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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**

UK high street retailers and businesses may face insolvency following poor Christmas sales

Initial reports following the Christmas sales period have suggested that many High Street businesses may have struggled at a time of the year when they generate roughly 40 per cent of their annual profits. This has led one influential industry body to warn that a string of retailers could face insolvency in the new year, with tough trading on the high street in the run-up to Christmas leaving businesses fighting for survival.

Widespread discounting during the traditional festive sales period and warmer-than-average temperatures has put additional pressure on High Street retailers, which has been reflected in the last few years with a number of businesses going into administration either just before or after Christmas, including Woolworths, HMV, Zavvi, and Jessops.

Atradius, one of the world's largest trade credit insurers, has warned that retailers face a "perfect storm" that could lead to a "fresh wave of insolvencies". The comments from Atradius are important, because if a credit insurer fails to back a retailer then suppliers won't be able to insure their orders with the business and may decide to stop providing the business with their products.

Owen Bassett, senior risk underwriter at Atradius, said: "Those who went into the fourth quarter needing – rather than wanting – a strong performance could be looking at a troubled future.

He has warned that many High Street chains have been forced to cut the price of their products after their Black Friday sales failed to attract the crowds that flocked to similar sales in 2014. In addition, clothing retailers have had to contend with mild weather, which has dampened demand for warm winter clothing. Recent consumer research also suggests that households are now choosing to spend their money on leisure activities and home improvement rather than on clothing.

A number of clothing retailers, such as Bonmarché, have already warned of challenging conditions on the High Street during December, while Next has reported a "disappointing" performance over Christmas, with sales hit by the unusually warm weather during the early winter months.

The group, which is the first major retailer to provide an update on its festive performance, lowered its profits guidance for the full year as it said shoppers had left "winter weight" clothing on the shelves. Full price sales at the group's High Street chain fell by 0.5 per cent between 26 October and 24 December, while sales at the Next's catalogue and online business, Directory, increased by just two per cent. Overall sales were up by 0.4 per cent, below City forecasts of around four per cent.

The same is likely to be true for many smaller independent retailers on the High Street who already have to compete with growing online sales and out of town retail parks. For them this winter's poor sales may mean that their business is facing the prospect of insolvency this year.

At Newman and Partners our teams can help your clients in the retail sector manage any outstanding debts or deal effectively with their business to minimise the risk to themselves. To find out how we can help, please contact us.

Over 100,000 businesses were owed money by insolvent companies and individuals in 2015

A new report from insolvency trade body R3 has revealed that as many as 100,000 British businesses are owed an estimated £16 billion by insolvent companies. According to their latest figures, six per cent of all UK firms in 2015 were creditors of an insolvent company, which means that a total of 113,000 firms had outstanding payments from at least one insolvent business.

R3's study also revealed that only four per cent of large corporations had given credit in the past year, compared to 14 per cent of mid-sized businesses, making this the business sector most vulnerable to these unpaid debts.

Some seven per cent of companies with 50 or fewer staff have also been left out of pocket by debtors. The UK's microbusinesses, those with between two and five staff, were the most likely to be owed money by five or more insolvent firms, despite being the least capable of dealing with the strain on cashflow.

"Growing businesses encounter two classic problems: going for growth by taking on new customers without properly checking their creditworthiness; and a lack of controls to monitor their exposure," said R3 president Phillip Sykes. "When you have a small company exposed to more than five different insolvencies, there's a cause for concern. There could be real cash flow issues there."

"Businesses need to be savvy about who they trade with," warned Mr Sykes. "If a business isn't paid up-front or on delivery, or pays in advance for its own supplies, it is essentially lending money to those with whom it is trading. This sort of 'lending' doesn't have the same protection in insolvency situations that secured lending, like a mortgage, enjoys."

If your client is struggling to secure debts from an insolvent customer then we can help. To find out more about our range of insolvency and debt management services, please contact us.

Household debt rises to £40 billion in latest figures

There are fears that many families could face another credit crunch as households are expected to spend £40 billion more than they earn this year. Following the recession many households reduced their debts and stopped borrowing. However, a new forecast from the Office for Budget Responsibility (OBR) shows that many families are on course to reach similar levels of debt as they had in the months before the 2008 financial crash.

The latest OBR data, highlighted by the Labour Party, show household spending has gone from £67 billion in the black in 2009/10 to a predicted £40 billion in the red this year. The Party is warning the trend for unsustainable borrowing could damage the economy. Shadow Chief Secretary to the Treasury Seema Malhotra said: "millions of families will face serious hardship if interest rates start to rise".

She told The Independent: "George Osborne is relying on millions of British families going further into debt to hit his growth targets. This is risky behaviour from a Chancellor whose policy decisions are hurting not helping British families. Alarm bells should be ringing. There is a real risk that millions of families will face serious hardship if interest rates start to rise.

"Of course families need access to credit and the ability to borrow to invest for the future. George Osborne should be seeking to rebalance the economy away from an over-reliance on borrowing and debt. Labour is clear about the need for a strong and sustainable economic recovery. Osborne's short-term political decisions risk real long-term damage to the finances of millions of British families and the nation's economy."

The OBR figures, released after the Chancellor's Autumn Statement in November last year, predicts household debt will reach 163 per cent of incomes by 2020 – nearing the 168.2 per cent reached ahead of the 2008 crash.

Former business secretary Sir Vince Cable, who warned of the recession in 2008, told the same newspaper: "We're back on the treadmill of growth being sustained by personal borrowing. Much of it is against an inflating housing stock. Taken together with other indicators like the very weak external deficit position, it suggests we're getting back to the old and unhappily discredited forms of economic growth."

A Treasury spokesman said: "The Government's long term plan has laid the foundations for a stronger economy. With the deficit having been reduced by almost two thirds as a share of GDP since its peak in 2009 and households more financially secure than before the crisis, Britain is in its strongest position for almost half a century.

"The economy is recovering and confidence is returning, but while household debt is still below its pre-crisis peak we're determined to avoid repeating the mistakes of the past. That's why we've created the independent Financial Policy Committee within the Bank of England which ensures risks across the financial system are quickly identified, monitored and effectively addressed."

If your client is concerned about the prospect of an interest rate rise this year or they have too much unsecured debt and are worried about the prospect of insolvency proceedings then our team at Newmans and Partners can help. We have years of experience advising professionals to help their clients with their personal insolvency issues. To find out how we can help, please contact us.

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