

# Insolvency Bulletin

Growing number of firms finding it difficult to service their debts

## UK BUSINESSES JOIN LIVING DEAD

Research among a cross-section of UK businesses reveal that eight per cent are only able to pay the interest on their debts, but not reduce the debt itself and are relying on continued low interest rates to keep trading.

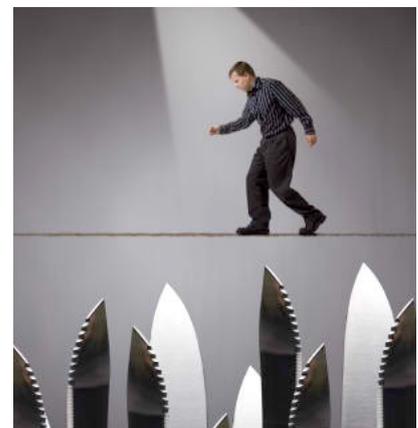
This equates to a potential 146,000 financially dead or 'zombie businesses' across the country.

John Travers comments: "Over the last three years we have seen the rate of formal business insolvencies flatline. Certainly, the expected jump in the number of companies falling into administration has not materialised."

He believes that the mismatch can be explained by the change in attitude among the government, lenders and creditors, which have allowed more breathing space

for businesses since the onset of the financial crisis.

Retailers say they are the hardest hit, with the construction sector coming a close second.



### GOVERNMENT SEEKS TO CUT RED TAPE

The Government recently launched a plea urging individuals and groups with an interest in insolvency matters to help identify ineffective, burdensome or unnecessary regulation as part of the its Red Tape Challenge.

Areas open for comment include: how insolvency procedures work, the regulation of insolvency practitioners, and the regime for the disqualification of directors.

John Travers believes that any move to help streamline current practices and reduce the burden of bureaucracy is welcome.

He says: "One area notably ripe for improvement is the lack of uniformity in the complaints procedures among the insolvency licensing bodies."

Submit your own views by email to:  
redtapechallenge@cabinet-office.gsi.gov.uk

Industry comes under Government spotlight

## INVOICE FINANCE SCANDAL GATHERS PACE

The Government is investigating alleged "abuses" of the administration process by invoice finance providers after claims that malpractice is costing the taxpayer "hundreds of millions of pounds".

The Treasury and the Insolvency Service have begun an inquiry into the unregulated industry after the Daily Telegraph revealed that some lenders are exploiting company failures at the expense of the government, business owners and other unsecured creditors.

It is claimed that some invoice finance firms are abusing contractual fees and their secured creditor status to force firms into administration. They then collect the outstanding debts, charge the business so-called "termination" and "collection" fees, thus reducing the funds available to other creditors and in some cases even fund a new "phoenix" business to repeat the process.

John Travers says: "Businesses should be assured that most invoice providers

behave responsibly. However, there are some who deal with what I call the "grubby end of the market", acting as lenders of last resort generally to businesses that are badly run and will inevitably fail.

"In these cases, the only way the funder can profit is by the application of termination and collect-out fees. It's wrong, but it happens.

"We have been involved in a recent case where a struggling company changed its invoice finance funder, who seemed content until a prospective purchaser came up with the idea of a pre-pack administration. Seeing the opportunity of a fat termination fee the funder almost forced the company into administration. We managed to snatch that one from the jaws of death, just in time.

"Business owners should be wary, and could benefit from seeking professional advice to help in the selection of one of the many supportive funders, who can help it get back on its feet," he adds.

