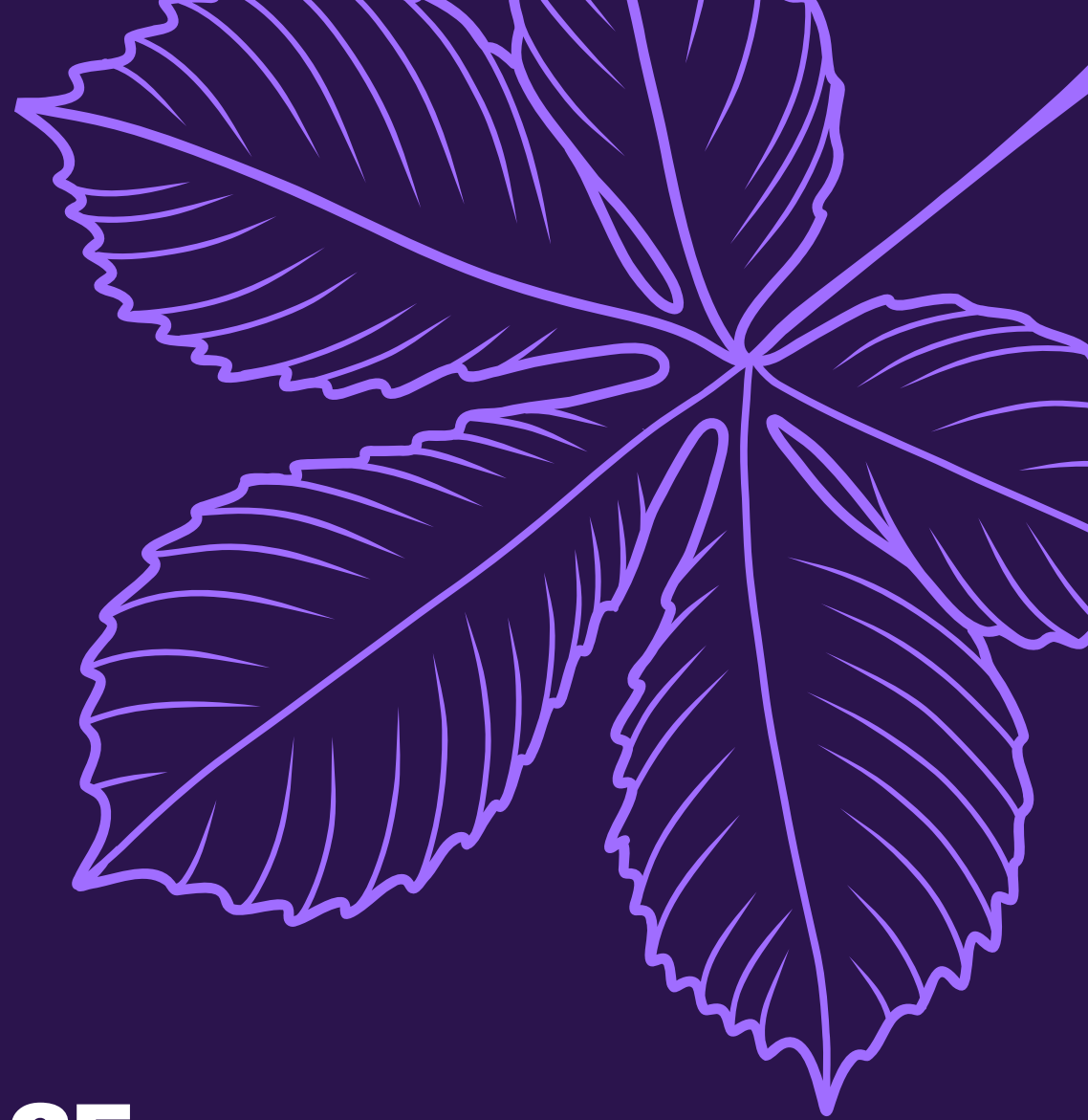




AUTUMN

# **Restructuring Outlook Report 2025**

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# Introduction

The restructuring market has been preparing for a sharp rise in UK insolvencies for some time. However, businesses have shown remarkable resilience and agility, bolstered by support from lenders and the continuing involvement of both private credit and private equity.

