The number of ‘zombie businesses’ in Yorkshire and the Humber and the North East – those only able to pay the interest on their debts – is continuing to drop, falling from 5% in August 2013 to just 2% in December, according to research by R3, the insolvency trade body.

William Ballmann, chair of insolvency trade body R3 in Yorkshire and partner at national law firm Gateley LLP, says: “A lot of attention has been given to so-called ‘zombie businesses’, who are amongst the chief beneficiaries of the relatively benign trading environment in the last few years.

“While we have seen ‘zombie business’ numbers fall and stabilise both nationally and in our region, there hasn’t been a corresponding rise in corporate insolvencies. Encouragingly, many struggling businesses will have used the unexpected grace period between recession and recovery to put their house in order, allowing them to spring ‘back to life’.

“However, our research also shows thousands of businesses moving beyond ‘struggling but surviving’ into potentially dangerous territory.”
The research shows the largest proportion of businesses that is having to negotiate payment terms with creditors is located in Yorkshire and the Humber and the North East – up from 1% in May 2013 to 17% last month. Nationally, a record 166,000 businesses say they are having to negotiate payment terms with creditors; and 96,000 businesses say they would be unable to repay debts if there was a small increase in interest rates – the highest number of businesses in this position for over a year.

Mr Ballmann adds: “Whereas ‘zombie businesses’ can keep going for the time being, businesses in these latter two situations are approaching crunch time.

“It’s a positive that businesses are taking action and addressing their problems by talking to their creditors. But, unfortunately, successfully negotiating new payment terms that work for both the creditor and debtor isn’t always possible.”

Mr Ballmann continues: “Whether or not there is an insolvency ‘spike’ still to come depends on the fortunes of those companies that are negotiating with their creditors or who would be unable to pay their debts if interest rates were to rise.

“A genuine ‘spike’ in insolvencies may now be unlikely, but there could well be a prolonged period where corporate insolvency numbers are higher than where they might typically be, so long after a recession.”

The number of ‘zombie businesses’ – 103,000 – is equivalent to 6% of UK businesses with a turnover of over £50,000.

Corporate insolvencies ordinarily peak after recessions due to added creditor pressure and the initial strain of expansion. However, corporate insolvencies peaked during - rather than after - the last recession. A stuttering recovery, government support schemes, creditor forbearance, and low interest rates have helped keep otherwise unviable businesses (‘zombie businesses’) afloat.

Ends

Photo shows: William Ballmann, chair of insolvency trade body R3 in Yorkshire and partner at national law firm Gateley LLP

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Notes to editors (R3):

- R3 is the trade body for Insolvency Professionals, and represents 97% of the UK’s Insolvency Practitioners.
- R3 comments on a wide variety of personal and corporate insolvency issues. Contact the press office, or see www.r3.org.uk for further information.
- R3 promotes best practice for professionals working with financially troubled individuals and businesses; all R3 members are regulated by one of nine recognised professional bodies.
- R3 stands for ‘Rescue, Recovery, and Renewal’ and is also known as the Association of Business Recovery Professionals.
The survey was carried out in November and was a survey of 500 business owners or FDs of businesses with a turnover of £50k+ (BIS estimates there are 1.73m such businesses in the UK). The survey was carried out by BDRC Continental and results were weighted according to make-up of the business population so they could be extrapolated.