

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

First businesses ‘named and shamed’ under Prompt Payment Code

The Government has revealed the names of 17 companies who failed to meet its Prompt Payment Code (PPC), which requires signatories to pay 95 per cent of supplier invoices within 60 days to reduce the burden of late payments on smaller businesses.

Among the companies listed by the Government are Rolls-Royce, Balfour Beatty and Persimmon. While the PPC is a voluntary scheme, signatories could benefit by receiving more favourable pricing or services, which is why so many have signed up to the initiative run by the Chartered Institute of Credit Management (CICM) on behalf of the Department of Business, Energy & Industrial Strategy. Signatories of the scheme promise to uphold its rules, which also include adopting 30 days as the norm for payments and avoiding any practices that adversely affect the supply chain.

Kelly Tolhurst, Minister for Small Business, said: “The Prompt Payment Code is a positive force for good and by naming transgressors we are supporting small businesses in the supply chain.

“We remain committed to supporting small businesses against poor payment practice and are delighted to see that the Prompt Payment Code Compliance Board has acted to expose those whose payment practices fall outside of their obligations to treat suppliers fairly.”

The 17 businesses recently identified in the first phase of reviews are among thousands who signed up to the PPC. Of those identified, five will be removed from the PPC due to their behaviour, this includes global mining giant BHP Billiton;



logistics business DHL; manufacturer GKN; international construction company John Sisk & Co; and Twinings & Co. The other 12 businesses named will be suspended temporarily.

CICM Chief Executive, Philip King, said: “The Board is disappointed with the actions of a minority who continue to treat their suppliers unfairly, and has no satisfaction in having to name them publicly.”

The Government has indicated that nearly a quarter of UK businesses believe that late payment was a threat to their survival, while the Federation of Small Businesses has

said tackling the problem could add £2.5 billion to the UK economy and help to save more than 50,000 businesses each year.

Later this year, the Government intends to launch another payment initiative to ensure that all suppliers and subcontractors on public projects are paid on time. Due to be launched at some point during the Autumn, companies that fail to meet the prompt payment requirement to suppliers could be prevented from being awarded future Government contracts. Late payments can have a devastating impact on a company’s cash flow and finances. To find out how we can help, please contact us.

HMRC to rise up the creditor priority list

Industry experts are questioning a Government decision that will see HM Revenue & Customs (HMRC) listed as a preferred creditor when a company is wound up. From April next year, the tax authority will rank just after secured creditors, such as banks, and insolvency practitioners in order to recover additional outstanding tax from failing businesses.

Currently, HMRC is ranked alongside unsecured creditors, such as suppliers, trade creditors, contractors, customers, who rarely recover more than four per cent of debts owed on average. However, the change will mean that they are now likely to recover a higher percentage of tax, which will contribute around £185 million extra a year to the public coffers.

The taxman's new position in 'third place' in respect to employment taxes and national insurance contributions mean that their claims will jump ahead of floating charges from secured creditors. This includes debt provided by financial institutions and secured against stock, raw materials and the like.

Insolvency trade body R3 has described this move as a "short-sighted cash grab" and it warns that the Government hasn't thought through the impact on small businesses, in particular, the reduced likelihood of lending to small businesses, who are disproportionately more likely to face insolvency or be affected by the insolvency of other firms.

Under the Government's plans to recover more tax from insolvent businesses, VAT paid by customers on goods will also jump up the queue, although claims relating to other charges such as corporation tax still rank alongside other unsecured creditors.

This latest decision is a reverse of the previous crown preference arrangements

that were removed in 2003. It came after a record number of smaller corporate entities began winding up in the late 1990s following concerns that HMRC was inadvertently pushing them into liquidation through its tax recovery activities during a business's financial distress or restructuring.

R3 fear this latest shift in the law could have a greater impact on businesses that even this system, as HMRC will be given powers to recover staff taxes and VAT going back 21 years. The effect of this is likely to be that lenders will require prospective borrowers to prove that they do not owe a significant amount of historic taxes before issuing new credit. If you are concerned about how this change could affect a business, please speak to our team.

UK credit card default rate hits the highest level in two years

The latest figures from the Bank of England shows that the number of people defaulting on their credit card debts has risen substantially during the first three months of 2019. This is the sharpest increase in credit card defaults since 2017, according to lenders and follows a worrying trend that started at the end of last summer.

According to the Bank of England, the default rate increased to 22.9 per cent in the first quarter from 12.7 per cent in the last quarter of 2018. Prior to these increases, the number of people defaulting had been in decline, while the last time the credit card default rate rose above 20 per cent was in the second quarter of 2017.

In order to tackle this growing issue, banks and credit card providers are considering further restrictions on credit card loans to bring down the default rate and it is anticipated that lenders will cut unsecured lending in general over the next three months.

Reflecting on the figures, Peter Briffett, the Chief Executive of Payments firm

Wagestream said: "A surge in defaults on credit card borrowing shows that rising wages in the UK mask the financial stress that is still a reality for many. This is a big red flag for household finances. The credit card balance default rate hasn't been higher since the first half of 2017 and marks a return to rocky ground, far outpacing the deterioration seen with other forms of unsecured lending."

The recent spending on credit is partly thought to be the reason that some retailers have recorded growth in recent months, despite previously experiencing quarter after quarter of decline. With Brexit delayed more people are incurring debt as they appear less worried about the UK's financial position in the short term.



However, anti-poverty campaigners also argue that in many cases low-income families, yet to experience the uplift in wages experienced in some companies, are using debt to cover every day basics as they struggle day-to-day with a variety of rising household costs. To find out how we can help with debt issues, please contact us.

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