



DMH Stallard



NatWest

# The Regional Economic Outlook

The economic outlook in the months ahead. Inflation, interest rates and insolvencies: the three 'I's' and how to deal with them

# Content

**Moving from lockdown and Government support to re-opening the economy without Government financial 'life support'**

**Victoria Kerton, NatWest**

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**Alex Dawson, DMH Stallard**

Victoria Kerton





# Recovery Tracker

## Update

## Recovery Gauge



### Growth

- Jan GDP fell 2.9%/m, led by decline in services
- But PMIs, business turnover surveys etc. are pointing to a recovery since Feb



### Epidemiology

- 32m in groups 1-9 due to be hit by end March (current trajectory)
- S. Africa variant cases (<400) and Brazil (<70) so far very limited



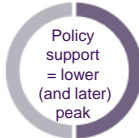
### Mobility

- Pub. transport recovering but usage less than Nov. lockdown c. 35% of pre-CV,
- Car use higher, 72% of typical (in line with Nov lockdown)



### Labour Market

- Labour market showing modest improvement (200k rise in PAYE employees Nov to Feb)
- JRS extension to Sep delays and lowers UNP peak – 6.3% forecast



### Consumer Spending

- Retail sales fell sharply in Jan
- CHAPS and footfall point to Feb recovery, steady in early March
- Cons. confidence @ 12-month high in March



## Update

## Recovery Gauge



### Hospitality, Hotels, Aviation

- Hotel occupancy at 27% in Dec
- Elevated savings to support recovery in hospitality upon restrictions loosening
- Very modest recovery in aviation



### Holdings/ Lending

- Household unsecured deleveraging continues.
- Firms ran down their holdings for the first since in Jan since the onset of the pandemic.



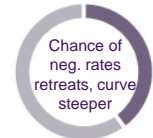
### Housing Market

- Slight correction in Jan approvals
- But new mortgage guarantee scheme and extension of SDLT cut will prevent a sharp correction in house prices in 2021



### Rates/ Inflation

- Market implied path has steepened, reflecting confidence in recovery
- First hike to 0.25% priced in by end '22

