

Irish Insolvency Newsletter

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Welcome to our first edition of the Irish Insolvency newsletter. In this issue, we delve into significant trends in Personal and Corporate Insolvencies in the Republic of Ireland over the past year.

We also provide insights into the challenges faced by the construction industry and explore innovative approaches in personal insolvency. Let's dive in!

PERSONAL INSOLVENCIES



The Insolvency Service of Ireland reported the following statistics for Personal Insolvencies in 2024:

- **New applications:** 1,665
- **Protective Certificates issued:** 1,382
- **Arrangements approved:** 1,088
- **Bankruptcies:** 76

Breakdown of Insolvency Arrangements:

- **Personal Insolvency Arrangements (PIAs):** 757
- **Debt Settlement Arrangements (DSAs):** 69
- **Debt Relief Notices (DRNs):** 175

The increase in Personal Insolvencies can be attributed to rising living costs, stagnant wage growth, and mounting financial pressures on households. The sale of mortgage loans to “funds” has been finalised, leading to increased pressure on debtors in arrears, including the initiation of legal proceedings to repossess homes. Many individuals are turning to Insolvency Arrangements to manage their debts and seek protection from creditors. The high number of PIAs reflects the prevalence of substantial secured debts in distress, while the lower numbers of DSAs and DRNs indicate fewer unsecured debt settlements and smaller-scale debt write-offs.



CORPORATE INSOLVENCIES

Throughout 2024, there were a total of 852 Corporate Insolvencies, which is a 16% increase when compared to 2023. The breakdown includes:

- **Creditors Voluntary Liquidations (CVLs):** 665
- **Court Liquidations:** 110
- **Receiverships:** 98
- **Examinerships:** 25
- **Small Company Administrative Rescue Process (SCARP):** 30

The Insolvency numbers highlight that SCARP continues to be underutilised in comparison to traditional insolvency options.

The rise in Corporate Insolvencies during 2024 can be attributed to several factors including high inflation energy costs, increased interest rates, and supply chain disruptions. The retail sector has been heavily impacted due to changing consumer behaviours and increased competition from online retailers. The construction industry also faced challenges with labour shortages and high material costs.

Outlook for 2025

Current projections suggest that insolvencies in Ireland will rise over the next 12 months, with possibly over 1,000 Corporate Insolvencies in 2025. The following sectors are likely to be most affected:



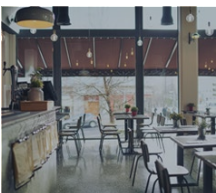
Construction

Ongoing supply chain issues, labour shortages, and high material costs are expected to heavily impact the construction sector.



Retail

The retail sector may continue to struggle due to changing consumer behaviours, increased competition from online retailers, and rising rents.



Hospitality

Increased labour costs and energy prices are likely to have a significant impact on the hospitality sector.

Personal Insolvencies are also expected to rise, driven by continued economic pressures on individuals. The number of new applications, Protective Certificates issued, and arrangements approved are all projected to increase as more people seek relief from financial difficulties.

IN FOCUS

The Rising Tide of Insolvencies in Ireland's Construction Industry

The Construction Industry in Ireland is facing a challenging landscape, with a notable increase in high profile insolvencies that threaten the stability of the sector.

Key issues



Labour Shortages

One of the most pressing issues is the acute shortage of skilled labour. A recent report highlighted that 63% of Irish construction companies struggle to find skilled workers. This shortage not only delays projects but also increases labour costs, putting additional financial strain on companies.



Rising Material Costs

The cost of raw materials has surged significantly, with 85% of construction firms identifying it as a major challenge. This inflationary pressure erodes profit margins and can lead to cash flow problems, making it difficult for companies to sustain operations.



Aggressive Creditors

There was an increased appetite amongst creditors in 2024, particularly Revenue and lenders, to pursue debt recovery through traditional channels such as appointing Receivers or issuing winding up petitions. This is likely to continue in 2025.



Domino Effect

The impact of high-profile insolvencies of developers will impact subcontractors and suppliers further down the supply chain creating a domino effect of insolvencies.

Furthermore, the introduction of the Residential Zoned Land Tax (RZLT) in 2025 is set to have significant implications for construction companies and property developers in Ireland, particularly in the context of financial stability and insolvency risks. The RZLT, which imposes a 3% annual tax on the market value of relevant land, aims to incentivise the development of residential properties on zoned land. However, this new tax presents several challenges that could exacerbate financial distress within the sector.

1. Increased Financial Burden:

The RZLT adds an additional layer of financial pressure on developers, potentially increasing the overall cost of projects. This added expense can strain already tight budgets and erode profit margins, making it more difficult for companies to remain solvent.

2. Cash Flow Strain:

For developers holding large land banks, the annual tax could significantly impact cash flow, especially if the land is not immediately developable due to planning or market conditions. This strain on cash flow can lead to difficulties in meeting other financial obligations, increasing the risk of Insolvency.

3. Exacerbation of Planning Delays:

The tax may compound issues related to the already complex and costly planning system in Ireland. Developers may face further delays in obtaining necessary permissions, which can stall projects and lead to prolonged periods of financial uncertainty.

Overall, while the RZLT aims to encourage the development of residential properties, it also introduces new financial and operational challenges that could increase the risk of insolvency for construction companies and property developers. Industry professionals must carefully assess the impact of this tax on their financial health and take proactive measures to mitigate potential risks.

