

# 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)

### Corporate debt levels skyrocket as UK begins path to recovery

The amount of business debt is soaring as the UK continues its recovery from the third Coronavirus lockdown following a year of economic uncertainty and restrictions. New data has revealed that British businesses acquired new debts at more than twice the normal average rate since the crisis began, with total corporate debt on course to reach £61 billion by the end of 2021.

New forecasts, as part of a study by EY, indicate that businesses may need to borrow as much as £26 billion from banks this year, to not only rebuild their operations but also cover the cost of survival. This is £17 billion more than was borrowed before the pandemic in 2019, giving some indication of the level of indebtedness amongst British businesses.

To help businesses, the Government has offered several repayment plans to assist companies who have taken out loans and finance, via facilities such as the Bounce Back Loan and Coronavirus Businesses Interruption Loan Scheme, as well as encouraging lenders to help businesses restructure their debts.

This includes the Pay As You Grow Scheme, which allows businesses with Bounce Back Loans to extend the length of the loan from six years to 10 years, make interest-only payments for six months, with the option to use this up to three times during the life of the loan, and pause repayments entirely for up to six months.

However, despite this support, experts fear that the level of new debts taken on by firms could hold back Britain's economic recovery and lead to a reduction in investment, which may slow growth further as businesses focus on servicing and reducing debts.

The concerns over debt come at a time when economic activity is at an all-time



low. A new business survey from NatWest has shown that the tougher lockdown measures at the start of the year triggered a broad-based contraction in business activity. NatWest said the biggest fall was recorded in Scotland, while employment levels also fell in all 12 regions of the UK monitored by the bank.

A similar report into economic activity amongst manufacturers, from MakeUK, found that half of the firms surveyed expected it would take until at least 2022 for them to return to full production capacity. The survey of 186 industrial companies also showed that more than a quarter of businesses believed it would take a year or more to return to normal trading.

The Chancellor took significant steps to support businesses in the Budget, including extending the furlough scheme and introducing the new Recovery Loan Scheme, but there remain concerns that many businesses, especially those in the hardest-hit sectors, will struggle to repay their debts.

**IF YOU KNOW OF A HEAVILY INDEBTED BUSINESS THAT COULD BENEFIT FROM ADVICE ON RESTRUCTURING AND DEBT REDUCTION, WE CAN HELP. OUR EXPERIENCED TEAM CAN HELP BUSINESSES TO EXPLORE A VARIETY OF BUSINESS RECOVERY AND INSOLVENCY OPTIONS TO SUIT THEIR NEEDS, SO PLEASE CONTACT US.**

# What happens if I can't repay my Bounce Back Loan?

From May, thousands of businesses who took out a Bounce Back Loan last year face making their first repayments to lenders. However, many companies may not be able to make the necessary repayments due to the ongoing issues they face with COVID-19 restrictions.

The National Audit Office predicts that £26 billion of the £45 billion Bounce Back Loans issued so far will never be paid off, which is why the Government is preparing to shoulder the costs of these 100 per cent guaranteed loans. This tallies with a survey by the Business Banking Resolution Service (BBRS), which found that more than 40 per cent of businesses that have taken out any Government-guaranteed emergency Coronavirus loan have no intention of repaying them.

To assist businesses and encourage repayments the Government has introduced the Pay As You Grow (PAYG) Scheme. As mentioned in the previous article, the PAYG initiative gives borrowers various options to restructure their loans, including extending the length of the loan term by four years and taking various interest and payment holidays.

PAYG is available to all borrowers from their first repayment and offers companies the flexibility to tailor their repayment schedule to meet the needs of their

business. Businesses do not have to use the PAYG initiative and can choose to make loan repayments as they see fit.

In some cases, it may be beneficial to repay the loan sooner to reduce any interest (fixed at 2.5 per cent per annum) on a Bounce Back Loan, as they are not subject to early repayment fees. Many businesses are being encouraged to make use of this facility before the loan applications process closes on 31 March 2021.

Of course, despite this support, there will still be many businesses that are unable to make repayments or who have no intention of doing so. Unlike regular borrowing, owners won't lose any assets, as lenders are forbidden to ask for a personal guarantee or take a charge over your home or personal vehicle, and it shouldn't affect a business or its owner's credit score.

However, banks have the right to pursue the owner for unrepaid Bounce Back Loans in much the same way as they would try

and recoup any other unsecured loan. This could involve dealing with debt collection agencies, which will mean threatening letters, court action and even bailiffs if a business is unwilling to pay.

The Government and the banks are already discussing the establishment of a panel of debt collection agencies that would all follow an agreed code of practice. It is necessary for lenders to chase debts because they can only claim on the Government 100-per-cent guarantee once a debt collection agency has exhausted chasing repayment. Borrowers should, therefore, be aware that despite the Government's backing, they could be pursued for unpaid debts from the Bounce Back Loan Scheme.

**IF YOU OR A CLIENT HAS QUERIES OR CONCERNS ABOUT THE REPAYMENT OF GOVERNMENT-BACKED LOANS OR THEY NEED ASSISTANCE WITH RESTRUCTURING DEBTS IN GENERAL, PLEASE SPEAK TO OUR KNOWLEDGEABLE TEAM TODAY.**

## Cash flow issues lead to wellbeing concerns for SMEs

A study into the mental health and wellbeing of the owners of small and medium-sized enterprises (SMEs) has found that more than three quarters (78 per cent) are concerned about cash flow. The impact of COVID-19 has affected many people's mental health, so it is not surprising that the study by Mental Health UK and SME lender iwoca found that 80 per cent of SME owners said that they have suffered from mental health symptoms since the start of the pandemic.

The research has found that the pressures of the pandemic on SMEs has led 66 per cent of owners to lose focus, while 64 per cent suffered from anxiety and 63 per cent struggled to sleep. The finances of many directors and owners have been adversely affected by the events of the last year, with many business leaders unable to take full advantage of furlough, while others have taken on personal debt to keep their company afloat.

Cashflow worries represented the most significant concern according to respondents, as economic uncertainty has left many SMEs unsure of their future

earnings potential and facing late payments from customers. The study also showed that female business owners were more likely to experience poor mental health than their male counterparts.

**IF YOU KNOW OF A BUSINESS OWNER WHOSE WELLBEING AND MENTAL HEALTH HAS BEEN AFFECTED BY ISSUES WITH CASH FLOW OR THEIR COMPANY'S LIQUIDITY, THEY MUST SEEK HELP. OUR TEAM OF EXPERIENCED INSOLVENCY PRACTITIONERS ARE HERE TO OFFER COMPASSIONATE ADVICE, SO PLEASE CONTACT US.**



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