INSOLVENCY UPDATE

MESTON REID & Co
CHARTERED ACCOUNTANTS

Introduction

Whilst the media continues to fixate upon the Brexit debate and posing questions such as : will we/won't we leave, what sort of trading arrangement will be put in place with the EU, and what are the political ramifications, the rest of the UK has been getting on with life.

Indeed, it could be argued that those in the North East of Scotland are more interested in reasonable and sustained oil and gas prices because, as has been reported elsewhere, a number of major oil companies have had at least six portfolios of UK oil and gas assets on the market since mid 2018. However, buyers are not expressing interest at the values being sought. It seems to be recognised that any meaningful North Sea renaissance will rely to a large extent on nimble, smaller oil players purchasing assets and being able to operate more cost effectively when extracting known reserves from under the seabed.

The local economic outlook appears to be showing signs of an improvement, perhaps on the basis of the view that one cannot wait forever before seeking to find/change jobs, buy/sell a business, or otherwise develop over the next few years.

Interesting times.

Why use Meston Reid & Co?

The insolvency team at Meston Reid & Co handles a wide variety of both formal and informal assignments in the personal and corporate arenas. We have been active in the North East for nearly 30 years.

As with any business activity, competitive forces apply because others seek to offer a range of insolvency services in the same geographical area. This can be witnessed by the fact that practitioners in Dundee, Edinburgh and Glasgow place themselves on the rota to act as liquidator when HMRC lodge a winding-up petition. In general terms, the vast majority of Meston Reid & Co work is referred from those who also operate in the North East and the team sought to clarify why referrers choose Meston Reid & Co in order to act upon any feedback received. A brief survey produced answers such as :

- Prefer to use someone local if possible.
- The people display both a responsive and interested attitude to the matter in hand.
- The service is priced competitively, but that is not the ultimate determining factor.
- The person acting for me is readily contactable and one can speak direct to whoever is making the decision(s) that affect me.
- Used before and happy to use again.
- The team exhibit sound technical knowledge and take time to explain complex issues.

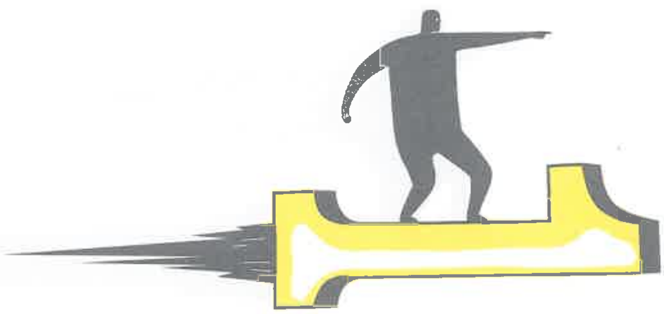
The Meston Reid & Co insolvency team will never be complacent and, whilst it is encouraging to receive positive feedback, there is always room for improvement. Clearly, if there is any aspect of the service which you feel could/should be improved, please feel free to say so.

It doesn't take much to fall into arrears

In February 2019, the UK insolvency trade body R3, released the results of research which revealed that one in five adults in Scotland would find it somewhat difficult, very difficult or impossible to pay an unexpected bill for £20 without assistance from an external source. The R3 research asked adults in Scotland how difficult they would find it to immediately pay an unexpected bill without assistance from an external source and :

- 3 in 10 said that they would find it at least somewhat difficult to pay an unexpected £50 bill (only slightly below the average of 34% across the UK).
- 40% said the same about an unexpected bill for £100.
- 56% said the same about a £250 bill, and
- Mirroring the position across the UK, almost two thirds of adults in Scotland said that it would be the same for a £500 bill.

