Economic recovery comes with cash flow woes for some

The number of businesses in the North just paying the interest on their debts – a key characteristic of ‘zombie businesses’ – has jumped from 8,000 in November 2013 to 55,000 last month, according to research by insolvency trade body R3. This reflects the trend nationally which saw an increase from 103,000 last November to 154,000 this August - the highest number of businesses in this position in eighteen months.

Rather than a return of the ‘zombie business’ phenomenon, insolvency practitioners suspect that late payment and over-trading problems associated with economic recovery are behind the rise.

‘Zombie businesses’ emerged after the 2009 recession when thousands of businesses that might have been expected to fail were kept afloat by a combination of low interest rates, lenient creditors, and a sluggish recovery.

William Ballmann, chair of insolvency trade body R3 in Yorkshire and partner at national law firm Gateley LLP, says: “The first flush of growth generated plenty of cash for businesses but now some are experiencing the side-effects of growth too. Over-trading and late payment can easily put businesses with bulging order books in a position where cash flow becomes a major headache.
“Businesses will get into trouble if they’re trying to run before they can walk and don’t get paid quickly enough for the work they’re doing. Access to new finance is still tight so businesses low on cash have limited options to give themselves some breathing room.

“Making the minimum payments on debts or renegotiating payment terms with creditors can free up some extra cash and buy some time, but it’s not a long-term solution. Healthy cash flow is critical.”

The R3/BDRC research shows that 135,000 businesses are currently negotiating payment terms with their creditors, 39,000 of these are in the North. This is a rise from 74,000 across the UK in February 2013 (23,000 in the North).

Mr Ballmann adds: “An improving economy will have pulled businesses back from the very edge, but thousands of businesses are still in a potentially difficult situation.

“Just paying the interest on debts or constantly renegotiating with creditors could leave businesses in limbo: they will be in business but with little chance of growth, like the archetypal ‘zombie’ company.”

Mr Ballmann continues: “Once interest rates rise and sustained economic growth encourages creditors to get tougher, even these two options will be tricky.

“Whereas the original ‘zombie businesses’ have had the benefit of years of low interest rates and lenient creditors, those conditions are probably coming to an end.”

In the UK, 100,000 businesses say they would not be able to repay their debts if there was a small rise in interest rates, 31,000 of whom are in the North. Nationally, 64,000 say they struggle to pay their debts when they fall due, 18,000 of these are in the North.

In November 2013, 56,000 businesses across the UK said they struggled to repay debts when due, but this was well below the 134,000 businesses in this position in May 2013.

‘Zombie business’ numbers peaked at 160,000 in November 2012 before falling back to 102,000 in August 2013.

**UK businesses that are...**
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 is the trade body for Insolvency Professionals, and represents 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 recognised professional bodies.
- R3 stands for ‘Rescue, Recovery, and Renewal’ and is also known as the Association of Business Recovery Professionals.