

Newman & Partners

Licensed Insolvency Practitioners

FOCUS ON INSOLVENCY BULLETIN

Welcome to the latest issue of our Focus on Insolvency 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 could affect a third of retailers

According to research, around a third of the UK's retailers could be at risk of insolvency in the coming year. This was comparable with a risk of insolvency of only 25 per cent for other UK businesses. The research also revealed that almost 31 per cent of retailers in the UK have a higher than normal risk of starting an insolvency procedure in the next 12 months, having had a tougher time of it than other sectors in the past few years.



So after enduring a sluggish recovery, battling with the recession and changing consumer shopping habits, traditional retailers find themselves under yet more pressure as they are exposed to the effects of expansion as economic recovery picks up. However, the research also suggests that insolvency is not always the end of the line for a retailer. It can actually be an opportunity to restructure and rethink the business model. Many retailers have recovered from administration and gone from strength to strength.

Researchers suggested that there can often be a spike in insolvencies around quarterly rent day, due to retailers delaying insolvency procedures until after rent is due. This is possibly down to the complex rules on administration costs that have developed in recent years. Insolvency law states that there are certain costs that need to be paid by businesses in administration before money can be paid back to creditors, with rent being one of these payments. Delaying administration until after rent is due means that unpaid

rent becomes just another debt to be repaid to creditors. This could see a retailer rescued rather than dissolved.

On matters of insolvency, it is always advisable to seek professional help and guidance. At Newman & Partners Insolvency, we have many years' experience and can provide your clients and their businesses with a range of appropriate solutions.

For further information, please contact us.

Zombie companies on the radar

A new report by a financial health monitoring group has revealed that years of financial unrest has turned thousands of UK firms into “zombies”, which could produce a “surge of insolvencies” when they finally reach the end of the road.

According to the report, the number of zombie businesses has risen by more than 100 per cent in the past five years to around 227,000. These companies are only just producing enough cash to service their bank and supplier debts and have liabilities far in excess of their assets.

The firms have a collective number of employees of around 500,000, all of whom could end up unemployed if, and when, the companies fail. This is further compounded by the knock-on effect of bad debts on banks and other creditors. It is estimated that these businesses have a total negative net

worth of about £70bn, described as “dead money languishing in unproductive businesses”.

These businesses can also harm healthy businesses in their bid to stay afloat. Many, particularly those in the construction industry, resort to ‘suicide pricing’, which depresses the profitability of the whole sector. The largest number of zombie firms is in the business services sector, where 65,000 companies are desperately holding on with little prospect of breaking even.

The construction industry is also suffering, with an estimated 26,000 zombie

companies found and approximately 21,000 affected firms in the media sector and a further 20,000 thought to be in the retail sector.

According to the research, around 63,000 UK firms have negative equity of between £50,000 and £1m, while nearly 3,500 have debts of even more than that, which far outweighs their assets.

At Newman & Partners Insolvency we can provide tailored solutions to enable your clients to manage their financial situation.

Contact us for more information.

Insolvency rules simplified

Proposals to simplify and reorder existing insolvency rules and replace them with a single set of rules fit for the 21st century were announced in a consultation document published by the Insolvency Service in September.

The new rules bring together 24 statutory instruments. They also make common provision for processes, such as meetings of creditors that apply across different insolvency procedures, to make it easier for users.

The new rules will also include written information requirements to make it easier to use electronic submission rather than relying on statutory forms. This should result in a more logical structure to improve clarity and consistency.

The consultation – modernisation of rules relating to insolvency law, which closes on 24 January 2014, is aimed at insolvency practitioners, judges, lawyers and people involved in insolvency issues, e.g. creditors and debtors. It follows feedback from users who asked for a more streamlined structure free of archaic and often impenetrable language.

The current rules have been in force since 1986 and provide a framework

for the Insolvency Act 1986, setting out requirements for the majority of insolvency procedures. The draft rules anticipate some of the policy changes from the government-wide Red Tape Challenge proposals announced in July 2013 which included proposals to change the need for creditor meetings and contact.

The proposals include:

Structural changes:

- Creating a single set of rules
- Reordering the rules on more logical and clearer lines

Content changes:

- Using plain English and improving consistency to make the rules easier to understand, and to improve consistency across insolvency procedures
- Removing shareholders and those under a duty to contribute to unpaid share capital – contributories – from the list of people who can be appointed to a liquidation committee



- Making it easier for documents to be delivered by electronic means

At Newman & Partners Insolvency we can advise your clients on all aspects of insolvency, including any changes in regulations.

Contact us for more information.

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