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Begbies Traynor

Financial distress edges up as Yorkshire's economy prepares for uncertain 2017



17,222 Yorkshire businesses finished 2016 in a state of 'significant' financial distress: 93% are SMEs

New data from Begbies Traynor, the UK's leading independent business recovery practice, shows that levels of financial distress increased across every sector and every region of the UK during the final three months of 2016, with SMEs bearing the brunt of the hardship.

According to Begbies Traynor's Red Flag Alert research for Q4 2016, which monitors the financial health of UK companies, 17,222 businesses in Yorkshire were experiencing 'significant' financial distress at the end of 2016 – an increase of 11% compared to the three months from July to September (Q3 2016 15,479 companies).

Across the UK as a whole 276,518 businesses were experiencing 'significant' distress by the end of the year, also 11% up on the previous quarter (Q3 2016: 248,913 companies). Worryingly, 93% (16,121) of the Yorkshire companies – and 91% of the UK companies – experiencing financial distress during Q4 2016 were SMEs, indicating the scale of the problems faced by the smallest businesses.

This rising distress comes at a time when the number of UK company incorporations is growing substantially, with more than 685,000 start-ups joining the economy during 2016 alone – the highest level since the start of the financial crisis in 2007. However, Begbies Traynor highlights that many of these start-ups are short lived 'lifestyle' businesses often forced upon people by changing circumstances, such as the loss of paid employment. Of the 470,000 companies incorporated during 2011, almost 57% have since been dissolved, struck off or have entered formal insolvency procedures, and another 7.5% are not even trading.

In Yorkshire, the sectors with the highest levels of financial distress during Q4 2016 were support services (3,417 companies affected, a quarterly increase of 13%), construction (2,195 firms impacted, up 8%), real estate and property services (1,363 businesses, up 9%) and general retailers (1,504 companies,



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up 8%), underlining concerns about the stability of the UK housing market and unsustainable levels of consumer spending.

Julian Pitts, regional managing partner for Begbies Traynor in Yorkshire, said: “With the World Bank revising down its growth forecasts for the UK, alongside reports that the UK’s trade deficit widened to a worse-than-expected £12.2bn in November, our data shows that levels of financial distress continue to rise across Yorkshire and the whole of the country, most of all within the SME community, which is widely regarded as the lifeblood of the economy.

“The scale of SME distress at the end of 2016 just goes to highlight the fragility of Yorkshire’s micro businesses, many are which are underfunded, lack management experience or are flawed in concept. Although record numbers of new start-ups continue to join the economy each year, a large proportion don’t stay in business for long, with growing numbers of aspiring entrepreneurs returning to more established businesses as soon as the opportunity arises.”