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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**

The end of furlough – What next for businesses?

After more than 18 months of financial support, the Coronavirus Job Retention Scheme (CJRS) – better known as furlough – ends on 30 September. With just days left before the scheme ends, businesses that have, and continue to be, reliant on the support it offers need to consider what happens next. There are various considerations that businesses need to plan for, some of which may require urgent action.

Managing cash flow

For months a considerable number of businesses have had a substantial proportion of their employment costs covered by the furlough scheme – although in recent months contributions from employers have increased. Nevertheless, this has played an important role in freeing up cash within businesses, so that they have the money needed to fund their operations and service debts.

At the end of this month, many businesses will suddenly find that they have a substantial monthly employment bill and they must have the cash to fund this. Now that much of the economy has reopened, many sectors are enjoying a healthier cash flow, but many may still not have the same revenue stream they enjoyed pre-pandemic.

Add to this the need to repay other COVID support mechanisms, such as Bounce Back loans, and it is clear to see that some companies may face a cash crisis. Now is the time to review the impact of full employment costs once the CJRS ends, so that businesses can implement the necessary actions, such as:

Reducing employment costs

With the cost of retaining employees being a significant element in the cash flow challenge ahead, employers need to look at ways they can reduce employments costs. If they have not done so already, they should be negotiating with employees to reduce their hours, restrict bonuses and eliminate benefits, where necessary. This process will require careful negotiations and should be confirmed in writing within an employee's contract and the business's policies.

Reducing other costs

Cutting hours or restricting bonuses may not be possible within some businesses, especially if it leads to key staff leaving the company due to dissatisfaction. Businesses need to look at other ways of reducing their costs within their operations. This might include finding new utility suppliers, sourcing cheaper materials, cutting back on existing investments or a wide range of other options. A full analysis of the business's costs should be conducted to evaluate what costs can and cannot be retained – even small savings could make a big difference to cash flow.

Finance

If businesses are still experiencing a reduction in trade and revenue it may be necessary to take out finance to cover operational costs until the situation improves. Companies should avoid becoming too heavily indebted though, as servicing debts can also harm cash flow.

Invoice financing may be an option that some businesses could consider. This allows you to borrow money against the amounts due from customers and can be particularly useful if you are experiencing issues with late payments.

Redundancies

Although most businesses will be keen not to make staff redundant, in some cases it may be a necessity if they cannot afford to cover the employment costs once the furlough scheme ends this month. Recent research suggests most businesses hope to avoid redundancies, but for some, it may be the only option available to them.

The number of redundancies made should be balanced against the impact on the business's ability to trade effectively. If you intend to make redundancies then you should seek professional advice beforehand.

AS BUSINESSES MOVE FORWARD, THEY NEED TO ENSURE THEIR STRUCTURE AND OPERATIONS MEET THEIR NEEDS. IF CASH FLOW IS AN ISSUE WITHIN YOUR BUSINESS OR FUTURE VIABILITY IS AN ISSUE, PLEASE SPEAK TO US.

Just over half of UK small businesses owed a total of £17.5bn in late payments

New analysis from the Chartered Institute of Credit Management (CICM) and Pay.UK has revealed that late payments continue to plague the UK's small and medium-sized enterprises (SMEs). This latest study has tracked how organisations have been affected by late payments and their impact on their future viability.

Given the challenges over the last 18 months, many SMEs will not be pleased to learn that as a group they face a collective debt burden of £17.5 billion. The new collective debt figure is one of the second-highest in history, beaten only by 2019's figure of £23 billion. However, it is still well above the £12.9 billion of late payments reported in 2018 and £14.2 billion recorded in 2017.

According to the research, 51 per cent of UK SMEs have been affected by late payments for goods and services. Although this is slightly down on figures for 2019, it is still well in excess of earlier figures for 2017 and 2018. Scottish businesses are the worst afflicted by late payment, with three out of five surveyed experiencing issues with late payments. This is followed by Wales (59 per cent) and Northern Ireland (57 per cent).

As a result of the high number of late payments, around 18 per cent of SMEs spent more than £500 per month chasing payments last year. This means that SMEs shelled out more than £5 billion in debt collection action.

As well as facing growing debts, SMEs are often having to wait longer for payments, according to the study, which is having a substantial impact on already constrained cash flow. The study showed that three-quarters of those experiencing late payments receive funds one month or more over agreed terms, and 27 per cent are waiting longer than two months. Unsurprisingly, a third of small businesses experiencing late payments have had to rely on bank finance to fund the wait for payments, while one in five has resorted to reducing their directors' salaries to manage cash flow.

The only positive news to come from the study is that the average amount due to SMEs fell from £25,000 in 2019 to £20,000. However, it is suspected that the general reduction in trade during 2020 and into 2021 may have had a substantial impact on this figure.

IF YOU KNOW OF A BUSINESS THAT IS AFFLICTED BY GROWING DEBTS DUE TO LATE PAYMENTS THEN THEY MUST SEEK ADVICE IMMEDIATELY. IF YOU WOULD LIKE US TO ASSIST THEM WITH THIS OR HELP THEM MANAGE THEIR DEBTS, PLEASE CONTACT US.

Is the UK's economic recovery already stalling?

New analysis from The Guardian suggests that the UK's economic recovery may already be stalling as shortages of workers and supplies hit businesses. While much of the Government restrictions have been lifted, footfall on many of the nation's high streets also remains below pre-pandemic levels, as consumer are cautious about the risks still posed by infection. Meanwhile, the impact of Brexit is beginning to be felt more widely as companies struggle to recruit for roles once dominated by EU workers and supplies are affected by global supply chain disruption.

The Guardian, in its latest report, points to new figures from the Bank of England that show debit and credit card spending has also fallen by 94 per cent of its pre-pandemic limits in recent weeks, following the initial excitement of the retail and leisure sectors reopening. This, it says, alongside its other economic tracking of infection rates, eight key growth indicators and the level of the FTSE 100, suggests the recovery is slowing – with fears for further issues in the winter ahead, including a potential 'lockdown lite'.

Speaking in the report, James Smith, an economist at the Dutch bank ING, said: "The recovery has stopped in its track. The rise in self-isolation had an effect on services spending, and the supply chain issues are having an impact on manufacturing. For now, the recovery has paused but we're still probably looking at just about positive growth through the third quarter."

The issues experienced in the UK are a reflection of a growing global issues. Many countries around the world are beginning to experience difficulties with supply shortages as lockdown restrictions are slowly eased. Among the problems compounding this shortage are disruptions to international shipments, production stoppages and a lack of key components. This combined with a sudden increase in demand for goods and services has left many businesses unable to meet consumer demand.

This problem is clearly reflected in some of the latest surveys of private-sector output. The Guardian analysts have said this shows growth in output is falling at a steeper rate in the UK than in the US and the Eurozone, pointing to the complexities that Brexit has added to many business's operations. Additionally, the CBI has highlighted that the proportion of imported goods to the UK fell at one of the fastest rates last month in the history of its retail industry tracker.

THE CHALLENGES THAT LAY AHEAD FOR BRITISH BUSINESSES ARE SIGNIFICANT, WHICH IS WHY IT IS ESSENTIAL THAT THEY HAVE HELP AT HAND. AT NEWMAN AND PARTNERS, WE CAN HELP WITH BUSINESS RESTRUCTURING AND INSOLVENCY SO THAT COMPANIES CAN GET BACK ON TRACK. TO FIND OUT MORE ABOUT OUR SERVICES, PLEASE SPEAK TO US.

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