Update from John D Travers & Company

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TIDE TURNS AS BUSINESS FAILURE RATES RISE

Summer will see cloudy skies for a growing a number of businesses, as studies reveal an uptick in the number of corporate insolvencies.

John Travers says he is seeing a rise in the numbers of owners and directors finding themselves squeezed by increased costs, deteriorating trading conditions, lack of access to funding and, increasingly, impatient creditors.

"Early detection and prompt action can help mitigate the impact in most cases."

He warns that while many are seeking preliminary professional help and advice, only a small minority then choose to act to restructure their business, or manage a graceful exit.

"It is alarming how many business people in the UK are so terrified of facing failure that they wait till a creditor, a lender or HMRC pulls the plug."

The first quarter of 2011 saw a rise of nearly four per cent in the number of businesses going bust in England and Wales, according to the Government's Insolvency Service.

And, according to credit rating agency Equifax, figures started to creep up further in April and May with the number of companies failing rising 1.5 per cent from the same time last year.

CHANGES MAY BE NEEDED BEFORE REFINANCING WILL WORK

Latest figures from the Asset Based Finance Association (ABFA) reveal that invoice finance is out-performing all other types of business lending.

Total advances from members have grown nine per cent year on year, and finance through leasing and hire purchase grew eight per cent, they claim.

According to John Travers, while asset-based finance can play a positive role in the development of a business, firms face increasing risks if they are seeking to plug a cash hole rather than fund innovation and growth.

"For businesses unwilling or unable to obtain traditional lending such as bank overdrafts or loans, asset–based lending is an attractive option - offering a ready and flexible source of finance.

"However, we are finding, in cases where the fundamental business model is flawed, after the temporary benefits of a cash flow boost have worn off this route may only serve to add to their longer-term woes.

"We are advising owners and directors to undertake a comprehensive review of their business before any such agreement is entered into."

TAX HIKE ON BANKRUPTCY

June 1st saw an increase in bankruptcy petition fees: for debtors, the deposit on a bankruptcy petition will increase from £450 to £525 and the creditor deposit will increase by £100 to £700.

The creditor's deposit on a winding up petition will also rise, from £1,000 to £1,165.

Changes have not been made to administration fees in bankruptcy and company cases and there is no increase to the Secretary of State or fee- band charges.

Our services include:

- **Corporate Recovery**
- **Members' Voluntary Liquidations**
- **Creditors' Voluntary Liquidations**
- **Compulsory Liquidations**
- **Administrations**
- **Company Voluntary Arrangements**
- **Administrative Receiverships**
- **Law of Property Act Receiverships**
- **Partnership Voluntary Arrangements**
- **Business Advice**
- **Advice to directors**
- **Bankruptcy**

LENDING TO UK FIRMS TAKES A DIP

Official Bank of England data covering lending by all UK-resident banks and building societies indicated that the stock of lending to businesses contracted by around £5 billion in early 2011.

Data from the five major UK banks indicated that their net lending was -£2 billion in 2011 Q1.

And Project Merlin, the high profile agreement between the Government and the banks has so far failed to weave its magic – most notably in improving lending to smaller and medium sized businesses, according to latest figures.

John Travers says that the banks are in a tricky position - being pressed to increase their reserves while at the same time increase lending.

He comments: "Banks are restricted to making only the soundest lending decisions and it is highly probable that many applicants are not actually planning to fund future growth, merely hoping to keep going at any cost."

HARD STANCE FROM UTILITIES SPARKS OFF DEBATE

R3 are pressing for changes in legislation to prevent key suppliers, particularly utilities, from "holding recovery to ransom".

The insolvency industry's professional body claims that as many as 14 per cent of liquidations could be avoided if suppliers continued on the same terms as they did pre-insolvency.

John Travers reports: "I have dealt with an administration recently where a leading gas supplier continued to send bills, although I had already paid those for the trading period.

"The new bills were charged at a rate per kwh 34 per cent and 64 per cent higher than the bills already paid!"

"I have yet to receive any explanation as to how the same gas that has been paid for can have increased at all, never mind by such staggering amounts," he comments.

"Apparently this type of practice is prolific and could potentially result in IPs deciding it is too expensive to continue trading in administration and decide to sell assets at forced sale values rather than figures approaching going concern values."

A thought to conjure with...

When is a 'gratuity' out of order? And how lavish can hospitality be?

Businesses are advised to ensure compliance with the much heralded Bribery Act 2010 came into force on 1 July 2011replacing century old anti-corruption laws.

The move is welcomed by most - although there are likely to be some exceptions, quips JDT.

While the Ministry of Justice is likely to go easy on smaller firms, the risk of falling foul of the new rules applies to all firms," advises John Travers.

'TIME TO PAY' SCHEME MAY BE STARTING TO BACKFIRE

The taxman could be facing losses of up to £650m in tax debts it allowed to build up as part as part of the government's "Time to Pay" arrangements.

New figures show that of the £1bn outstanding £650m has not been paid as initially agreed by HMRC with the businesses concerned.

"If a business is on its third or fourth referral, it indicates that there may be underlying problems with its viability," says John Travers.

HMRC vigorously defended the scheme, saying that it was likely to have prevented the expected post-recession spike in insolvency figures.

HMRC SET TO GET TOUGHER ON DEFAULTERS

HMRC has appointed ten Debt Collection Agencies (DCAs) targeted to collect between £500m and £1.5bn of outstanding debts.

It is understood that their focus will be on relatively small and older outstanding liabilities leaving HMRC to target and collect the larger liabilities themselves.

John Travers has direct experience of this shift as HMRC seeks to boost its coffers.

He says "There is no doubt HMRC are taking a less tolerant approach. Increasingly I am receiving refusals to requests that they hold off whilst we see what can be done to save a business."

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