

Newsletter

Is there ANY light at the end of the tunnel?

It's been six months since our last newsletter. We had hoped that this long lead-in period would give



Turning Circle the opportunity to come up with something fresh, vibrant and radical to say about the state of the UK economy and the turnaround sector.

As far as the UK big picture is concerned, unfortunately not much has really changed since the spring. It has all been rather stagnant.

Zombie companies still abound in their thousands, (see '[Night of the Living Dead article - March 2011](#)'), propped up by hyper- low interest rates and clearing banks petrified of taking bad debt hits on their balance sheets. There are too many small businesses out there that will never again make a decent profit in their lifetimes. That cannot be any good for our country.

Meantime, the Coalition Government continues to attempt to steer a sensible course through an economic storm. Messrs Osborne, Cable et al have our sympathies as there is very little national governments can do in times of such massive global uncertainty; sadly, they and their colleagues look like they're paddling a coracle through a hurricane.

However, there have been some specific developments of interest that we'd like to comment on:

- HM Revenue and Customs Time to Pay (TTP, effectively PAYE/VAT deferral schemes) have been of great help to the beleaguered SME sector since late 2008 in preserving business cash flow; especially since the banks drew their lending horns in. TTPs are still available to deserving cases but the amount of scrutiny now being applied to tax repayment deals by HMRC appears to be much more detailed.

As a case in point, recently, Turning Circle was successfully able to negotiate a 12 month time to

pay arrangement for a client's unpaid VAT bill. The company had never previously had a problem with unpaid VAT while the sum owing was just over £100,000, which represented three months arrears. In the past such TTP proposals could often be agreed via a ten minute phone call. This time, in order to have our proposals approved, we had to prepare a detailed cash flow forecast supported by sensible assumptions and then deal with no less than fifteen follow up queries.

Conclusion: TTP arrangements are no longer being dispensed like confetti; treat any TTP proposal like a bank loan or overdraft application.

- It would also seem to be the case that HMRC are now proceeding on a **'two strikes and you're out' basis**. If your business has taken advantage of TTP in the past then you will subsequently be expected to pay all your current crown liabilities on time. Seemingly, without exception.

So , consequently it's not surprising to hear, if we take a day in isolation, (say 5th September), that of the 253 company winding up petitions being heard in the High Court that day, the vast majority were issued by HMRC.

- The above reality chimes somewhat with recent insolvency figures. Company liquidations are up by 4.4% year on year. (4,233 in the second quarter of 2011). We would suggest that this hike is due, in part, to the HMRC's new 'get tough' approach as outlined above. Personal insolvencies also rose slightly from 30,145 in Q1 2011 to 30,513 in Q2 2011. We are not surprised to hear this as we are currently receiving an increase in enquiries from individuals who need to deal with the consequences of personal guarantees being called following the failure of their businesses.
- However, the above corporate statistics need to be tempered somewhat. **Many thousands of companies can't even afford the costs of liquidation; they have simply stopped trading.**

It might be easy to conclude from all of the above plus the daily tales of woe emanating from the business pages that there is barely anything to be cheerful about. However, hopefully there could be a chink of light at the end of the tunnel.

We are beginning to see evidence of a **fledgling turnaround finance culture**; private investors are now showing signs of wanting to support cash strapped, yet viable businesses in the continuing absence of bank funding solutions. This obviously is to be welcomed as there are plenty of growing small businesses out there who could grow even faster if only they were provided with some liquidity!

Turning Circle continue to be closely involved in a wide range of business rescue projects that have preserved jobs , including more than 100 successful company voluntary arrangement proposals.

If you have any clients or business acquaintances that you feel can benefit from our services or if you want to work with us on our various turnaround projects, please do drop us a line.