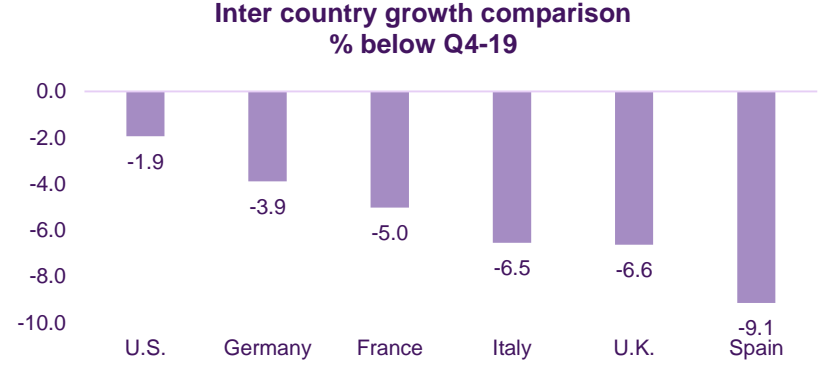
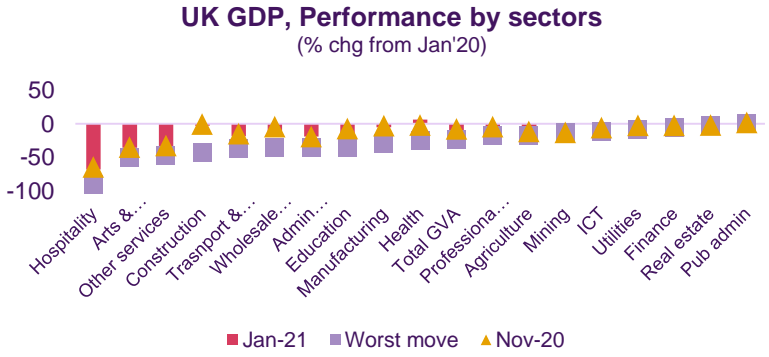
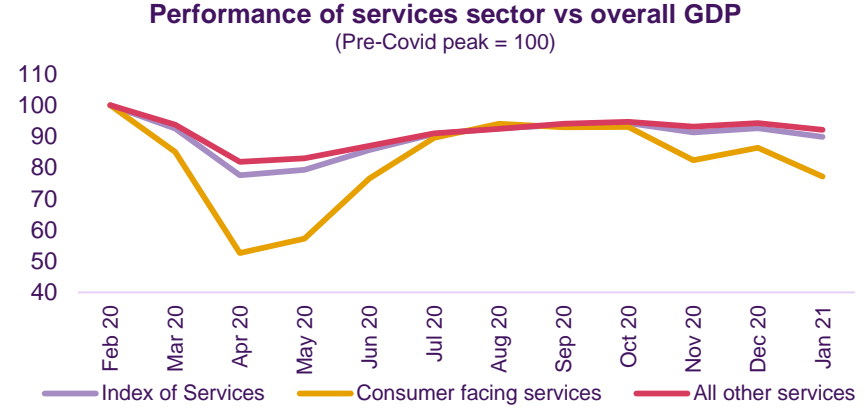
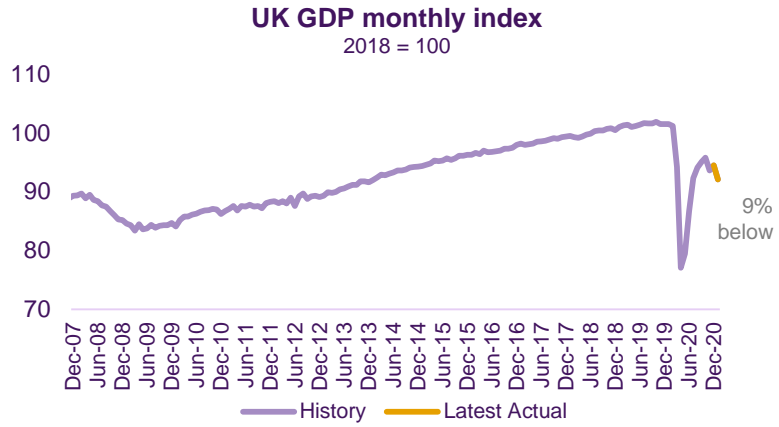


### Global

- US stimulus feeding strong recovery hopes and inflation fears.
- Delayed vaccine rollout delays (not derail) EZ growth prospects
- Trade rebound helping China

