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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**

53,000 businesses now in critical financial distress

The latest Red Flag Alert research from BTG puts the number of UK businesses in critical financial distress at 53,756 in the second quarter of 2026 – up nine per cent on the same period last year. A further 674,030 firms are classed as being in significant distress, a smaller but still notable year on year increase of 1.1 per cent.

Almost every sector tracked by Red Flag Alert saw distress rise over the year, with only one of the 22 industries monitored bucking the trend. Red Flag Alert has tracked the financial health of UK companies for more than two decades, which gives this quarter's figures a reasonably solid baseline to be read against.

Where the pressure is hitting hardest

The sharpest increases were concentrated in consumer-facing industries. Leisure and cultural businesses saw critical distress climb by more than a quarter, with hotels and accommodation not far behind. Health and education, sport and health clubs, wholesale and food and drug retailers all posted double digit rises too, suggesting the squeeze on household spending is being felt right across the businesses that depend on it.

Significant distress, the tier below critical, told a slightly different story, with support services, construction, real estate and property services among the sectors showing the largest movements.

Construction was actually one of the few areas to see a small year on year improvement, which fits a wider pattern of the pressure being led by consumer spending rather than being spread evenly across the economy.

A lag before it reaches the insolvency figures

BTG has warned that because insolvencies typically lag behind periods of financial distress, the full effect of this pressure may not show up as a rise in formal business failures until 2027 rather than immediately.

That gap exists because most businesses will exhaust other options first, including renegotiating supplier and lender terms or restructuring informally, before insolvency becomes the only remaining route. It gives businesses a window to act, provided they use it rather than assume the current figures represent the worst of it.

The backdrop driving the numbers

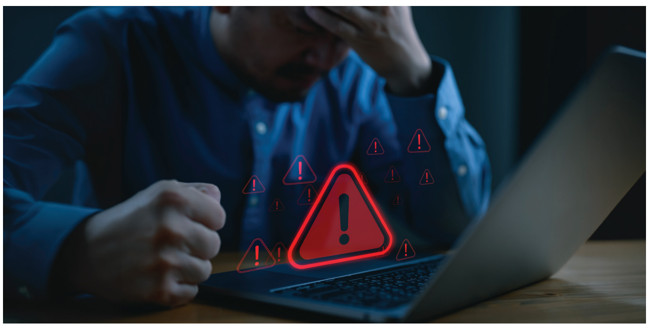
Rising energy costs, persistent inflation and elevated borrowing costs sit alongside higher employment and tax costs to squeeze margins further. Many of your will have seen these challenges within clients' businesses in recent years, but the last 12 months have felt fairly acute.

Industry experts expect business confidence to remain low given the uncertainty in the world and that will mean subdued spending across industries, which is likely to have knock on effects across the wider economy well into 2027.

What it means for advisers

For clients in the more exposed sectors, particularly those reliant on discretionary consumer spending, early signs such as slipping margins or slower payment cycles are worth acting on now rather than waiting for the position to turn into a formal insolvency event.

If you have clients showing early signs of financial strain, particularly in consumer facing sectors, please get in touch sooner, rather than later, and we can help assess the options available before the position deteriorates further.



Private to public – Government reviews insolvency law after utility failures

The PM Andy Burnham is reportedly looking at changing insolvency law to make it easier to bring struggling utilities providers, such as Thames Water, under public control, as part of a wider ten year ambition to reshape how water and energy companies are owned and run. Sources close to Number 10 have described Thames Water as the starting point for that project rather than the end of it, with other regulated providers potentially following a similar path in future.

The route being examined is the Special Administration Regime (SAR), which is a mechanism created after the 2008 financial crisis to cope with the collapse of systemically important companies. It allows a court appointed administrator to run a business in the public interest while debt and interest payments are frozen, rather than pushing it through an ordinary administration aimed purely at repaying creditors.

Thames Water has become the focus of this debate for reasons that go well beyond its balance sheet. Years of rising bills, a growing number of pollution incidents and shareholder returns extracted while the network itself has continued to deteriorate have left the company as one of the most distrusted names in UK infrastructure and roughly £20 billion in debt sits behind it.

Two problems with the regime as it stands

The first is that SAR can currently only be triggered where a company is insolvent or unable to provide a basic level of service. Thames Water meets neither test at present, largely because a group of creditors, keen to take ownership of the company, has kept it afloat rather than letting it fail outright.