But pressures are building for UK companies. The business and political environment remains unpredictable. The cost of doing business continues to rise, and businesses face potential tax increases as part of the Government's Budget scheduled for late November. In this Autumn Restructuring Outlook, we provide an update on activity in the restructuring market, as well as a more in-depth look at the following topics:

- **Macro trends impacting businesses** – four trends that are profoundly impacting companies now and into the future.
- **Restructuring plans: where are we now?** - A comprehensive look at the Part 26A restructuring plan, including the implications of the Court of Appeal decision in July 2025 to overturn the sanction of Petrofac's restructuring plan.
- **A selection of insights** - focusing on key sectors that are experiencing challenges in the current environment:

**Financial Services:** Unpacking the FCA's proposed motor finance redress scheme: What firms need to know

**Education:** Testing times: Support for independent schools under stress / University Challenge: Financial hurdles for UK higher education

**Healthcare:** UK care homes – Market update and key challenges for the sector

**Real Estate and Construction:** SME housebuilders: can they build resilience to deliver the homes we need?

**Retail:** Independent retailers face unique challenges

**Our Debt Advisory team look** at how upcoming FRS 102 amendments may have significant implications for borrowers

With over 450 people in our Restructuring, Insolvency and Forensics team, we bring our latest insights, thinking and research straight to our clients. Our recent investment from private equity firm Cinven has allowed us to further upscale investments in both talent and technology, meaning we are stronger than ever before. From data analytics to AI-driven insights, we are constantly evolving to deliver smarter, faster, and more effective restructuring support.

“Businesses that can adapt will thrive. Our restructuring team help management teams, lenders and investors navigate challenging situations and build both financial and operational resilience.

I am particularly proud of our market leading position in restructuring plans – we have been involved in 64% of RPs in the market so far in 2025 - acting for both plan companies, challenging creditors as well as providing expert evidence to Court.

As always, the earlier businesses seek restructuring advice significantly increases the options available, allowing for greater control over the outcomes.

**Kevin Coates**  
Partner, Head of  
Restructuring and  
Debt Advisory



# Restructuring market update

Disruption has been the headline for businesses over the last few years, and the challenges that organisations have had to face in the past few years is nothing short of extraordinary. Yet, the predicted wave of insolvencies has not materialised. UK businesses have been remarkably successful at adopting strategies to remain resilient, whatever the headwinds.

Our business outlook tracker, which surveys 600 business leaders in the UK mid-market every two months to understand their expectations and priorities for the future, shows that 81% of respondents are optimistic about the outlook of the UK economy – 11 percentage points above the average net confidence levels seen since 2021.

And yet, at the same time, we know that pressure on some companies is building. Monthly company insolvency numbers in the first seven months of 2025 were higher than in the second half of 2024 (but still remained slightly lower than the 30-year annual high seen in 2023).

## Challenges faced by businesses

Higher input costs for raw materials and energy, together with increased employment costs due to changes to employers' national insurance contributions and the national minimum wage are putting continued pressure on profit margins, limiting reinvestment and impacting overall performance. Industries operating on thin margins such as construction and retail are inevitably the most vulnerable – evidenced by these sectors experiencing the highest number of insolvencies in the 12 months to June 2025.

The need to refinance in a higher interest rate environment continues to be a key driver of restructuring activity. Many companies have been able to delay refinancing due to sustained liquidity from pandemic-era support but those with maturities due in the rest of 2025 and 2026 must now contend with substantially higher borrowing costs and less favourable terms.

As an example, in the commercial real estate sector, lower valuations in certain sub-sectors (LTV) and interest cover ratios which can have significant implications for borrowers when they come to refinance.

Organisations also must navigate political uncertainty, both in the UK and globally. At home, possible tax increases and regulatory changes add to the uncertainty, while globally, the impact of more protectionist economic policies – for example, tariffs – is forcing businesses to reassess their supply chains, potentially leading to higher production costs.

HMRC has been taking a more proactive approach in recovering unpaid tax debts, which may also add to the financial strain faced by companies. Figures from Q1 2025 show that over 2,000 winding up petitions were filed with the Insolvency and Company Court, with over half of these issued by HMRC (an increase of 170% from those filed by HMRC in Q3 2024).



## M&A activity subdued in H1 2025 and administrations stabilise despite remaining at historically high levels

M&A will continue to drive restructuring as companies look to shed underperforming assets to improve their position in the market. Distressed M&A has seen a steady increase over the last few years as undervalued businesses are sought for acquisition, but an unexpected decrease in the first half of 2025 (UK deal volumes were down by 15.7% YoY) revealed a returning nervousness from buyers.

