



# Restructuring & Insolvency: Economic Outlook

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## You don't need a weatherman to tell which way the wind blows....

There is usually one prediction, prophecy or another doing the rounds in the Restructuring & Insolvency market. Back to the credit-crunch at the end of the 2000s – the question was, will the recession be V-shaped or W-shaped (double dip) or even bath-tub shaped? I am not sure I know what shape it was in the end but I do remember that life got very busy for me and my colleagues and insolvency network.

This time two years ago, many of my (non) restructuring and insolvency connections remarked that I must be bracing myself for all-out economic collapse driven by the forced lockdown at the start of the pandemic. Granted there were some immediate casualties, however, the Government's swift introduction of various packages of support, stopped the tsunami of cases that would have otherwise struck.

The Insolvency Service has recently published their stats for formal business insolvencies in February 2022, which showed more than double the number compared with the same period in 2021, including almost twice the number of administrations. Perhaps not surprising really. Businesses have been continuing to navigate themselves out of the pandemic with an end to available Government support whilst facing staccato progress in the hospitality, leisure and retail sectors with continuing consumer nervousness around social settings and group gatherings.

Even the long-awaited return to normal in a *Living with Covid* world doesn't really feel quite the like old version of normal that we once knew. The nation's spending habits have changed with a squeeze on discretionary spending caused by the new "cost of living crisis", rising inflation, increase in food prices and energy bills and not to mention the eye-watering prices at the fuel pumps. This of course puts a strain on businesses relying on consumer spending.

Even those trading B2B are navigating rising supply costs, less available (and less favorable) credit, renewed HMRC escalation, alongside all the typical sector specific challenges ahead. Add to that the re-introduction on Friday (25 March) of landlords' rights to forfeit leases where rent is owing. Despite the warmth of the Spring-sun, the economic outlook all points to a rather cold, prevailing wind ahead for many businesses.

## The Government's Spring Statement

The Government's Spring Statement today could only ever go so far. A sizeable contingent of businesses at all levels and from all industries and sectors will be facing an extremely challenging period.

An uptick in formal insolvencies is perhaps inevitable on the back of what has been. Cash may run out more quickly before options or solutions can be exhausted. Otherwise cash will be used up trying to implement solutions and options that might in other times, have facilitated a way out. A terminal insolvency procedure such as liquidation may be the only option leading to job losses and limited returns for creditors and other stakeholders. These being creditors and stakeholders who have been patiently waiting for two (or more) years. A terminal insolvency outcome might be seen as a missed opportunity for a rescue or restructure. The Government introduced various new restructuring regimes in 2020 that have been largely under-utilised. Mainly because they haven't been necessary until now but also because we have needed to see some ripples in the water to enable the restructuring and insolvency profession to try out the new tools in the box.

I don't know exactly what will happen next in my market – the same applied two years ago. But if I have one hope, it is that we start seeing more business operators, creditors and stakeholders reach out to restructuring and insolvency professionals sooner. This is so we can look at more options rather than just a shut-down liquidation and to encourage a culture of business rescue and renewal. Creditors, landlords and other stakeholders should be ready to seek early advice when a key supplier, tenant or customer fails. This will help manage risk and limit the overall economic impact when a key operator is knocked out of the market.

Early engagement and preparedness, whichever side of the fence you sit on, is absolutely key.

## Get in Touch

The Restructuring & Insolvency team at Lester Aldridge are dedicated experts in advising insolvency professionals, businesses operating in the zone of distress and also creditors and stakeholders who are exposed to and affected by business failures.

For more information and support please contact [Rebecca Walker](#) in our [Restructuring & Insolvency team](#).