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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 crackdown on COVID loan abuse

At least 50 per cent of bosses who have been dismissed in the last 15 months are accused of fraud or abuse of coronavirus support schemes and almost £1.1 billion of COVID loans are suspected to involve fraud or error. These directors, who are found guilty of COVID-related misconduct, are being hit with longer disqualification periods and the average length of bans handed out to directors was seven years and four months.

This is much longer than in previous years. Six directors were prosecuted by the Insolvency Service for COVID loan abuses, and many are calling for this number to be increased.

The COVID support schemes offered by the Government were intended to lighten the financial burden on small businesses but were abused by many directors. The directors believed they could take advantage of the loans for several reasons:

- The loans were easily accessible online.
- Directors were not required to provide a guarantee for the loan.
- Lack of background checks on businesses meant that many could apply, despite having already ceased trading.
- Top-up and Bounce Back loans were available on top of COVID loans, meaning the financial gain available was considerable.

Bounce Back Loans came with the promise of no repayments or interest to pay for the first 12 months and a fixed interest rate of 2.5 per cent. This made the scheme incredibly attractive for genuinely struggling businesses who needed the injection of funds to recover from COVID-19 expenses. However, the large amount of money on offer meant that fraudsters also saw quick cash possibilities.

The Government promised to pay back 100 per cent of the loans should the borrowing business become insolvent. This means that the costs accrued by fraudsters and unethical actors must be paid by the taxpayer. Because of this, it is likely that the personal and business finances of genuine borrowers will also be affected by unpaid debts.

Now that many businesses are on the road to recovery, some using COVID relief, they must continue to be vigilant of financial issues. Correctly managing debts and loan repayments is essential in keeping a business solvent. **To learn more about how we can support you and your clients, please get in touch.**

A quarter of big business fail to pay on time

Large businesses paid 26 per cent of their invoices outside of their agreed terms last year. This represents a general trend of late payments to suppliers that has become normalised in the past few years. On average, large businesses took 36 days to pay their suppliers, putting a severe strain on the UK supply chain. And, according to some statistics over half of the late payments were owed to small businesses. In fact, late payments cost small businesses roughly £684 million per year.

Late payments burden smaller businesses considerably and can affect cash flow significantly. Many companies are consistently waiting for their next payment from some of their biggest clients. These factors make the prospect of insolvency more likely, and many businesses fail due to late payment-related issues. Because of this, some businesses have developed new tactics, like signing clients up for direct debits, to prevent late payments. Others have taken to continually reminding their clients via phone and email to pay on time.

Late payment management can create a difficult balancing act between customer relations and cash flow considerations. It can be difficult to chase up business connections for invoicing purposes and often provides a slight cultural challenge to classic British good manners. However, in a business setting, correctly managing invoice repayments is crucial to the survival of businesses, and you should remember that late payments are an unacceptable part of business.

By identifying new payment methods and streamlining their finances and credit control, your clients can minimise the impact of late payments. **To find out how our specialists can support your clients with late payments and debts, please get in touch.**

Small business finance: A guide to loans, cash advances, and factoring

Small business financing can be a daunting task and not knowing the basics can put many business owners at a disadvantage. However, there are several options you should consider for financing your enterprise. These include loans, cash advances, and factoring. Each comes with its own unique set of benefits and drawbacks.

Loans: The traditional route

Traditional bank loans are the first financing option that comes to mind for many business owners. In this scenario, you borrow a sum of money from the bank, which is repaid with interest, over a predetermined period. Banks offer various loan options with diverse interest rates and repayment terms, allowing you to find one that suits your business needs. However, securing a loan can be a stringent process and is often unavailable unless you have a good credit score and relevant documentation.

Cash advances: Quick and flexible

Cash advances provide businesses with a swift injection of capital, typically facilitated by a credit card provider. They offer high approval rates and fast disbursement of funds but they tend to carry higher interest rates and fees, which might make them less favourable for long-term financing solutions.

Factoring: Leveraging your invoices

Factoring, on the other hand, allows businesses to leverage their accounts receivable to secure financing. In this situation, you basically sell your invoices to a third party (a factor) at a discount, receiving immediate capital to maintain a healthy cash flow. While factoring can indeed be a lifeline, especially for businesses with clients that are slow to pay, it does diminish your overall profit margins due to the discount rate applied by the factor.

Steering clear of insolvency

In the unfortunate event that a business is facing financial struggles, it's vital to consider how the different financing options can aid in avoiding insolvency. Responsibly managing your financing options can help maintain a healthy cashflow, thereby evading the complexities and undesirable consequences of insolvency.

Navigating the best path for your business financing involves a careful consideration of the merits and downsides of each option. Loans, cash advances, and factoring each offer unique solutions and risks to your capital needs but without help from a professional accountant it can be complicated for businesses to work out which would be the most beneficial.

Engaging the services of an expert means that your clients can take an in-depth look into their finances before considering financing options. **Speak to one of our experts to learn more about how financing options may affect the solvency of your clients' businesses.**

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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