

R3 Business Distress Index (March 2016)

R3's latest research shows that the possibility of the UK leaving the EU and the challenges of introducing auto-enrolment pensions were the joint-leading financial concerns for UK businesses in March. 23% of UK businesses said they were concerned that 'Brexit' would have a significant financial impact on them, and another 23% said they were concerned about the impact of auto-enrolment pensions.

The research also shows that signs of UK business growth have fallen to its lowest level since July 2013, with 57% of British businesses reporting one sign of business growth in March, compared to 69% in December 2015. In every R3 Business Distress Index survey since October 2013, at least 65% of businesses have reported at least one sign of growth. The 12-point fall in levels of business growth is the largest recorded in four years.

Levels of business distress, however, remain relatively low with 18% of UK businesses showing at least one sign of distress. This is the second lowest this figure has been since the start of the Business Distress Index (record low: 17% in December 2015), and well below the record 64% in March 2012.

Key findings

Financial concerns for UK businesses

- 23% of UK businesses said they were concerned that 'Brexit' would have a significant financial impact on them, and another 23% said they were concerned about the impact of auto-enrolment pensions.
- Other business worries recorded include: the introduction of quarterly tax reporting (19% of businesses are concerned); the introduction of the National Living Wage (18%); the digitalisation of tax reporting (11%); the introduction of Universal Credit (7%); and the introduction of an Apprenticeship Levy (6%).
- The most common concern for large firms (employing 251+ people) is the UK leaving the EU (44% worried), while the most common concern for businesses employing 2-5 people is the introduction of the National Living Wage (30%).
- 69% of businesses employing over 251 people had at least one concern (compared to 47% of sole traders), while businesses employing 2-5 people were the most likely to have three concerns (18%).

Business growth

- Indicators of business growth reached their lowest level since July 2013, with 57% of British businesses showing at least one sign of business growth in March - compared to 69% in December 2015. These indicators include: increasing sales volumes, business expansion (geographically, increasing staff numbers or new areas of business), investing in new equipment, increasing profits or a growth in market share.
- Larger businesses continue to show more positive signs of growth compared to smaller firms. 88% of larger businesses (250+ employees) are experiencing one or more indicators of growth, compared to just 43% of sole traders.
- Business growth regionally is relatively even: 51% of businesses in the Midlands are experiencing at least one sign of growth compared to 58% in the North and 60% in the South.

Business distress

- 18% of UK businesses are showing at least one sign of distress. This is the second lowest this figure has been since the start of the Business Distress Index (record low: 17% in December 2015), and well below the record 64% in March 2012.
- Signs of distress measured include: decreased sales volumes (8% of businesses); decreased profits (7%); having to make redundancies (6%); regularly using maximum overdraft (5%); and fallen market share (5%).
- 50% of businesses expect their activity to increase in the next 12 months compared to the past year (5% expect a decrease), while 50% of businesses are more optimistic about the economy now than they were three months ago (16% are more pessimistic).

Late payment

- 13% of businesses are owed payment on invoices that are over 30 days past due, eight percentage points lower than the previous survey.
- Sole traders (7%) had the lowest rate of businesses owed late payments, compared to businesses employing 51-200 employees (22%).

R3 commentary

“UK businesses have moved into a new phase of the economic cycle. The relatively rapid growth associated with recovery and the boost provided by low inflation and low fuel costs last year look as though they are now falling away. Headwinds, such as uncertainty over the future of the UK in the EU, stock market worries, or incoming compliance and reporting changes, are starting to pick up, too.”



“Although the Brexit debate is grabbing the headlines, it’s important to remember that businesses face a plethora of other incoming regulatory and compliance challenges. Just as many businesses – especially smaller businesses – are worried about auto-enrolment pensions as there are businesses worried about Brexit.”

“And while Brexit might not come to pass, auto-enrolment pensions and the National Living Wage will definitely have to be dealt with by businesses. That said, as you would expect, the possibility of leaving the EU is playing on the minds of a significant number of business decision-makers. Uncertainty over such an important issue could well affect investment and planning decisions over the next few months. Generally, levels of business confidence and economic optimism are holding up though.”

“The latest survey suggests some companies are still doing well and are showing several signs of growth, but more companies are showing no signs of growth at all. This is a deceleration rather than businesses going backwards. Some businesses may be consolidating following periods of rapid growth rather than running into real trouble. Levels of distress are still relatively low.”

“Distress levels are still extremely low, especially when compared to just three years ago. Many more businesses are growing than are showing signs of distress and almost all the individual signs of distress are at record low levels. But, with growth starting to fall away, it looks as though the general business climate is tightening.”

Phillip Sykes
R3 President

Method: BDRC Continental conducted 500 telephone interviews with small, medium and large business owners and Financial Directors in March 2016. Strict quotas are set by size, and softer ones for region and sector. The data is weighted to be representative of all UK businesses with an annual turnover above £50,000. The weights applied are based on the business population data from the Department for Business Innovation and Skills (BIS). The respondent in each case is a senior financial decision maker.

About R3: R3 is the trade body for the UK insolvency profession. From senior partners at global accountancy and law firms to practitioners who run their own small and micro-businesses, our members have extensive experience of the personal and corporate debt landscape. *For more information please contact James Jeffreys (Public Affairs and Policy Officer) on 020 7566 4220 or james.jeffreys@r3.org.uk www.r3.org.uk. Follow us @R3PressOffice*