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R3

One-in-12 businesses in the region only paying interest on their debts

Eight per cent of businesses in Yorkshire and the Humber and the North East say they are just paying the interest on their debt rather than repaying the debt itself, twice the level across the UK, according to new research by insolvency and restructuring trade body R3.

Adrian Berry, chair of R3 in Yorkshire and restructuring partner at Deloitte LLP, says: “UK firms have faced a challenging 2016 and early 2017: the sharp fall in the pound has made things difficult for importers, while a rising National Living Wage and the roll-out of pensions auto-enrolment have added to businesses’ running costs.

“Only paying the interest on debts is not necessarily a sign that a business is in distress: it may be that a company is taking advantage of low rates to invest in its operations or assets. But only repaying the interest is also a common characteristic of a ‘zombie business’ – a business only able to keep going because of an ultra-low cost of borrowing and with little chance of survival.

Adrian adds: “The research shows that there are tens of thousands of firms currently walking a very tight line. Rising inflation may also lead to a double-whammy for struggling businesses: it may increase the chance of the Bank of England raising interest rates, and it would undermine the consumer spending that has driven the economy over the last year.”

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However, the research, part of a long-running survey of business distress by R3 and BDRC Continental, also showed that – despite a relatively high level of firms in Yorkshire and the Humber and the North East which are only able to pay interest on their debts – the region shows signs that it is performing more strongly than many other parts of the UK.

In Yorkshire and the Humber and the North East, just 1% of businesses say they would be unable to repay their debts if interest rates were to rise (4% nationally); only 1% regularly use their maximum overdraft (8% nationally); 2% say they have experienced decreased sales volumes (7% nationally); 5% have seen decreased profits (7% nationally); 2% have seen a fall in market share (6% nationally); and 3% have had to make redundancies (2% nationally).

Adrian Berry comments: "A growing economy means fewer businesses are likely to show signs of serious distress. The last time we saw high numbers of businesses struggling to repay debts or talking to their creditors was in the wake of the UK's flirtation with a double-dip recession in 2012-13.

"While it's positive that signs of acute distress continue to fall, it's no reason to be complacent. The latest GDP growth figures were lower than expected, while a healthy business's finances can deteriorate rapidly depending on external factors, such as the cost of inputs or the failure of key customers or suppliers. And as the other statistics in the research show, some firms are starting to find their room for manoeuvre increasingly limited."

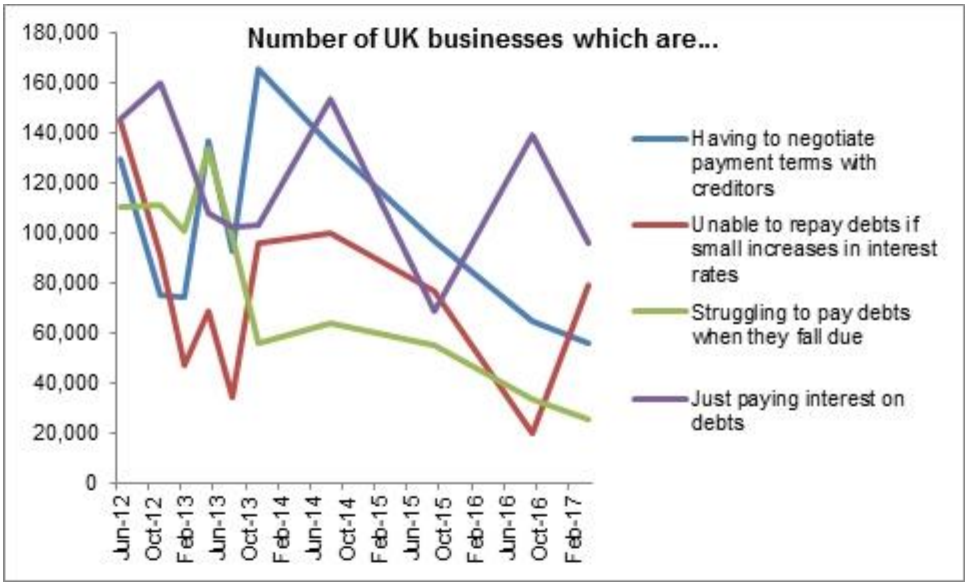
Twenty per cent of UK businesses are showing at least one of these signs of distress, slightly above the record low of 17% in December 2015.

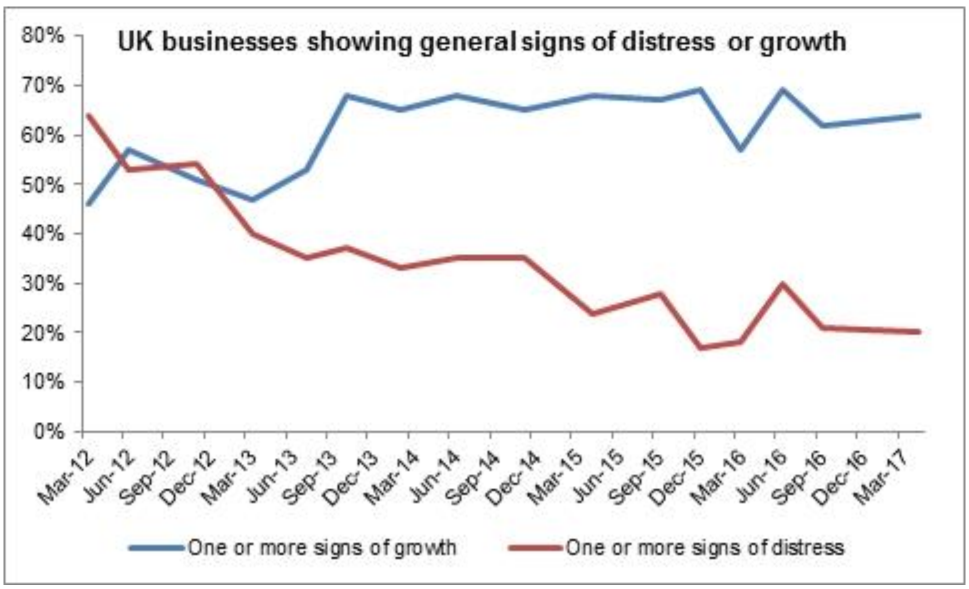
Businesses in Yorkshire and the Humber and the North East also showed stronger signs of business growth compared with the UK as a whole: the business expanding (42% compared with 24%); increased sales volumes (38% compared with 33%); growing market share (27% compared with 23%) increased profits (36% in the region compared with 33% nationally); and investing in new equipment (34% compared with 33%).

Sixty-four per cent of UK businesses are showing at least one of these signs of growth, slightly below the record high of 69% reached in December 2015 and June 2016.

Adrian Berry adds: "General levels of business distress remain low and levels of business growth are still high, although growth has faltered slightly since a run of record or near-record highs from 2013 to 2015. Still, like the overall economy, the vast majority of firms have fared reasonably well over the last year. Any uncertainty over the consequences of Brexit hasn't filtered through too much – yet."

Businesses with signs of distress





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