The second is that once SAR is triggered, the appointed administrator is under a legal duty to maximise returns to creditors. That makes it difficult for the Government to take control without paying a substantial price, particularly where many of the creditors involved are US-based hedge funds, including names like Elliott Investment Management and BlackRock, which have a track record of defending their position robustly through the courts.

Taken together, these two features mean the regime built to let the state step in during a crisis is,currently, of limited use against a company that is technically solvent but still failing on almost every other measure that matters to customers and regulators.

What might change

Officials are said to be looking at using the upcoming Clean Water Bill to redraw the trigger conditions for SAR and to soften the duty to maximise creditor returns in cases involving essential service providers, making public interest intervention available before a company is formally insolvent rather than after.

Any move in this direction is expected to be contested. Creditors have already indicated they would consider a legal challenge to changes that reduce the value of their claim, and campaigners on the other side, including groups such as We Own It, have argued that reform of this kind is overdue and should not be softened to protect returns for distant shareholders.

Why this reaches beyond the water sector

Any statutory change to how SAR works would not stay confined to water companies. Energy and other regulated providers could find themselves subject to the same revised tests, which matters for how lenders and investors price risk in those sectors going forward and for how comfortable they feel extending credit to businesses that carry a public interest dimension.

For advisers, this is one to watch closely over the coming months rather than something to file away as a water sector story. Any shift in what public interest administration looks like on paper could feed directly into refinancing and restructuring conversations already under way with clients in regulated industries.

If you have clients operating in regulated utilities or are advising lenders exposed to them, please get in touch and we can talk through what a change to the SAR framework could mean for their position.

Premier Group Recruitment – A phoenixism case study

Phoenixism, the practice of liquidating a struggling company so its directors can buy back the assets through a new, debt free vehicle, is entirely legal and often defended on the basis that it saves jobs and secures some return for creditors. However, HMRC estimates it still costs the taxpayer hundreds of millions of pounds a year. A recent recruitment sector case study shows why the practice continues to draw such scrutiny from regulators and insolvency practitioners alike.

Premier Group Recruitment entered administration in September 2025 owing £2.9 million, including £647,000 to HMRC, which had already begun enforcement action to recover the debt. Three days later its assets were bought by a new company, PGGBR Ltd, set up by Andrew Woosnam, who had held 99 per cent of the shares in the original business.

Woosnam paid an initial £10,000 and agreed to pay a further £600,000 through monthly instalments of £25,000 over two years – this is a structure known as deferred consideration. The new venture launched with some fanfare, offering staff an all expenses paid trip to Las Vegas for hitting targets, but PGGBR quickly fell behind on its promised repayments. Administrators flagged the difficulty in an update filed at Companies House in March this year and PGGBR itself appointed a voluntary liquidator only months later.

Woosnam had also drawn a £1.2 million director's loan from the original company and taken close to £2 million in dividends since 2022. Reports since the collapse point to redundancies affecting around half of PGGBR's staff, some of whom went unpaid, and a management team of around a dozen people that has since disappeared from the company's website entirely. Companies House filings also show Woosnam renamed another of his businesses from PGUSA to PGREC in June, which has led industry sources to speculate that a further recruitment venture may follow.

Why deferred consideration raises the risk

Research carried out by the University of Wolverhampton for the Government's 2014 Graham review found that the failure rate of a connected party sale rises from 15 per cent without deferred consideration to 37 per cent where future instalments are involved. A new vehicle that starts life owing money on top of its ordinary trading costs is simply carrying more risk than one that does not and that risk sits with employees and unpaid creditors, as much as with the director taking it on.

It is worth remembering that deferred consideration is not inherently improper and that plenty of connected party sales are structured this way for entirely sound commercial reasons, including where the buyer genuinely cannot raise the full asking price upfront.

The Premier Group case is instructive precisely because the repayment plan looked achievable on paper yet still failed within a year, which is a useful reminder that intention and structure are two separate things.

The lesson for advisers

A phoenix transaction can save jobs and secure a better return for creditors than a straightforward wind down, but the structure of any deferred payment needs to be built on realistic forecasts and stress tested against a downturn, not treated as a formality on the way to a fresh start.

Where a director has drawn significant value from the original company through loans or dividends, that history is also likely to attract closer attention from HMRC and from the administrator overseeing the original insolvency.

Where a client is considering acquiring the assets of a company they already control or is already part way through a deferred consideration arrangement that is coming under strain, please get in touch and we can help make sure it is structured to hold up under scrutiny as well as in practice.

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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