Association of Business Recovery Professionals

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Rescue
Recovery
Renewal

Rt Hon Phillip Hammond MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
London
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4 October 2018

Dear Chancellor,

Budget 2018: R3's economic indicators and the key policy areas affecting the UK's world class insolvency and restructuring framework

As President of the insolvency and restructuring trade body R3, I am writing to submit our latest economic indicators ahead of your Budget Statement, and to provide a brief overview of two key insolvency policy issues which have a significant impact on the UK's status as one of the best places in the world to do business.

The UK's insolvency and restructuring framework is one of the best in the world, returning more money, more quickly, to creditors than equivalent frameworks in France, Germany and the US. Our strong framework and profession are vital parts of the UK economy. The profession rescues businesses and jobs, creates the confidence to trade and lend by returning money to creditors after insolvencies, investigates and disrupts fraud, and helps indebted individuals get back on their feet. Government action on the policy issues outlined below will help to ensure that our profession continues to have the tools it needs to continue to rescue businesses, save jobs, and return money owed to creditors.

Please also find enclosed a briefing outlining the findings of our research in more detail.

Implement proposed reforms to the UK's corporate insolvency framework

R3 welcomed the Government's announcement, in August, that it will take forward its 2016 proposals for reform of the UK's corporate insolvency landscape. With some adjustments, the reforms will go some way to ensuring that the UK's world class insolvency and restructuring framework does more to encourage business rescue, and will help make sure that the UK maintains its reputation as an open, fair and attractive place to do business.

R3 will work with the Insolvency Service over the coming months to ensure that the reforms are as practical and useable as possible before the legislation is published. Once feedback from the profession has been addressed, we encourage the Government to introduce the reforms through legislation as soon as possible. With other countries already reforming their own insolvency and restructuring frameworks, and with a risk that Brexit will make it more difficult to resolve cross-border insolvencies from the UK, any delay to implementing these proposals could harm the UK's reputation as an attractive place to do business, and see our internationally renowned insolvency and restructuring framework drop down the World Bank rankings.

Brexit

The Government's recent technical note on the impact of a 'no deal' Brexit on cross-border insolvency outlines the difficulties that the insolvency and restructuring profession could encounter should the UK leave the EU without a post-Brexit deal. R3 is particularly concerned about the impact that the end of reciprocal automatic recognition would have on the ability of insolvency practitioners to manage cross border insolvencies. This could jeopardise creditor returns, and business and job rescue.

The Government's July 2018 White Paper on the future relationship between the UK and the EU sets out the Government's ambition to secure a post-Brexit agreement in respect of insolvency and other areas of civil judicial cooperation, which closely reflects the principles of mutual cooperation that exist under the current EU framework. R3 welcomed this commitment, as the regulations ensure a degree of certainty is gained about whether assets in Europe can be retrieved for UK-based creditors and vice versa in the event of an insolvency. As such, R3 encourages the Government to continue to press for reciprocal automatic recognition of insolvency appointments and judgments between the EU and UK.

R3's latest economic indicators

R3 regularly surveys British adults and the business community to gain a snapshot of the level of personal debt and business distress in the UK. The result of our most recent surveys showed:

Business Distress Index – April 2018

- **26%** of companies have been negatively affected by the insolvency of a customer, supplier or debtor in the last six months
- The research found the financial impact of the insolvency of another business was described as "very negative" by one in ten UK companies (**10%**), and as "somewhat negative" by **16%** of respondents
- **Construction businesses** were the most likely to say the insolvency of another firm had had a negative impact on their finances in the last six months, with almost half (**47%**) reporting a hit
- **Two-fifths (38%)** of firms with turnover of between £5m-£24.9m reported a negative impact, while the levels for smaller companies (up to £4.9m turnover) were just under a quarter **(24%)**, and **30%** for larger companies (with turnover of £25m+).

Personal Debt Snapshot – April 2018

- **34%** of British adults say they are at least fairly worried about their current level of debt – a fall from the two latest surveys in August and February 2017 (both **41%**).
- Almost half (**47%)** of adults aged 25-34 are at least fairly worried about their current level of debt – more than any other age group (lowest: over-65s, **17%**).
- Renters (**49%**) are almost twice as likely to be at least fairly worried about their current level of debt as home-owners (**26%**).

I hope that this information will be of interest. If you require any further information, please contact R3's Public Affairs and Policy Officer James Jeffreys on 020 7566 4220 or james.jeffreys@r3.org.uk.

Yours sincerely,

Stuart Frith
R3 President

UK insolvency and debt trends
R3 Briefing – October 2018

Key facts about the UK's insolvency regime

- The UK's insolvency and restructuring framework is one of the best in the world according to the World Bank. It has one of the highest rates of returns to creditors, returning money quicker and cheaper than regimes in the US, Germany and France.
- In 2013-14 UK IPs:
  - Rescued approximately 6,700 (41%) of insolvent businesses, **saving around 230,000 jobs**.
  - Advised 135,000 people about their finances and started work on cases to **help individuals repay £5bn of personal debt** within five years.