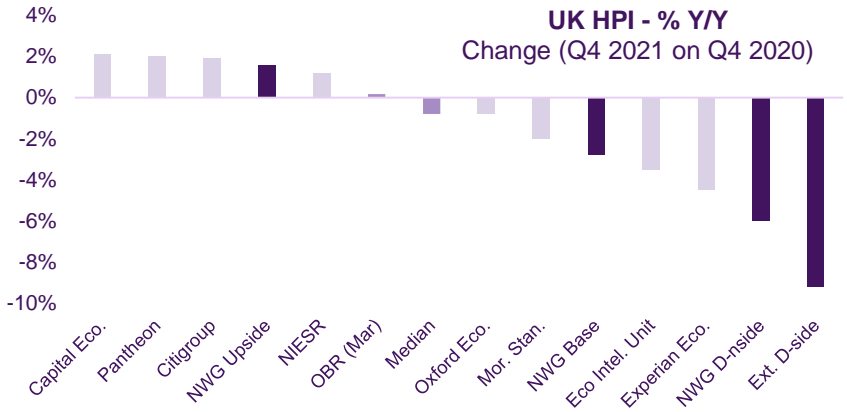
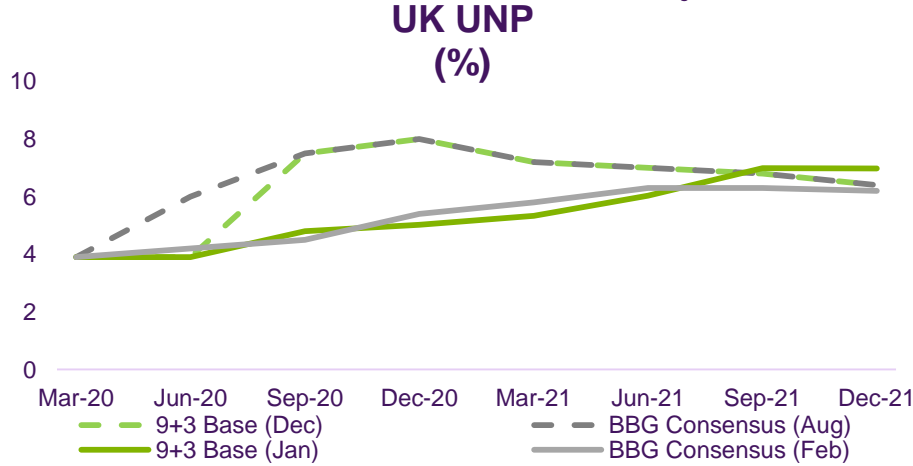
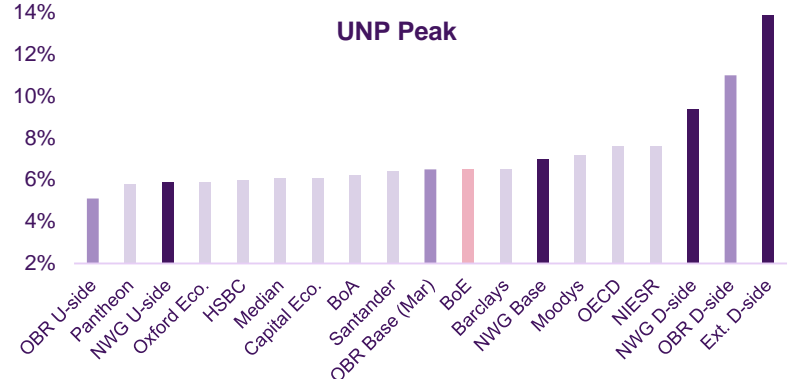
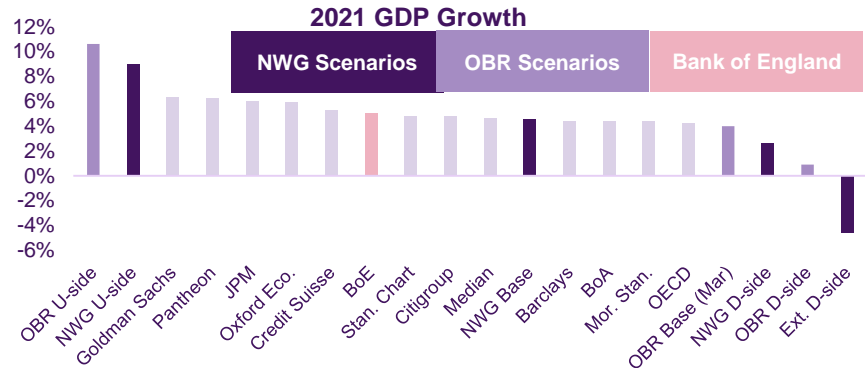


# GDP contracted in January, but less than expected. The decline was led by sharp contraction in consumer facing services and education sector.



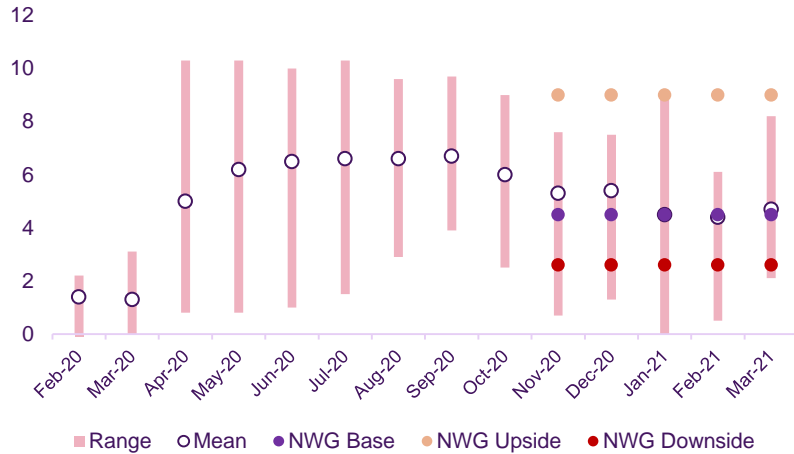
Source: ONS, Other countries national account websites

