

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 insolvency professions impact on the economy highlighted in a new report

The latest study by the insolvency and restructuring trade body, R3, has revealed that on average, each insolvency professional helped to save around 800 jobs and returned around £5 million to creditors through their work. The new data in the 2021 'Value of The Profession' report, based on figures from 2019, show that the sector helped to rescue around 297,000 jobs and allowed creditors to recover more than £1.82 billion from insolvent businesses in the UK in just 12 months. By advising 60,000 businesses R3 members also helped to rescue more than 7,200 companies across the UK.

Of the corporate insolvency cases dealt with in 2019, 82 per cent of insolvent companies were based in England, of which 21 per cent were located in the South East, 18 per cent in London and 23 per cent in the South West. Insolvency practitioners also helped 144,000 individuals, which helped creditors recover more than £1.47 billion.

The report also shows that the most common form of insolvency during this period was Creditor Voluntary Liquidations, which accounted for 55 per cent of cases, followed by



Administrations (34 per cent). The least common form of corporate insolvency was Company Voluntary Arrangements (CVAs), which only accounted for five per cent of cases in 2019.

The report, which is based on responses to a survey of representatives of 71 companies from the UK insolvency and restructuring profession, also found that retail was the sector most affected by insolvencies during this period. Construction was the sector with the second-highest number of insolvencies, followed by accommodation and food services.

The study also looked into the most common reasons for business insolvency and found that the top four were management failure, financial issues, loss of market, and the knock-on effect from the failure of another company. However, it also showed that 11 per cent of corporate insolvency cases involved fraud or criminal activity. R3 said that this "highlights the importance of the profession's extensive powers to investigate and, under civil litigation, to prosecute those involved in or assisting in fraud, corporate misconduct and director misfeasance – work which helps to return money to creditors and victims alike."

Colin Haig, R3 President, said: "While these figures help to illustrate the scale and importance of the profession's work to the wider economy, in what we now know to have been a relatively benign economic environment, they also help to highlight another key point.

"With the country still in the process of returning to 'normal' following a year of pandemic related disruption, businesses and individuals have weathered an economic hit that has left many of them with uncertain futures. Resolving this financial distress will require Government support, creditor forbearance and a legislative framework that gives businesses and individuals time to get back on their feet. But crucially, a successful post-pandemic economic recovery will require the skills and expertise of the insolvency and restructuring profession, to support businesses and individuals to navigate the still-choppy economic waters."

IF YOU OR A CLIENT ARE CONCERNED ABOUT THE PROSPECT OF INSOLVENCY, ESPECIALLY IN THE CHALLENGING MONTHS AHEAD, PLEASE CONTACT OUR EXPERIENCED TEAM AT NEWMAN & PARTNERS.

Smaller retailers struggling with a £1.7bn debt crisis

One of the UK's top former retail chiefs has warned that small shops are dealing with combined debts worth up to £1.7 billion. Bill Grimsey, ex-boss of Wickes, Iceland and Focus DIY, has said that shops now owe four times as much as they did a year ago due to the impact of COVID-19, rent arrears and the financial support many businesses have taken out.

His warning comes in a new report into the challenges town centres and high streets face, unless the Government assists the sector further. The report says small retailers face a "tsunami" of shop closures this autumn if more is not done now.

The report found that many smaller shops only survived the pandemic by borrowing money via the various Government loan schemes. However, many now face the tough task of repaying their debts as the economy recovers, which for some may hamper their growth and lead to insolvency.

In the report, Mr Grimsey states: "Our High Street independents have experienced a new-found appreciation during lockdown. But they've also been forced to take on Government-backed loans, which they

would not have normally been able to get because their balance sheets wouldn't allow it. Now they are struggling to manage a mountain of debt and need help."

To prevent a wave of business failures later this year, the report calls on the Government to forgive debts and write off loans for small businesses that remain viable. It points to how the French Government is already preparing a "policy to save small businesses from being crushed by debt."

Responding to the report, a Treasury spokesperson said: "Our unprecedented £350 billion COVID support package has provided a lifeline to hundreds of thousands of businesses across the UK – through loans, grants, tax cuts, business rates holidays and the furlough scheme.

"The Government has always been clear that Bounce Back Loans are loans to be repaid and that they may not be the right answer for all businesses. We've provided further support and flexibility to businesses that took out Bounce Back Loans by introducing the Pay as You Grow options so that loan terms can be extended, monthly repayments reduced and a repayment holiday taken for up to six months."

IF YOU OR A CLIENT ARE STRUGGLING WITH DEBT ISSUES DUE TO THE PANDEMIC, WHETHER THEY ARE IN THE RETAIL SECTOR OR NOT, OUR TEAM OF EXPERIENCED INSOLVENCY PRACTITIONERS CAN HELP. TO FIND OUT MORE ABOUT OUR SERVICES, PLEASE CONTACT US.

Lower than expected insolvency figures prompt fear of 'zombie businesses'

The total number of administrations and receiverships has plummeted during 2021, despite the economic challenges faced by many businesses in the last year. Although the latest insolvency figures show a slight rise in cases of corporate insolvencies, there are growing fears among some economists that the UK is experiencing the growth of zombie businesses, ahead of a substantial collapse.

Zombie companies are entities that continue to trade only to service debts and/or interest on debts that they owe. They do not grow and are often reliant on Government funding to remain open. This is likely to be the case for many businesses who have been prolonging the inevitable by relying on the financial support currently available.

However, as this final funding is wound down in the months ahead and loans begin to be repaid, experts predict that there could be a significant rise in corporate collapses. Already the likes of Debenhams, The Restaurant Group and Intu Properties have failed as they could not survive, as they were already in effect reliant on support from elsewhere.

This is a trend that many predict will rise, as zombie companies begin insolvency proceedings in the knowledge that they cannot continue without Government-backed loans or the furlough scheme. Many of these insolvencies are likely to take place within the retail and hospitality sectors, which have been badly affected by COVID-19.

These predictions are now backed up by a new study, which is warning the UK economy may have become flooded by 'zombie companies,' which will hamper its recovery in the coming years. According to research in The Gazette, a total of 301 companies fell into administration or receivership between January to June 2021. This was down by more than half compared to the first half of 2020 and 2019.

Blair Nimmo, CEO of Interpath Advisory, the group behind the study, said: "Insolvencies are being suppressed artificially thanks to the raft of support available...and the taxpayer is propping up an army of zombie companies. There are lots of good businesses out there whose balance sheets are broken solely due to the impact of the pandemic – so it is only right they continue to be given the time and the support to be able to build their way back out of the crisis."

WE ARE DEALING WITH A GROWING NUMBER OF ZOMBIE BUSINESSES AT NEWMAN & PARTNERS. IF YOU OR A CLIENT ARE STRUGGLING TO RECOVER DEBTS FROM SUCH A BUSINESS OR YOU KNOW OF A COMPANY THAT NEEDS HELP, PLEASE CONTACT US.

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