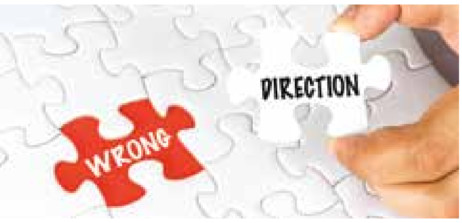
GRIFFIN & KING
LICENSED INSOLVENCY PRACTITIONERS
News and views from the Griffin & King team

BUSINESS RESCUE, RECOVERY AND TURNAROUND | WINTER 2018/2019

Management team:
Janet Peacock, Cheryl Gray, Tim Corfield, Emma Wallis, Mark Shaw.

THE NEXT MIS-SELLING SCANDAL?

by Tim Corfield



There's a reason why high street banks don't lend money to companies in financial difficulties. That's because the loan stands a high chance of not being repaid.

So, bring on the so called "challenger" banks. Business owners will have an answer within a few minutes to a loan request according to the online user friendly web sites! What could be easier? No need to bother with budgets or cash flow projections. The sky high interest rates and the personal guarantees aren't enough to deter desperate directors. Sign here, thank you, the money's yours.

Fast forward a couple of months and the new money has been consumed by the old problems that caused the financial difficulties in the first place.

That's when we often get called. We assess the position of the business and, unfortunately, more often than not, have to advise the directors that they have a failing business which is going in the wrong direction and insolvency proceedings are inevitable.

So, why wasn't there a proper appraisal of the financial position of the business at the time the loan was made? Especially bearing in mind the consequences for the guarantors. I don't know. It usually takes me about half an hour to assess whether a company is losing money and how much – why don't the loan advisers do this? What do they do?

Most insolvencies we're dealing with now at G&K include such debts to some degree.

Here's an example – a straight forward company sold plumbing materials through the internet.

Around six months ago it borrowed around £140,000 from a "challenger" bank to pay outstanding debts to HMRC

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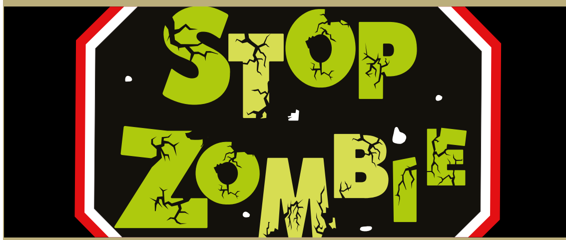

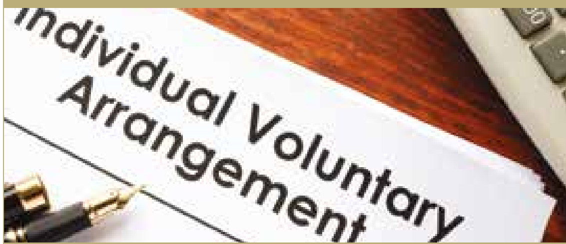

KEEPING YOU INFORMED

- Company Voluntary Arrangements
- Individual Voluntary Arrangements - Consumer Debts
- Liquidation
- Individual Voluntary Arrangements - Business Debts
- Administration
- Bankruptcy Appointments

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and suppliers. The directors contacted us a few weeks ago and the company had no alternative but to enter liquidation. Creditors (including HMRC, suppliers and loans) are now running at over £300,000. The company has lost around £300,000 in just over 12 months. The directors now have personal guarantees of around £130,000 which is likely to mean that they will need to sell their homes.

The effect of this loan was to transfer £140,000 corporate liability to personal liability. Not very clever!

Unfortunately, of course, the directors don't even speak to their accountant when they borrow in this way. That's another good reason to have a close relationship with the company accountant.

Directors be very careful! Borrowing money, especially with personal guarantees has very serious implications...for YOU! If a director isn't sure about the best way forward for the business we'd be pleased to assist with an independent, no nonsense appraisal of the business. That's what we're good at. Please call now.

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IVA'S. WHAT DEBTS CAN AND CAN'T BE INCLUDED.

By Tim Corfield

We all know what an IVA is. It's an alternative to bankruptcy, which in certain circumstances does work better for the debtor. Below is a reminder of what debts can and can't be included in an IVA.

Debts that <u>can</u> be included:

- Credit cards
- Unsecured loans
- Overdrafts (unsecured)
- Hire purchase on vehicles or equipment no longer needed
- HMRC – VAT, PAYE, personal tax or national insurance
- Money owed to friends or family
- Store cards
- Excess debt on repossessed properties

Debts that <u>can't</u> be included:

- Student loans
- Other educational loans
- Criminal court fines
- Traffic offence fines or parking tickets
- Borrowings secured on property
- Child support debts
- Hire purchase debts on vehicles or equipment needed
- Arrears on rental property which is occupied

Of course, if in any doubt call us.

We pride ourselves on explaining, in layman's terms, the pros and cons of an IVA and how it fits into the debtor's circumstances. If we don't think an IVA is right, we'll say! If you have any questions or think we might be able to help please call **01922 722205** speak to **Tim Corfield, Janet Peacock, Cheryl Gray** or anyone of the team always happy to help.