**Our 9+3 scenarios are well placed compared to consensus estimates for growth. Expectations for the rise in UNP pushed out later into '21. Housing market outlook has improved notably for 2021, thanks to a hugely supportive budget.**

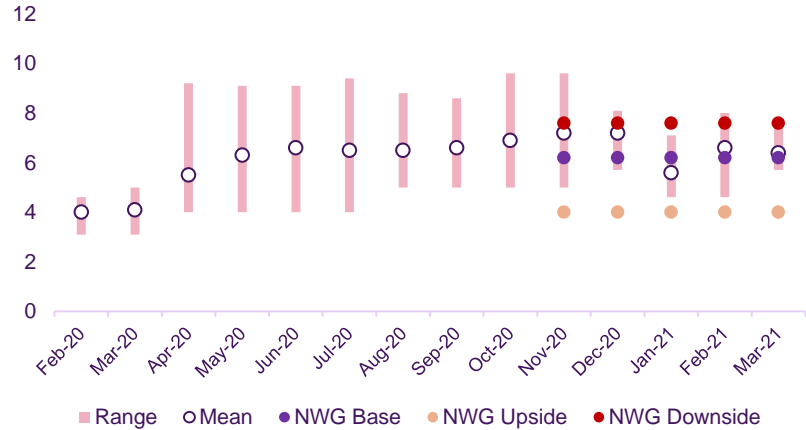


# Uncertainty has significantly reduced courtesy on-track vaccine administration and a supportive budget propelling recovery

## Consensus UK GDP Forecast 2021



## Consensus UK UNP Forecast Q4, 2021



## A recovery focused 2021 Budget...and what it means for your business

### The Job Retention Scheme

Commonly known as the furlough scheme, this is extended until **30 September**



**80%**

The government will continue to pay 80% of wages until 30 June

**10%**

In July, employers will be asked to pay 10% of this, as the government pays 70%

**20%**

Employers will be asked to contribute 20% in August and September, as the government pays 60%

### Self-Employment Income Support Scheme (SEISS)

The scheme, which supplements the income of freelancers, contractors and other self-employed individuals, will be extended until **September**

It will also cover those who entered self-employment in the 2019/20 financial year – providing they had filed a tax return for that period by midnight on 2 March 2021

Businesses whose turnover has fallen by less than **30%** will be eligible for a **30%** grant rather than the full **80%** for the May to September period

### Management training and digital capability

- ❑ **Help to Grow: Management** ➤ will provide management training and mentoring for UK SMEs with growth ambitions in a 12-week course with a 90% government subsidy
- ❑ **Help to grow: Digital** ➤ Will provide productivity-enhancing software with a 50% subsidy up to a maximum of £5,000 per business as well as free online advice on digital transformation

### Training & Apprenticeships

- ❑ **Increased Grants** ➤ Employers who take on an apprentice between April & September will receive £3,000 per hire – an increase on the current rate of £2,000 for the under-25s and £1,500 for those aged 25 and over
- ❑ **Portable apprenticeships** ➤ A £7m fund will be introduced in July to support employers in creating “portable apprenticeships” where trainees work across multiple projects at different businesses



## A recovery focused 2021 Budget...pay now & tax later

The Office for Budget Responsibility estimates that Covid-19 will be responsible for a **3%** hit to the UK economy in the next five years, although GDP is expected to grow by **4%** this year and more than **7%** in 2022. Public borrowing is set to reach levels not seen since the Second World War



### Business investment: the 'super-deduction'

From 1 April until 31 March 2023, businesses that invest in the right kind of plant and machinery will be entitled to a **130%** first-year capital allowance, which will allow them to cut their tax bills by as much as 25p for every £1 they invest

### Corporation tax set to increase

Corporation tax – which currently stands at **19%** – will rise to **25%** from April 2023. However, the smallest businesses will be unaffected, and only those with annual profits of £250,000 or more will pay this full rate



Firms with profits of £50,000 or less will remain on the current **19%** rate, while the rate will increase gradually from 19% to **25%** on profits between £50,000 and £250,000

### Key Economic Outcomes

- ❑ **No Capital Gains tax hike as previously anticipated**
  - Buyers market favourable / March 23 Tax Consultation to determine further course
  