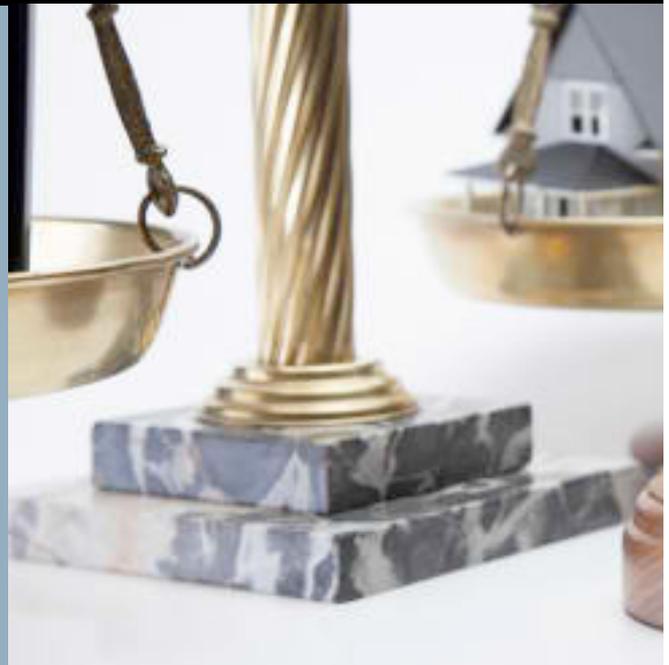
## BUSINESSES DRAWING ON PERSONAL RESERVES

More and more business owners are resorting to drawing on their own personal savings and credit to keep their businesses going compared to this time last year, according to new research.

In a study by Bibby Financial Services, using personal savings to raise the finance needed for running their firms became the number one option for small and medium-sized business owners in the UK, ahead of bank overdrafts, loans and credit cards.

A similar report by Capital One also found that the vast majority of micro businesses (98 per cent) have no intention of applying for bank loan finance over the next 12 months.

They also found that half of micro-businesses rely on personal sources of finance to fund their cashflow needs and, of these, a quarter use a credit card and 17 per cent an overdraft.



### Automotive sector hardest hit INSOLVENCIES DOWN IN WEST MIDLANDS

The West Midlands saw a slight decrease in the number of business insolvencies in July, according to the latest available statistics from Experian.

A total of 172 companies in the region were unable to pay their debts in July, a fractional drop on the previous year, according to its latest Business Insolvency Index.

There was a fall in the rate of insolvencies nationally too with a very small proportion failing - hardly changed from last year. The automotive sector was one of the few sectors to record an increase in failures in this latest set of figures.

John Travers comments: "The continued low rate can be explained by creditor tolerance and an unwillingness by lenders to pull the plug."

### SME's suffering LENDING COSTS UP

The latest Bank of England's Trend in Lending survey highlights that the increased cost of lending to businesses may have had the effect of decreasing levels of SME funding by the banks in the last quarter of 2011.

While gross lending from the major clearers totalled £215 billion last year, lending to SME's was £1 billion below the Project Merlin target.

Bankers' representatives blame the shortfall on lack of demand.

### Outlook bleak for many CONFIDENCE LOW AMONG SMALL FIRMS

Micro-businesses account for 95 per cent of UK companies, employ seven million people and currently contribute over £600 billion to the UK economy. However, new research shows that over a quarter expect to fold within the next two years and one in six by the end of this year.

Thirty seven per cent have found it harder to fund their business over the past 12 months and one in five has no credit balance available in their main bank account, leaving them highly vulnerable to closure.

### New prize ACCOUNTANCY STUDENT SCOOPS JOHN D TRAVERS & CO AWARD

A budding accountant from Sedgeley beat off stiff competition from his fellow students to win the John D Travers & Co Award for Special Achievement in its inaugural year.

Nineteen year-old Ryan Bayliss, pictured right, is a student on the Association of Accounting Technicians (AAT) Level 3 Course at Halesowen College.



### OUR SERVICES

- 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

### For further information:

John D Travers & Company,  
First Floor, 58 Hagley Road,  
Stourbridge DY8 1QD

T 01384 374 000

F 01384 375 300

W [johndtravers.co.uk](http://johndtravers.co.uk)

E [info@johndtravers.co.uk](mailto:info@johndtravers.co.uk)

## JOHN D TRAVERS & COMPANY

LICENSED INSOLVENCY  
PRACTITIONERS

BUSINESS ADVISERS