

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

Personal insolvency cases rise in third quarter of 2015

The Insolvency Service has recorded a rise in personal insolvency for the first time in a year. However, the total still remains much lower than the figure for the past decade.

The latest report from the Service shows that 19,683 people in England and Wales were made insolvent in the third quarter of 2015. This amount was up 2.8 per cent on the previous three months, but still down 18.5 per cent on the same quarter a year before.

Individual Voluntary Arrangements (IVAs) were responsible for the largest increase in the quarter-on-quarter rise. However, the number of people being made bankrupt fell to 3,857 in the third quarter of the year; the lowest level for 25 years. It is also believed that the total number of people made bankrupt could continue to fall following the latest changes to insolvency rules, which came into force in October. Under the new rules, the minimum debt a creditor must be owed in order to be able to petition to make someone bankrupt increased from £750 to £5,000.

According to the data, the number of businesses declaring insolvency during the third quarter of this year continued to fall. During this period 3,539 companies entered insolvency, 4.4 per cent down on the previous three months and 10.2 per cent lower than the same quarter last year. A total of 612 companies were subject to a compulsory winding-up order during the third quarter of this year; a 20.4 per cent decrease on the previous quarter and 29.2 per cent lower than Q3 2014. This was the main driver in the decrease in company insolvencies.



The Service also released a breakdown of insolvency based upon industry sector using the data from the second quarter of 2015. It showed that the six industry sectors with the highest number of new company insolvencies were construction, wholesale and retail trade, the motor trade, administrative and support service activities, accommodation

and food service activities, and manufacturing. These six sectors have had the highest numbers of insolvencies each quarter since the 12 months ending Q1 2012.

If you have a client that is facing the prospect of insolvency or are struggling to manage their debts, please contact us.

Businesses would struggle if interest rates rise

A new report by insolvency trade body R3 has revealed that as many as one in five businesses might find themselves in difficulty if interest rates were to rise by at least one percentage point in the next 18 months.

The findings from R3's latest Business Distress Index, a long-running survey of a nationally representative sample of 500 business owners and directors, showed that while many businesses have recovered from the recession, not all businesses are safe from a potential rise in the Bank of England's base rate.

According to the R3 report, six per cent of UK businesses say they would be put into "serious" financial difficulty were interest rates to rise over the next eighteen months, while 16 per cent said they would be put into "some" difficulty.

The President of R3, Giles Frampton said: "Economic recovery is just as tough a time for some businesses to negotiate as a recession, if not tougher. Normally, insolvencies peak after a recession, but we haven't seen that this time around. Record low interest rates and high levels of creditor forbearance have helped keep lots of businesses going.

"The good news is that some businesses that might have expected to struggle after 2008 have been given extra time to put their finances in order. However, there is still a big chunk of businesses that will struggle once "normal" recovery conditions, like rising interest rates, return." Giles Frampton adds: "A one percentage point rise in interest rates is at the upper limit of what we might expect in the 18 months, but policymakers should bear in mind that many businesses still feel they're close to the edge of their comfort zone."

The research also showed that more than two-thirds of businesses were relaxed about the prospects of an interest rate rise, with 70 per cent saying they would be unaffected, while a further seven per cent of businesses believe they would actually benefit from an interest rate rise.

Giles Frampton added: "Businesses may be expecting their bank to absorb

any interest rate rises – banks have not been applying nearly as much pressure on their business customers when it comes to basic business lending as they were after the early 90s recession. Also, given how consistent speculation about rate rises has been in the last few months, many businesses will be planning ahead anyway. An interest rate rise will have the biggest impact on "zombie businesses" – those that are already only paying the interest on their debts – and personal finances."

While the prospect of an interest rate rise of one per cent or more seems unlikely in the near future, it is still best to be prepared. If you have a business client that has a substantial amount of debt that needs managing ahead of a potential interest rate rise then our team of experienced insolvency practitioners can help.

For more information, please contact us.

Care homes face financial crisis

New research has found that almost a third of care home companies are struggling financially, with as many as 400 in danger of closure.

The study by Company Watch also revealed that of the country's 5,500 care home operators, around 1,650 are finding it difficult to maintain financial stability. Of these groups, around a quarter, which represent around 1,500 individual care homes, could fall into insolvency.

Many care providers in the UK are struggling to pay interest on their debts, despite the historically low base rate, due to rising staff costs and falling fees from local authorities who have had to cut budgets to meet the demands of central government. This situation is only likely to get worse for many businesses as the government phases in the National Living Wage from next year, which will see those over the age of 25 receive £7.20 an hour from April, rising to £9 an hour by 2020.

Credit rating agency Standard & Poor recently warned that Four Seasons

Health Care group, the UK's largest care home operator that has 470 homes and more than 20,000 available beds, could run out of funding within the first half of 2016 and default on its loan repayments, unless serious action is taken.

The Four Seasons Health Care group was one of a number of care home operators to write to the Chancellor George Osborne to warn that a major firm would go under within the next year, if local authority fees stayed at the same levels and if the minimum wage increased.

Nick Hood, Business Risk Advisor at Opus Restructuring, said: "Government austerity measures have slashed top line income, while labour and other essential costs are rising all the time through factors that are mostly outside the control of care home operators. Something has to give if major problems are to be avoided and if capacity is to be increased

to house the escalating number of the elderly and the vulnerable in society."

The Four Seasons group is now reportedly looking to raise £60 million through the sale of some of its homes and has appointed specialists to restructure its balance sheet. However, the firm is believed to be struggling to cope with the £500 million debt and annual interest payments of £50 million.

The care home industry seems to be in crisis at the moment and the prospect of further cuts or a significant increase in staffing costs seem very likely. For some of your clients in this sector it may be that a restructuring of their business could be the solution to their problem but for others insolvency may be the only option available. At Newman & Partners we can help you by providing the advice and services you need to assist your clients. For more information, please contact us.

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