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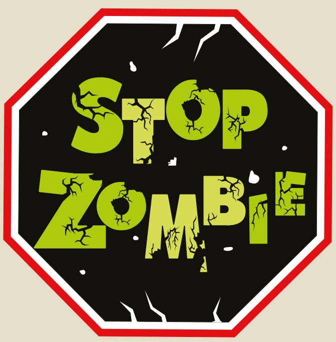
ZOMBIE COMPANIES



A recent (BIS) Bank of International Settlements report has said that the economic recovery is being held back by the so called "zombie" companies which should be allowed to fail.

Zombie firms; are firms that are unable to cover debt servicing costs from current profits over an extended period of time, have recently attracted increasing attention in both academic and policy circles. Caballero et al (2008) coined the term in their analysis of the Japanese "lost decade" of the 1990s. More recently, Adalet McGowan et al (2017) have shown that the prevalence of such companies as a share of the total population of non-financial companies (the zombie share) has increased significantly in the wake of the Great Financial Crisis (GFC) across advanced economies more generally.

Zombie firms are companies that would have defaulted in a normal economic cycle but continue to function due to an ultra-low interest rate environment.

These companies are clinging on despite the recession making markets and the economy inefficient.

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For advice on insolvency issues call us on your local number opposite

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While zombie companies are still trading they are taking market share from viable companies which should be growing and boosting the economy.

According to R3 Over one in ten (11%) UK companies is just paying the interest on its debts, rather than repaying the debt itself, according to new research from insolvency and restructuring trade body R3.

R3's research, based on a survey of 1,200 companies by research firm BVA BDRC, also found that other signs of acute business struggles are relatively widespread. One in six (16%) businesses are having to negotiate payment terms with creditors; one in ten (12%) are struggling to pay their debts when they fall due; and 8% would be unable to repay their debts if interest rates were to increase by a small amount.

Tim Corfield says "so called Zombie companies have been around now for years. The whole environment is so different and these companies just struggle on and distort the market place – why the directors carry on, I don't know!"

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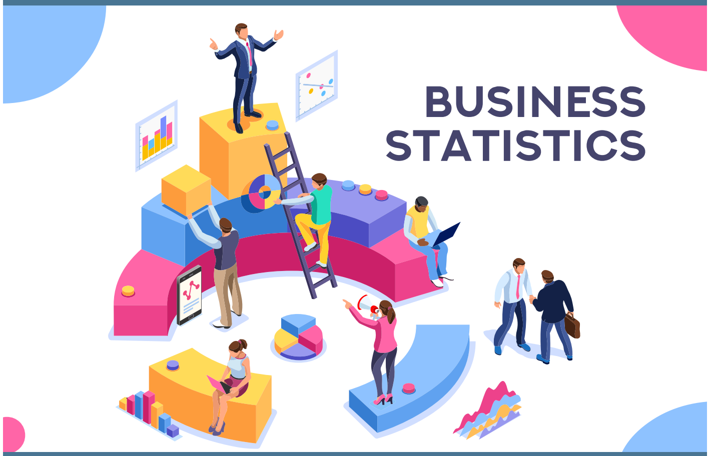
Q3 2018 CORPORATE STATS ARE OUT!



The majority of company insolvencies were creditors' voluntary liquidations (CVLs)
A total of 4,308 companies entered insolvency in Q3 2018, consisting of 3,083 creditors' voluntary liquidations (71.6% of all insolvencies), 741 compulsory liquidations (17.2%) and 484 other insolvencies (11.2%).

Company insolvencies increased this quarter
Total underlying company insolvencies increased by 8.9% compared to Q2 2018. When compared to the same quarter last year, the underlying number of company insolvencies increased by 19.3%.

Driven by an increase in CVL
The underlying number of CVLs in Q3 2018 was 3,083, an increase of 20.7% on Q2 2018, and the highest quarterly level since Q1 2012.

Compulsory liquidations decreased compared to Q2 2018
The number of compulsory liquidations in Q3 2018 fell by 2.5% on the previous quarter, but increased by 11.1% compared to Q3 2017.

Company insolvency by industry
The construction industry had the highest number of insolvencies in the 12 months ending Q3 2018, followed by the wholesale and retail trade & repair of vehicles industrial grouping.

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Q3 2018 PERSONAL STATS ARE OUT!

The majority of individual insolvencies were IVAs
There were 25,151 individual insolvencies in Q3 2018, 55.8% of which were IVAs, 27.7% were debt relief orders and 16.5% were bankruptcies.

Individual insolvencies decreased this quarter
Total individual insolvencies in Q3 2018 were 10.5% lower than in the previous quarter and 2.5% lower than in the same quarter the previous year.

Individual Voluntary Arrangements (IVAs) fell from a record high
The number of Individual Voluntary Arrangements in Q3 2018 fell 18.0% compared with a record high in Q2 2018.

