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Begbies Traynor

Region’s critical distress levels fall while less severe problems push SMEs to ‘tipping point’

The latest quarterly Begbies Traynor Red Flag Alert research, which monitors the financial health of UK businesses, shows that Yorkshire’s level of severe business distress is falling more rapidly than in almost any other UK region.

Incidences of very serious or ‘critical’ business distress in Yorkshire dropped by 18 per cent in the three months to June this year, compared to the first three months of this year, affecting 196 businesses in Q2 and 240 in Q1 of 2014.

Across the rest of country, an average fall in serious distress of 10 per cent was recorded. Only the Midlands saw a more dramatic improvement than Yorkshire, with a fall in ‘critical’ business distress levels of 19 per cent. By contrast Scotland, Northern Ireland and the South West of England all saw incidences of serious distress rise, by 7 per cent, 3 per cent and 1 per cent respectively.

Year on year - from Q2 2013 to Q2 2014 - Yorkshire saw a 3 per cent decrease in distress compared with a UK national average drop of 9 per cent.
The region’s more prolific but less severe ‘significant’ business distress showed a quarter on quarter increase of 3 per cent (from 13,987 instances in Q1 2014 to 14,359 in Q2) set against a national average rise of 5 per cent. Annually, however, ‘significant’ distress in Yorkshire was up by 29 per cent compared to the second quarter of 2013. The UK average rise was 34 per cent.

Begbies Traynor’s research reveals that levels of ‘significant’ distress have been primarily driven by smaller businesses (SMEs), which, nationally, saw a 40 per cent rise in distress over the past 12 months to 217,855 businesses (Q2 2013: 155,253). Among larger organisations, distress levels fell by 9 per cent to 19,507 over the same period.

Yorkshire’s construction industry continues to bear the brunt of financial distress in the region, accounting for almost a quarter (24 per cent) of ‘critically’ distressed businesses: 38 construction companies in total.

The industry’s ‘critical’ distress levels fell by 3 per cent in Yorkshire, compared to this time last year. However in construction, as in many other sectors in Yorkshire, ‘significant’ problems continue to mount. The building sector saw a year on year rise of 53 per cent, with retailing, manufacturing and print and packaging all experiencing increases in ‘significant’ business distress of more than 40 per cent compared to Q2 2013.

With an interest rate rise predicted for as early as November, Begbies Traynor believes that the extra financial burden is likely to trigger a rise in more serious distress levels among SMEs already weighed down by debt accumulated during the recession.

Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire, said that while the steady decline in ‘critical’ distress in Yorkshire was welcome, the mounting instances of ‘significant’ distress were of serious concern, with the ability of businesses to secure funding playing a crucial role. “Access to funding is still a major issue for a huge number of SMEs,” said Mr Pitts. “Although traditional bank finance is now widely available for those firms fortunate enough to comply with mainstream lending criteria, it remains a different story for businesses in complex or challenged circumstances. Our latest Red Flag findings once again underline the critical importance for current government initiatives to increase the diversity of funding providers and to better signpost alternative business finance.”

He added: “The UK needs SMEs to be able to take on new orders, recruit staff and invest in growth if they are going to contribute to the broad-based economic recovery. But without adequate funding in place, this kind of investment can only be achieved by overstretching their finances, leaving them little leeway should things take a turn for the worse or if growth accelerates leading to greater working capital needs - a risky strategy at a time of growing political and monetary policy uncertainty.”

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Photo: Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire
About Begbies Traynor Group

Begbies Traynor Group plc is a specialist professional services consultancy providing independent professional advice and solutions to businesses, financial institutions, the accountancy and legal professions and individuals in the areas of recovery, corporate finance, investigations and risk management. It is listed on AIM (Ticker: BEG). Further information can be found at: www.begbies-traynorgroup.com.

About Red Flag Alert

Red Flag Alert measures corporate distress signals through a comprehensive and complex methodology, drawing on factual legal and financial data from a wide range of relevant sources for companies that have been trading for over a year.

The release refers to the numbers of companies experiencing ‘Critical’ problems which are those with CCJs totalling over £5,000 within a three month period or winding-up petitions against them or which have entered Corporate Voluntary Arrangements.

The release also refers to the numbers of companies experiencing ‘Significant’ problems, which are those with minor CCJs (of less than £5k) filed against them or which have been identified by Red Flag’s proprietary credit risk scoring system which screens companies for a sustained or marked deterioration in key financial ratios and indicators including those measuring working capital, contingent liabilities, retained profits and net worth.

Red Flag Alert is commercially available to all businesses, on an annual subscription basis, to help them better understand risk and exposure and help prepare them for the future. Further information about Red Flag Alert can be found at: www.redflagalert.com