When to contact an Insolvency Practitioner

Identifying the right time to contact an Insolvency Practitioner (IP) is crucial for construction companies facing financial difficulties. Here are some key indicators that suggest it may be time to seek professional help:

1. Persistent Cash Flow Problems:

Consistent struggles to manage cash flow, with frequent delays in payments to suppliers and employees.

2. Mounting Debt:

Unmanageable debt levels and an inability to meet financial obligations.

3. Inability to Secure Financing:

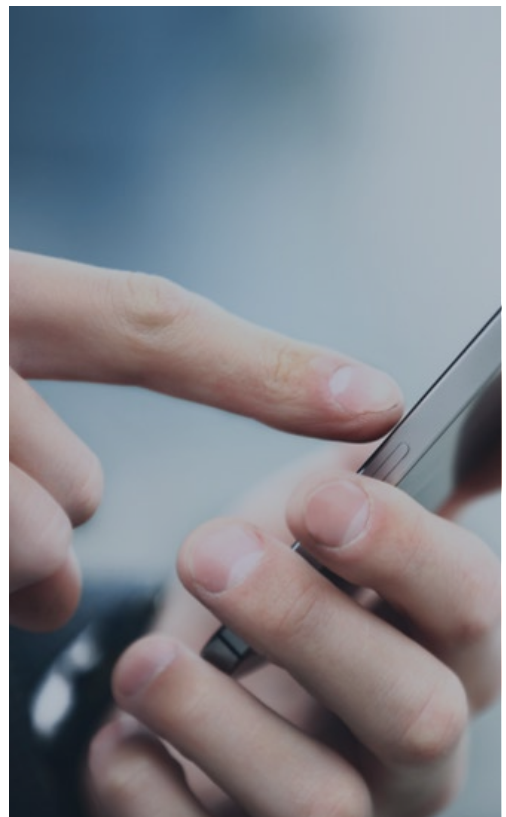
Difficulty in obtaining new financing or refinancing existing debt.

4. Legal Actions:

Facing legal actions from creditors, such as demands for payment or court proceedings.

5. Declining Revenue and Profitability:

A consistent decline in revenue and profitability, coupled with increasing operational costs.



Measures they can take to help

An Insolvency Practitioner (IP) can offer several measures to help construction companies navigate financial difficulties:

1. Debt Restructuring:

An IP can negotiate with creditors to restructure existing debt, potentially reducing the overall debt burden and extending repayment terms to improve cash flow.

2. Small Company Administrative Rescue Process (SCARP):

SCARP is a quicker and more cost-effective restructuring option for small and micro companies. It allows businesses to restructure their debts by agreeing on a rescue plan with creditors, often without the need for court approval. This process can be completed

within 10 weeks, making it an attractive option for companies facing immediate financial distress.

3. Financial Planning and Management:

An IP can provide expert advice on financial planning and management, helping companies to create realistic budgets, manage cash flow, and implement cost-saving measures.

4. Negotiating with Creditors

An IP can act as intermediaries between the company and its creditors, negotiating more favourable terms and preventing legal actions that could further harm the business.

5. Liquidation

An IP can assist with acting decisively in informal insolvency, such as Creditors' Voluntary Liquidations (CVLs) where it has been determined a company has no reasonable prospect of survival. This can potentially protect directors against personal implications such as directors' disqualification and wrongful trading actions.

The construction industry in Ireland is navigating a complex and challenging environment. By understanding the key issues triggering insolvencies and recognising the early warning signs, industry professionals can take proactive steps to mitigate risks and support the stability of the sector. Contacting an Insolvency Practitioner at the right time and leveraging their expertise can be crucial in helping construction companies overcome financial difficulties and achieve long-term stability.

PROFESSIONAL INSIGHTS

Innovative Approaches in Personal Insolvency

Personal Insolvency remains a critical issue, impacting countless individuals and families. For professionals in the financial and legal sectors, understanding and recognising innovative solutions is essential. This article explores a landmark case that highlights the potential for creative approaches in Personal Insolvency, offering valuable insights for those who may refer clients to Insolvency Practitioners.

In a recent case we negotiated, a 59 year old woman facing severe financial distress due to her estranged husband's actions was granted a long-term mortgage interest rate of just 0.5%, fixed for 17 years. This unprecedented decision by the Dublin Circuit Court saved her home from Repossession and provided a lifeline in her time of need. The Court's decision is significant not only for its immediate impact but also for setting a new precedent in Personal Insolvency cases.

The legal and financial implications of this

case are profound. The court's willingness to impose such a low-interest rate demonstrates a potential shift towards more debtor-friendly solutions. For professionals in the field, this case underscores the importance of staying informed about evolving legal precedents and considering innovative approaches when advising clients.

Supporting a client that is facing Personal Insolvency requires a combination of empathy, expertise, and strategic thinking. Recognising warning signs such as mounting debts, missed payments, or financial distress is crucial. Early intervention can lead to more effective and less drastic solutions.

Familiarising yourself with the various Insolvency solutions available, including Debt Restructuring, Voluntary Arrangements, and tailored repayment plans, is essential. Collaborating with a Personal Insolvency Practitioner (PIP) ensures your client can receive the best possible advice and support.

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