

Night of the Living Dead?



George Osborne will deliver his second Budget Speech on March 23rd. I'm sure that we will all be looking for Mr Osborne to set out a coherent growth plan for UK PLC which gets the economy moving. It's clear that in order for this to happen, we must trade more, we must innovate more and we must invest more.

And here's another thing.....it might be easier for us all to do this if those UK businesses that are no damn good were actually allowed to fail!

The total number of company insolvencies in the whole of 2010 was 20,954,

down 17.6% compared to the whole of 2009. You might want to conclude that this statistic heralds a general bounce back for the UK economy and that George Osborne has a fine platform on which to build his growth strategy.

This writer begs to differ.

I believe that there are a large number of zombie businesses out there still notionally 'trading'; the 'living dead' if you like. Businesses that can never hope to be profitable being propped up by a combination of:

HMRC 'time to pay' (TTP) schemes,

continued abnormally low interest rates,

and in some cases the vested interest of the clearing bank sector, desperate to improve their balance sheets and unwilling to make further bad debt provisions for these loss-making businesses.

I further believe that the number of UK corporate insolvencies will increase significantly from the middle of the year onwards for the following reasons:

- HMRC 'TTP' (effectively PAYE/VAT deferral), schemes have been of great importance to the cash flow management of the UK SME sector, especially with the absence of commercial lending facilities during that late 2008 period of real financial crisis. However the level of unpaid tax in Britain is now in excess of £ 40 billion and the Coalition's budget deficit sums will simply not add up unless this TTP arrears figure comes down. Expect a continued significant tightening of TTP during 2011! Many companies will simply be unable to pay their tax bills on time. There is increasing evidence already of HMRC issuing many more winding up petitions to non-compliant businesses.
- The inflation rate continues to rise and an interest rate rise therefore must follow. I understand that the *official* UK inflation rate is now 4%. As I munched on my 'new price' 77 pence standard size Kit Kat

yesterday evening on the train home and later applied for a third mortgage to fill up my car with petrol, all I can say is what's the 'real' rate then ?? Being serious, an increase in the cost of money will have a profound negative impact on those 'living' dead' who have become almost inured to the low costs of their business loans and overdrafts.

- As the clearing banks repair their balance sheets, and future bad debt provisions become far less of an issue, they will have far less hesitation in pushing the many business waifs and strays on their portfolios into an appropriate insolvency procedure.

As business turnaround specialists, Turning Circle want to support and assist those businesses that may have short-term problems but who, nonetheless, have realistic, profitable futures. There are thankfully many hundreds of thousands of these companies. However, there is nothing we or anyone else can do if our client is fundamentally and permanently loss-making. The 'living dead' cannot be brought back to life.

Let's hope though that the upcoming Budget Speech helps those struggling UK businesses that can prosper *to* prosper. It will not be easy.

Finally, during the last quarter, Turning Circle have been involved in a number of business rescue projects that have preserved jobs, including successful company voluntary arrangement proposals. If you have any clients or business acquaintances that you feel can benefit from our services or if you want to work with us on our various turnaround projects, please do drop us a line.

Best regards

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