Bankruptcies increased this quarter
Bankruptcies increased by 1.7% on the quarter and by 12.0% on the same quarter in 2017.

Debt relief orders (DROs) increased this quarter
DROs increased by 0.7% on the quarter and by 11.3% on the same quarter in 2017.

The insolvency rate decreased
In the 12 months ending Q3 2018, the rate of insolvency was 23.0 per 10,000 adults (1 in 434 adults).

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THE LAST WORD...

WHAT DO WE DO?

We find solutions for businesses and individuals who have financial problems.

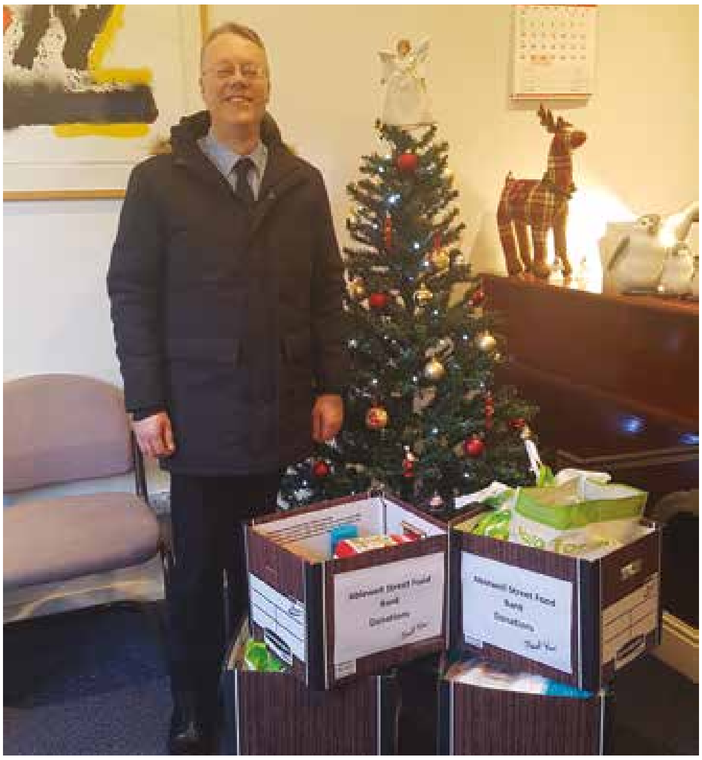
SERVICES FOR LIMITED COMPANIES

- Creditors Voluntary Liquidation
- Pre-Pack Administration
- Company Voluntary Arrangements
- Administration
- Members Voluntary Liquidation

SERVICES FOR CONSUMERS, SOLE TRADERS & PARTNERSHIPS

- Individual Voluntary Arrangements (Consumer Debt)
- Individual Voluntary Arrangements (Business and/or Consumer Debt)
- Partnership Voluntary Arrangements
- Bankruptcy Appointments

Staff Corner

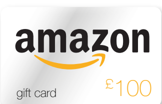


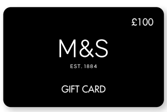
Steve Danks from Griffin & King organised a food donation prior to Christmas to Ablewell Advice Walsall.

Ablewell said "Dear Griffin and King, Many thanks for your generous food bank donation of 102 kg to Ablewell Advice. This is much appreciated". G&K

GRIFFIN & KING COMPETITION

Win £100 Amazon voucher or Marks & Spencer Vouchers





Good luck!

All you need to do is visit www.griffinandking.co.uk and answer the following questions. All correct entries will enter the draw.

1. Name Griffin & King's Insolvency Compliance Manager

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2. Tim Corfield's Video Welcome to Griffin & King. How many views?

____

3. Who was the competition winner in the Autumn Winter 2016/2017 Newsletter?

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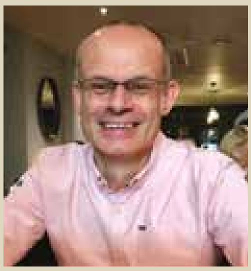
Competition closes on 20th April, 2019. Please staple your business card with your entry if posting in. Complete your details and either email to: janet.peacock@griffinandking.co.uk or post, clearly marked for: **Janet Peacock, Griffin & King, 26-28 Goodall Street, Walsall, West Midlands, WS1 1QL** G&K

GRIFFIN & KING LAST COMPETITION WINNER



The winner of the competition is Mark Jones from Oakwoods Accountants.

www.oakwoods-accountants.co.uk

"Great way to start the New Year with a call from Janet informing me that I had won £100 worth of Amazon vouchers. Thank you very much Griffin and King".

Walsall **01922 722205** • Birmingham **0121 371 9231** • Bournemouth **01202 355348** • Cannock **01543 401377** • Hereford **01432 291013** • Redditch **01527 531350** Rugeley **01889 529273** • Shrewsbury **01743 491239** • Stafford **01785 318768** • Stoke **01782 580886** • Tamworth **01827 849961** • Wolverhampton **01902 489657**