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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**

Insolvency Service gets tough on abusers of Bounce Back Loans

Several company directors have been penalised by the Insolvency Service after misusing COVID-19 financial relief schemes. The Insolvency Service has revealed that four directors had action taken against them after investigations found they had "inappropriately applied for or misused" nearly £100,000 worth of Bounce Back Loans (BBL).

The Insolvency Service is understood to be investigating and taking action against company directors who abused the BBL scheme during the pandemic. This loan scheme, which ended in March 2021, provided loans of up £50,000 to help businesses survive the impact of COVID-19. Companies that were insolvent or at serious risk of insolvency may not have been eligible for this funding.

One of the directors to receive a ban is Rafael Henrique Scher, the sole director of N&S Solutions Ltd – a cleaning company founded in 2018. This company entered into administration in August 2019 with debts of almost £150,000 and was later liquidated in June 2020.

However, investigations showed that Rafael Scher used N&S Solutions to apply for a Bounce Back Loan of £30,000 in May 2020, despite his company being insolvent and unable to trade. The Insolvency Service said that there was no prospect of repayment of the loan and that the company wasn't eligible for the funding.

It is understood that Rafael Scher used the £30,000 loan to pay £29,940 to a single trade creditor. The company's other creditors, including those with sizable debts that amounted to more than £94,000, went unpaid. As a result of his actions and abuse of the BBL scheme, Rafael Scher signed a disqualification undertaking that prevents him from acting as a director for nine years.

The other director bans conducted by the Insolvency Service include a Nottingham chicken takeaway duo, Mujeebullah Khan, 34, and Muhammed Omair Javaid, 33, who have each had bankruptcy restrictions extended for eight years. The pair ran Chunky Chicken until December 2019, when they sold the business.

However, Mujeebullah Khan is said to have applied for a BBL of £50,000 in the business's name after the sale of the company, which was used to repay a creditor. Mujeebullah Khan and Muhammed Omair Javaid made themselves bankrupt on 24 May 2021, citing debts of over £200,000 that included the BBL.

Finally, action has been taken against Malcolm Wilks, 57, who ran the Royal Oak pub in Nuneaton. He was found to have borrowed £17,000 from the BBL scheme on 11 November 2020, despite entering into an Individual Voluntary Arrangement (IVA).

As a result of an Insolvency Service investigation, it was established that Wilks transferred most of the Bounce Back Loan into his personal bank accounts. This was used to pay for online gambling, withdrawn as cash, which cannot be accounted for and paid as a wage to himself for the periods when the pub was closed due to restrictions. On 27 September 2021, Malcolm Wilks signed a bankruptcy restriction undertaking that extends the duration of his bankruptcy for eight years.

GIVEN THE RECENT ACTIONS OF THE INSOLVENCY SERVICE, BUSINESSES MUST CHECK THAT THEY WERE ELIGIBLE FOR THE LOANS AND GRANTS THAT THEY CLAIMED DURING THE PANDEMIC, ESPECIALLY IF THEY WERE SUBJECT TO INSOLVENCY PROCEEDINGS AT THE TIME. IF YOU OR A CLIENT NEED ASSISTANCE WITH THIS, PLEASE LET US KNOW.

More than half of British businesses struggling with 'toxic debt'

According to new data 52 per cent of UK businesses now have 'toxic debt' that they will struggle to repay. The figures from Begbies Traynor Group, based on the tax returns filed so far for 2020, show more than half of companies may struggle to pay their bills in the next 12 months.

This new report also revealed that corporate debt in the UK grew by £1.9 trillion in 2020 – up from £306 billion recorded before the pandemic in 2019. The data suggests that 1.2 million businesses have a liquidity rating lower than one. A ratio of one means that a company can exactly pay off all its current liabilities with its current assets, anything lower suggests they may not be able to cover their debts or bills.

The new figures come at a time when many creditors have begun to call in debts accrued by businesses during the pandemic as some of the temporary insolvency rules are lifted. In the coming months, it is expected that many will start to chase debts and take action to recover monies owed to them, as they deal with their own recovery.

There are also growing fears, due to the high levels of 'toxic debt', that many of the Government-backed loans may never be repaid, which could have a wider impact on the UK's recovery. This points to the potential for a growing number of zombie companies, many of whom have barely managed to repay debts since the previous recession in 2008.

To help businesses in debt, the finance market has seen the launch of around 30 new lenders offering help to those in trouble. Unfortunately, their offer to consolidate debts is in many cases leading to greater indebtedness, especially among small and medium-sized businesses who are most at risk of insolvency.

Those sectors worst affected were those that faced the longest closures and restrictions during the pandemic. The study revealed that 67 per cent of companies in real estate and property are unlikely to be able to pay their current liabilities, while hotel and accommodation and bars and restaurants were a close second and third (66 per cent and 65 per cent respectively).

The dangers in real estate and property, in particular, are evident in the sector's debt pile, which increased by £38 billion in the last year. In fact, only two industries had higher accumulated debt, support services (£1.1 trillion) and industrial transportation and logistics (£39 billion).

IF YOU OR A CLIENT IS STRUGGLING WITH CORPORATE DEBT, PLEASE SPEAK TO OUR TEAM IMMEDIATELY.

Record number of business owners place company into voluntary liquidation in wake of the pandemic

Business closures were higher in July to September 2021 than in any third quarter since 2017, according to a recent study. A separate report also suggests that more than half a million businesses in the UK are in financial distress.

Meanwhile, the latest Insolvency Service figures show there were 1,446 registered company insolvencies in September 2021, which is a rise of 56 per cent in the same month in 2020. However, the figure is four per cent lower than the pre-pandemic figure in September 2019.

In addition, there were 1,328 Creditors' Voluntary Liquidations (CVLs), which is the highest level seen in the series since January 2019. Driven by this high CVL figure, the number of registered company insolvencies were similar to pre-pandemic levels, although compulsory liquidations remained lower.

The number of bankruptcies fell to 614, a drop of 42 per cent in September 2020 and 55 per cent lower than September 2019. However, the numbers of Debt Relief Orders (DROs) in September 2021 were at their highest level since the start of the pandemic, with 2,150 DROs registered. This figure was 41 per cent higher than September 2020's figure but 12 per cent lower than in the same month in 2019.

The rise in DROs is likely to be due to changes to the eligibility criteria, which came in on 29 June this year and took the level of debt at which people can apply for a DRO from £20,000 to £30,000.

Lastly, there were 6,853 Individual Voluntary Arrangements (IVAs) registered per month in the three months ending September 2021, which is a rise of 48 per cent in the three months ending September 2020 and nine per cent lower than the three months ending September 2019.

IF YOU OR A CLIENT NEED INSOLVENCY ADVICE, WHETHER AT A CORPORATE OR PERSONAL LEVEL, PLEASE SPEAK TO OUR EXPERIENCED TEAM AT NEWMAN AND PARTNERS TODAY.

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