Insolvency trends

Personal Debt Snapshot – April 2018

The Personal Debt Snapshot is R3's tracker of the nation's personal finance concerns. The research shows a decline in the proportion of British adults reporting that they were at least fairly worried about their current levels of debt, falling from 41% in August 2017 to 34% in April 2018. However, credit card debt still remains the leading cause of financial concern among British adults.

A Third Have Debt Worries

- **34%** of British adults say they are at least fairly worried about their current level of debt – a fall from the two latest surveys in August and February 2017 (both **41%**).
- Almost half (**47%**) of adults aged 25-34 are at least fairly worried about their current level of debt – more than any other age group (lowest: over-65s, **17%**).
- Renters (**49%**) are almost twice as likely to be at least fairly worried about their current level of debt as home-owners (**26%**).
- Of the types of debt tested, credit card debt remains by far the most frequently reported cause for concern among British adults who say they are at least fairly worried about their current level of debt, with half (**49%**) saying it worries them (similar to the **50%** in August 2017).
- Credit card worries are followed by worries about overdrafts (**20%** – no change from August 2017), bank loans (**15%** – down from **18%**), mortgage repayments (**15%** – in line with August 2017, **16%**), and student loans (**11%** – in line with the **13%** in the previous wave) – again amongst British adults who are worried about their current level of debt.

Saving, Borrowing, Missed Payments and Falling Optimism

- **19%** of British adults say they do not have any savings at all at the moment (compared to **24%** in August 2017 and **22%** in February 2017).
- **21%** of British adults think their personal financial situation will improve in the next six months (in line with **22%** in August 2017) – which is still higher than the **14%** who think their personal finance situation will get worse in the next six months (down from **19%** in August 2017).
- **6%** of British adults are only paying the interest off on their credit card and not reducing the original debt itself (similar to the **8%** in August 2017).

- **6%** of British adults have borrowed £100 or more from friends or family in the last month (similar to the **8%** in August 2017).

- **4%** of British adults have missed a debt repayment deadline in the past month (no change from August 2017).

Struggles to Payday

- **34%** of British adults say they often or sometimes struggle to make it to payday, down from **40%** in August 2017.

- Struggles to payday are most common in the North East (**47%**), followed by London (**41%**).

- Renters (**52%**) are twice as likely as homeowners (**24%**) to say they often or sometimes struggle to payday.

- The most common cause for struggling to payday is the cost of food (cited by **53%** of those who often or sometimes struggle to make it to payday), followed by: household energy costs (**39%**); fuel or transport costs (**28%**); credit card repayments (**27%**); paying for rent (**26%**); and spending on going out or non-essentials (**24%**). Mortgage repayments are cited by only **9%** of British adults as a reason for why they often or sometimes struggle to payday.

Business Distress Index – April 2018

The Business Distress Index is R3's tracker of the financial position of UK businesses. The survey looked at the "domino effect" of another company's insolvency on other businesses. The research found that over a quarter of businesses (**26%**) have suffered financially following the insolvency of a customer, supplier or debtor.

The research also found the financial impact of the insolvency of another business was described as "very negative" by one in ten UK companies (**10%**), and as "somewhat negative" by 16% of respondents.

Construction businesses were the most likely to say the insolvency of another firm had had a negative impact on their finances in the last six months, with almost half (**47%**) reporting a hit. Two-fifths (**38%**) of firms with turnover of between £5m-£24.9m reported a negative impact, while the levels for smaller companies (up to £4.9m turnover) were just under a quarter (**24%**), and **30%** for larger companies (with turnover of £25m+).

Credit Score Tracker – October 2018

The Credit Score research is carried out by R3 on a monthly basis, using Bureau Van Dijk's 'Fame' database of UK companies. The companies deemed to be at greater than average risk of insolvency are those listed in the database as having credit scores between 1-18 (high risk) and 19-36 (caution). The credit score is calculated by Fame based on all the information it holds, including turnover, directors' track records, balance sheets and other measures:

- The professional services industry recorded the highest risk out all of the sectors monitored by R3, with 49.8% of firms in the sector having a higher than normal risk of insolvency. This was followed by: technology and IT (49%), construction (45.2%), transport and haulage (44.6%), retail (38.2%), manufacturing (37.5%), agriculture (37.5%), pubs (35%), restaurants (34.1%) and hotels (32.3%).

- The overall percentage of UK companies at greater than usual risk of insolvency in the next 12 months in October was 42.6%, up from 39.1% in April 2018, and 29.8% in October 2017.

About R3: R3 is the trade association for the UK's insolvency, restructuring, advisory, and turnaround professionals. From senior partners at global accountancy and legal firms to practitioners who run their own small and microbusinesses, our members have extensive experience of helping businesses and individuals in financial distress. Please contact R3's Public Affairs and Policy Officer on james.jeffreys@r3.org.uk or 020 7566 4220. Follow us @R3PressOffice www.r3.org.uk