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Begbies Traynor

Scotland continues to see dramatic rise in advanced business distress



Scottish businesses in a number of key sectors, notably retail, financial services and construction, have once again suffered from marked increases in the percentage of firms showing advanced signs of financial distress, according to research into the UK's financial health in the third quarter of 2018.

The latest quarterly Red Flag Alert data released today (25 October 2018) by leading business rescue and recovery specialist Begbies Traynor, reveals that in the three months to the end of September, Scotland's businesses across all sectors experienced a 119% rise in the number in 'critical' distress (which refers to businesses that have had winding up petitions or decrees totalling more than £5,000 against them) compared with the same period the previous year. In contrast, there was a UK-wide increase in 'critical' distress of 33%.

The quarter on quarter rise in 'critical' distress of 21% in Scotland was also significantly higher than the UK average with a rise of just 1%.

Looking at the sectors, the year on year rise in the number of food and drug retailers in Scotland in 'critical' distress was the highest at 400%; followed by financial services with a 300% rise; general retailers (350% rise); and construction (256% rise). When compared with the previous quarter, the sectors which saw the largest increases in

'critical' distress were food and drug retailers, and bars and restaurants (both with rises of 400%); followed by financial services (100% increase).

Ken Pattullo, who leads Begbies Traynor in Scotland, said: "It is extremely worrying to see the percentage of Scottish businesses showing signs of the more serious 'critical' distress continuing to rise sharply since 2017, and at a much faster rate than the UK average. While these figures only account for relatively small numbers of companies, it is a concerning trend, particularly as we are seeing the highest year on year rises among some of our key sectors, with the construction industry being the biggest single contributor to the sizeable jump. Retail is also in the doldrums which does not bode well for the vital Christmas trading period.

"There's no doubt that the prolonged period of uncertainty since the 2016 referendum has had a debilitating effect on businesses which need stability in order to plan and invest for the future. Fortunately, 'significant' distress, which indicates early signs of financial problems, has only shown marginal growth since last year. However, with March fast approaching and no clear outcome in sight, there could still be some challenging times ahead. "

In Scotland, 'significant' distress (which relates to businesses with minor decrees against them and those showing a marked deterioration in key financial ratios), affected 24,817 firms, growing by just 3% year on year, slightly below the national figure of 5%. For the third quarter of 2018, there was no change in the percentage of Scottish businesses experiencing 'significant' distress, while across the UK there was a minor fall of 1% since the previous quarter.

Picture: Ken Pattullo, regional managing partner at Begbies Traynor