- ❑ **Corporation tax hike (19% -> 25% from April 2023)**
  - Back-ended corporation tax rises to weigh on corporates – but political risks could still alter trajectory
  
  - In the near –term business may look to additional investment deductions / investments with stimulation of domestic manufacturing desired outcome

## A recovery focused 2021 Budget...with Grants & Loan Schemes going forward

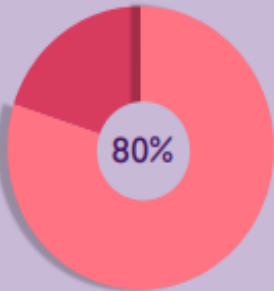
### Restart Grants

£6,000

In England, non-essential retail businesses can claim up to £6,000 per premises through the Restart Grants scheme

£18,000

Hospitality, accommodation, leisure, personal care and gym businesses, which will have been locked down for longer, will be eligible for up to £18,000 per premises



### Recovery Loan Scheme

From the start of the next financial year on 6 April, lenders will be given government guarantees of **80%** on loans to businesses of between **£25,000** and **£10m**

Companies that have previously received a Covid-19 loan will be eligible for additional finance under this scheme

This new scheme of up to **£10m**, with an **80%** government guarantee, will replace the Bounce Back Loan and Coronavirus Business Interruption Loan Scheme (CBILS).

### Further Government Support & Possible Outcomes

- Stamp Duty Cut Extended with a scheduled tapering down**
  - Eliminates uncertainty and chances of a cliff edge
  
- Mortgage Guarantee Scheme**
  - Holds up housing market buoyancy
  
- Rent Eviction Protection Extended**
  - Favourable to economically worse off and worse hit tenants
  - House owners disgruntled

# Recent changes in insolvency law and their place in 2021

**Oliver Jackson, DMH Stallard**

## Topics covered

- Summary of government support measures
- The Corporate Insolvency and Governance Act 2020
  - Temporary Measures
  - Part A1 Moratorium
  - Restructuring Plans
  - Supply Contracts and companies in insolvency
- Changes to “Crown Preference”

## Summary of key government support measures

- Direct interventions
  - Furlough scheme
  - Business rates relief for hospitality sector
  - Protection from eviction
  
- Loan schemes
  - Bounce Back Loans
  - CBILS
  
- The Corporate Insolvency and Governance Act 2020 (“CIGA 2020”)
  
- Output shrank by 9.9% in 2020 but corporate insolvencies 27% lower

## Key temporary provisions of CIGA 2020

- Winding up petitions
  - No petition presented which relies on stat demand served during the “relevant period” (April 2020 to 30 June 2021)
  - No petition presented in relevant period unless:
    - a) Covid has had no effect on the fortunes of the company, or
    - b) If Covid had not had an effect on the company’s finances, the company would have been insolvent in any event.
- Restrictions on “wrongful trading claims” against directors
- Part A1 Moratoriums: Rules relaxed

## Part A1 Moratorium (1) – key features

- No court application required
- Initial period of 20 days. Can be extended to 40 days
- Further extension (up to 1 year): Approval of creditors or the court
- Requires support of an insolvency practitioner, willing to act as a “monitor”
- Monitor to file report and directors’ report at Companies House
- Monitor’s statement: “*Moratorium is likely to result in the rescue of the company as a going concern*”.
- Monitor to give notice to all creditors
- Monitor will need to approve certain transactions
- Directors will remain in control of the day to day running of the company
- Stepping stone – to prepare for a CVA or administration

## Moratorium (2) - What it means for creditors

- Payment holiday for debts other than:
  - Fees and expenses of the Monitor;
  - Payment for goods and services supplied during the moratorium;
  - Rent during moratorium period;
  - Wages, salary and redundancy payments;
  - Most types of financial services debts or liabilities (e.g. repayments of bank loans)
- Prohibition on any forfeiture, legal process, execution or other means of enforcement
- No repossession of HP goods
- Security cannot be enforced without consent or permission of the court
- Floating charge holders cannot restrict the disposal of assets or crystallise a charge
- Suppliers must continue to supply unless consent of the company or court obtained



