised, fostering the growth and sustainability of SMEs.

If you require further guidance or assistance in navigating the impact of late payments on your clients or implementing the recommended steps, please feel free to reach out to us. **We are here to support you and your clients.**



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.

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