R3 comment that their research highlights the lack of financial resilience among many adults in Scotland. Clearly, a further conclusion is that losing one's job can result in financial difficulties arising very quickly. The debt position is further highlighted in a report produced by The Money Charity last month which, amongst other findings, reported that :



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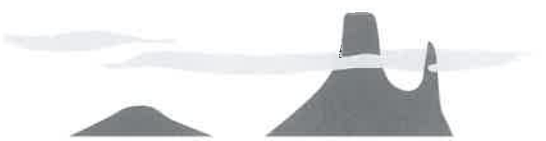

- The average credit card debt per household in January 2019 is £2,638.
- The average credit card interest rate in the UK in January 2019 was 18.67%.
- 3. The time to settle the average credit card debt if one only pays the minimum amount each month is a whopping 26 years.
- People in the UK owed £1.629 trillion at the end of January 2019, which has increased by an average of £952 per UK adult in the previous twelve months.
- The estimated average mortgage for the 10.9 million households who have one was £129,126 in January 2019.

The findings suggest that UK citizens seem quite comfortable relying upon credit. One wonders if this is because, since March 2009, base rate has been no higher than 0.75% which means that many younger borrowers have no memory of the challenges that a base rate of 5%, 10% or 15% (which it was in Summer 1990) can create.

No cash : no growth

Nucleus Commercial Finance Limited, London issued a report in March 2019 advising that nearly 55% of small and medium enterprises "SMEs" across the UK have spurned growth opportunities because of the difficulties in their perceived current financial situation. The worry created therefore is that business owners don't wish to expose themselves to financial risk in order to grow/develop the business, generate profit, employ more people, etc.

Whilst the traditional source of lending is a high street bank, there are numerous challenger banks entering the market and secondary lending options such as crowd-funding and informal borrowing are gaining in popularity. The SME study noted that if cash was to be available, the following objectives would be high on the agenda :

- Delivering greater profit (27%).
- Increasing staff (18%).
- Putting a renewed focus on their brand/marketing/online presence (16%).
- Launching a new product (14%).

On the negative side, the report revealed the negative impact of financial pressure within a business on the personal lives of those involved, because 75% said that they had experienced personal stress anxiety due to challenging financial circumstances within their business. They didn't want any more and hence, were not keen to borrow.

As is always the case, nobody should be left alone to worry about business difficulties because invariably, if advice is sought early enough, a solution can be found.

Well done Sarah

The February issue of the Insolvency Update advised that Sarah Bedford was awaiting the results of her final Joint Insolvency Exam Board exams. Meston Reid & Co is delighted to advise that Sarah passed both the corporate and personal diets and was only one of two Scottish-based candidates to do so. Well done Sarah : yon lassie fair kens her stuff!

Trust Deeds : more consultation!

As mentioned in a recent Meston Reid & Co media article, the Accountant in Bankruptcy "aib" is consulting with interested parties about the fair balance between the interests of a debtor who signs a trust deed and the creditors. Some had suggested that the system had become too debtor friendly, whilst others think that smaller creditors are not being given enough of a voice in the process.

The aib has offered the view that, respecting the principle "if you can pay you should", the Debt Arrangement Scheme is likely to be more suitable for those who seek to retain their house and can repay a sensible sum over a period of, say, 7 or 8 years from earnings. The normal 4 year period envisaged in a trust deed is often seen as being too short.

Another aspect of the consultation is the level of fee charged by the trustee. One thought is that a fixed fee should apply but that is difficult to impose because each case has its peculiarities e.g. type of asset, contribution level and income level. Further, some debtors happily pay each month without fuss, whilst others telephone the trustee constantly with minor queries that all take time to address. A trust deed is not a standard "one size fits all" process which means that a fixed fee is rarely possible. The consultation closes on 19 April.

GDPR

The names and addresses contained on our Insolvency Update database are used only for this communication. If any reader wishes to be removed from such database, please e-mail ryriel@mestonreid.com .

Conclusion

This Update is provided for general interest purposes and does not purport to offer definitive advice. Please contact either Michael J M Reid (reidm@mestonreid.com) or Michelle Byrne (byrnem@mestonreid.com) if you wish to discuss anything raised herein.

Thank you for taking the time to read this Update and feel free to pass it to anyone who you think might be interested in reading it.

Meston Reid & Co