## Moratorium (3): Restrictions on company's activities

- Inform provider of credit of moratorium if intend to incur credit of £500 or more
- Monitor must approve sales of assets and approve the grant of new security
- May not pay pre-moratorium debts unless:
  - a) Amount paid to one creditor does not exceed either £5,000 or 1% of the liabilities of the company at the start of the moratorium, whichever is greater; or
  - b) The consent of the Monitor is obtained; or
  - c) Payment is pursuant to a court order or court-sanctioned
- Directors can put company into liquidation or administration but must notify monitor first

## Moratorium (4) - Eligibility

- Not available for financial services companies
- Available for overseas companies with establishment or operations that are capable of being wound up here. Apply to court
- From 1 October 2021 (was to be from 1 April): A company subject to a winding up petition will need to apply to court
- From 1 October 2021 (was to be from 1 April): Not available for companies who, in the previous 12 months, have been in a CVA, administration or who have sought a moratorium

## Restructuring Plans

- Similar to the old schemes of arrangement
- Borrows elements from Chapter 11 in the U.S. Notably the “cram down” provisions enabling dissenting creditors to be overridden
- Approval:
  - Step 1: Apply to court for a court-ordered meeting of creditors and members
  - Step 2: Ideally should have 75% approval of each class of creditors and members
  - Step 3: Court approval. If given, it will override dissenting creditors
- Court must be satisfied:
  - a) At least one class of creditors or members had voted in favour; and
  - b) None of the members of the dissenting class would be worse off

## Supply contracts

- Suppliers can no longer stop supplying goods or services (if supply paid for) as a result of a company entering a formal insolvency process
- Any clause in a contract entitling the supplier to automatically terminate is invalid
- Suppliers cannot demand payment for pre-insolvency charges as a condition of supply

### Exceptions:

- Court permission is obtained by the supplier
- Company in a Moratorium, CVA or Restructuring Plan and the company itself agrees
- If the company is in formal insolvency and office-holder agrees
- Company or supplier are involved in financial services
- Until 30 June 2021: Rules do not apply to “small entities”

## Crown preference (1)

- The following debts owed to HMRC have acquired “secondary preferential status”:
  - PAYE income tax;
  - Construction Industry Scheme deductions;
  - Employee National Insurance contributions;
  - Student loan repayments; and
  - VAT
  
- HMRC will rank ahead of floating charge holders and unsecured creditors
- Rules remain unchanged for Corporation Tax and employer NIC

## Crown preference (2) – Impact of the changes

- Lenders holding floating charges who will rank behind certain HMRC debts
- Likely to reduce restructuring options:
  - CVAs less attractive to holders of floating charges and unsecured creditors
  - If HMRC insists on payment in full, this may kill any planned CVA.
- Lenders may change their lending practices:
  - Preferring fixed charges
  - Requiring alternative security (personal guarantees or a financial collateral)
  - Increased due diligence

# Directors' duties and enforcement

Alex Dawson, DMH Stallard

## Directors' Duties

- Directors: managers, fiduciaries, agents
- Directors' duties: ss171-177 Companies Act 2006
- Breaches of duties, & Company Directors Disqualification Act 1986 (CDDA)
- CDDA penalties
  - Five years – summary conviction
  - 15 years – conviction on indictable offence



# Enforcement of a money judgment

- Initial points to consider
  - (1) Taking control of goods using writs and warrants of control
  - (2) Charging orders
  - (3) Third party debt order (TPDO)
  - (4) Attachment of earnings

## Taking control of goods

- Popular enforcement method
- Commonly used due to its efficiency and speed
- High Court (writ of control) & County Court (warrant of control)
- High Court enforcement officer / County Court bailiff
- High Court enforcement usually more expensive

## Charging orders

- Charge over beneficial interest in: land, securities, funds in court, dividends, interest in trust
- Obtaining a charging order is a two-stage process:
  - (1) Application is made for an interim charging order
  - (2) Application is made for a final charging order
  - In some cases an order for sale is sought
- Insolvency and its effect on charging orders

## Third party debt order and attachment of earnings

- Not the most common enforcement methods used
- TPDO – sums owed to the debtor may be frozen in the bank account
- Attachment of earnings – creditor taking money directly from the debtor's wages/salary
- Can accompany other enforcement methods

# Questions

## Speakers



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