

# 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](mailto:insolvency@newmanandpartners.co.uk)

### Is the zombie business really dead?

**New research from insolvency trade body, R3, has revealed that so-called 'zombie businesses' are in significant decline across the UK. 'Zombie business' refers to any company that is only able to pay the interest on its debts, rather than any of the capital owed.**

Following the financial crisis the number of businesses that fell into this category increased significantly. However, the phenomena of 'zombie businesses' is now in decline. The latest study by R3 shows that the number of businesses only repaying their debts fell to just 69,000 companies during the last month in the UK; less than half the number recorded in August 2014 (154,000) and the lowest total since R3 began its research in 2012. R3's figures also show that only 97,000 businesses had negotiated payment terms with their creditors; down from 135,000 last year.

The trend, highlighted by R3's research, is reflected in official figures that show fewer businesses are failing. The Office of National Statistics (ONS) says that only 9.6 per cent of businesses closed last year, down from 9.7 per cent in 2013, and the lowest figure since 2008, before the financial crisis.

Phillip Sykes, president of R3, said: "There has been a dramatic decrease in the number of 'zombie businesses' since we began our research. Encouragingly, the findings suggest that businesses are experiencing greater profitability. We are now seeing more companies able to afford to pay off the debt itself and not just the interest. This is understandable in this period of 'non-flation'. A strong pound and lower oil prices may also be helping businesses' balance sheets.

"The economic climate is rewriting the rules of recovery as we knew it. When interest rates dropped in 2009 it was never expected that they would remain at that level for so long but by doing so it alleviated some of the pressure on businesses and allowed them an opportunity to get their finances in order."

R3's latest report also revealed that 77,000 businesses believe they would be unable to repay debts if interest rates increase by just one percentage point or more. The report also found that 55,000 businesses say they struggle to pay debts when they are due, down from 64,000 in the previous year.

Phillip Sykes added: "The low interest rates have been a great aid to businesses but they won't last forever. While the amount of businesses that would be unable to repay debts has decreased by nearly a quarter since last year, it still represents a considerable number of companies who will be put in a precarious position when a rise does come."

Interest rate rises aren't the only concerns for small business in the year ahead. The new national living wage will have an impact on many firms, as will the extension of the auto-enrolment pension system. At the same time, the banks' forbearance policies will not last forever, particularly now they feel under less pressure to avoid confrontation.



If any of the issues highlighted in this article are likely to affect your clients and you would like assistance with their affairs, our team at Newman and Partners can help. If you would like to know more about our wide range of services for distressed businesses, please contact us.

# Farming: An industry under pressure

During the last 12 months the UK's agricultural industry has experienced extremely volatile markets and the number of farms in the UK is in decline, particularly in the milk sector where historically low farmgate prices have led to many farmers paying more for inputs, such as feed, than they have received as outputs.

While things are starting to look up for some sectors in farming, the year ahead is much more unclear and despite the best efforts of some in the farming community, it seems inevitable that some agricultural enterprises will fail within the next year. In fact according to a report last month by the National Farmers Union only 53 per cent of British food will be produced by domestic farmers by 2040, as the £8 billion economic contribution made by farmers continues to decline.

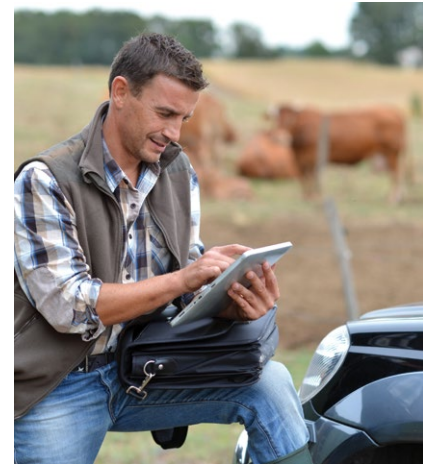
To get an idea of the kind of pressures faced by those in farming, the latest Agricultural Price Indices produced by the Department for Environment, Farming and Rural Affairs (Defra) showed that the price index for all crop products was 0.2 per cent lower in September 2015 compared to September 2014. However, the price index for all crop products fell 1.2 per cent between August and September 2015 compared to a 0.1 per cent rise between the same two months a year earlier.

In comparison, the livestock markets and milk markets have seen consistent

decline until the last few months. The pig price index has firmed over the last six months after a period of steady decline over the preceding six months. Despite the firmer prices, the pig price index remains relatively low compared to 2014 and in September 2015 was 17 per cent lower than September 2014.

The price index for animal products was 19 per cent lower in September 2015 compared to the same time last year. The price index for animal products rose 1.2 per cent between August and September 2015 compared to a 1.0 per cent fall between the same two months a year earlier.

Following the usual seasonal drop in production in September and the move by a number of milk companies to introduce winter contracts, the price index for milk rose 1.5 per cent between August and September 2015. This was the first real increase in the milk price since November 2013. The price index in September 2015 was 23 per cent lower than September 2014.



As you can see farming has had a tough year in 2015 and may face another difficult year ahead. If you have clients in the agricultural sector who are concerned about their financial position then our team at Newman and Partners can help. To find out more, please contact us.

# Consumer credit has grown 8 per cent in one year

Data from the Bank of England has shown that British consumer credit has continued to grow in recent months at rates not seen since 2006.

While overall lending to consumers rose less than forecast by £1.178 billion in October, consumer credit was 8.2 per cent higher compared to the previous year; a rate of growth that matched September's nine-and-a-half year high.

Earlier this month, the Bank of England's chief economist Andy Haldane said consumer credit was expanding at "a rate of knots", although Deputy Governor Ben Broadbent has said Britain's economic recovery is not a debt-fuelled boom.

The Bank of England has signalled that it may introduce new, higher capital requirements for banks after a two-year recovery in Britain's economy, but the changes are unlikely to have a big, immediate impact on lending.

The fact that consumer debt is continuing to rise is not that unexpected. Thanks to Lower interest rates and no sign of an increase in inflation people have felt confident about taking on additional debt during 2015.

In most cases this debt may only be small however, the fact that debt continues to rise could mean that some people are becoming over-indebted and would face a tough situation should interest rates rise suddenly.

Whilst this seems unlikely it is always best to be prepared. If your client is struggling with debt or has raised concerns about the amount they are borrowing then it may be beneficial to speak to a member of the Newman and Partners insolvency team. To find out more, please contact us.



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