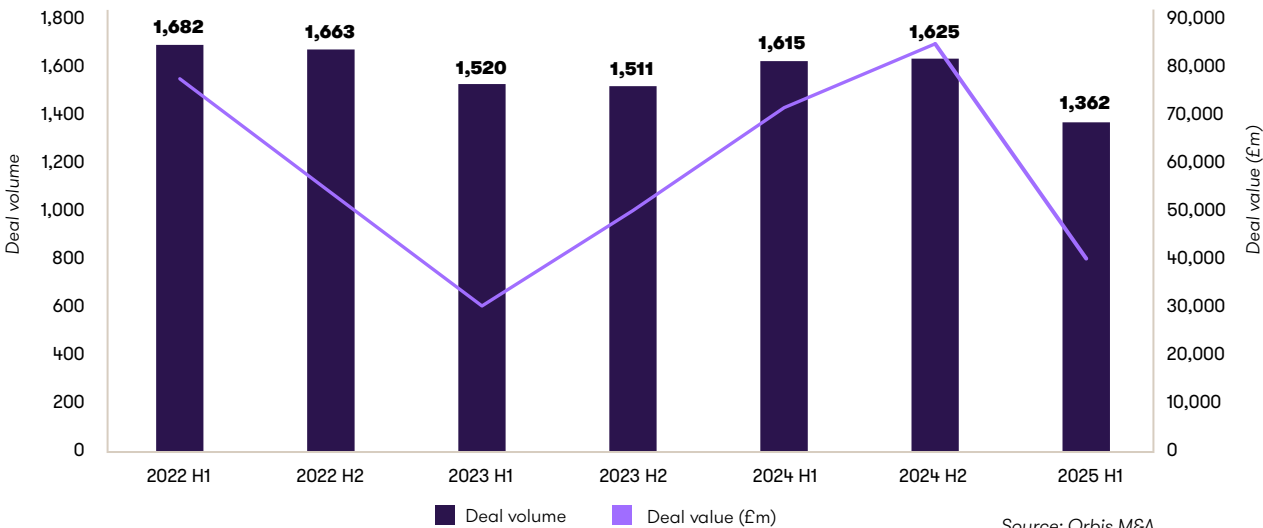
We see an uneven impact of the current economic climate – stronger companies and well-capitalised buyers are ready to do deals, even as weaker businesses continue to falter.

The high debt environment has also led to creative solutions, including an increase in debt-for-equity swaps and creditor-led restructurings. Creditors (like bond holders and banks) have been more willing to negotiate reorganisations, debt restructures, or even take ownership, rather than force an insolvency situation, especially if the core business is viable with reduced debt levels.

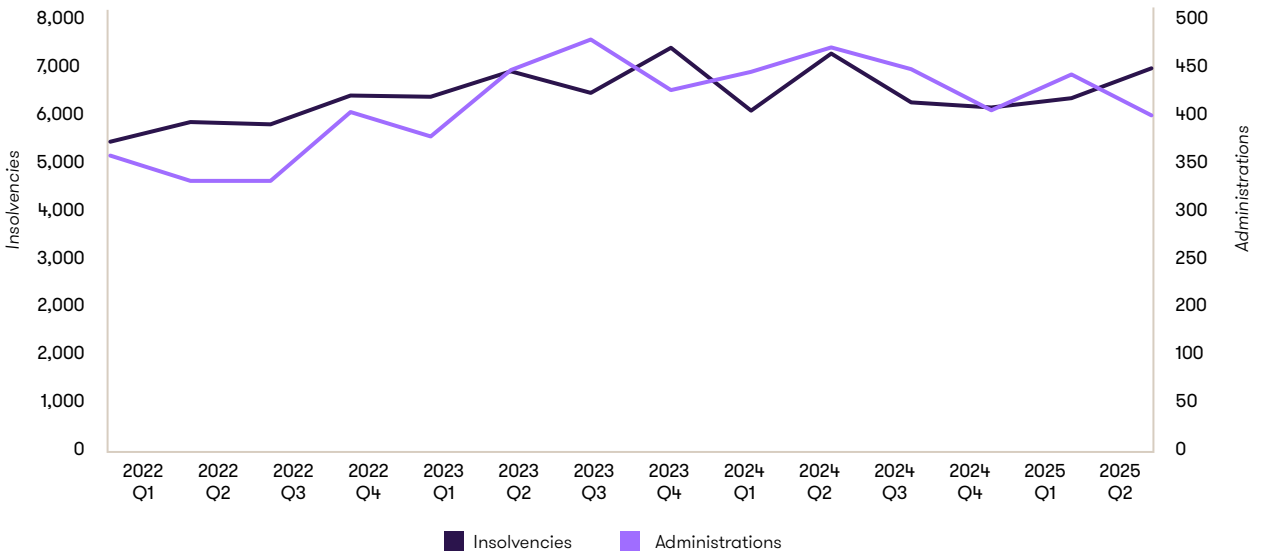
### What does 2026 hold?

While there is some optimism that the rest of 2025 will see an uplift in M&A activity, the fact that insolvencies in 2025 were still running at 2023's high pace indicates that lots of businesses remain fragile. Stubborn inflation and sluggish economic growth will continue to impact businesses, and any additional strain (such as further tax rises or a rise in interest rates) will translate into greater levels of stress.

### UK M&A 2022-H1 2025



### UK Insolvencies and administrations 2022-H1 2025

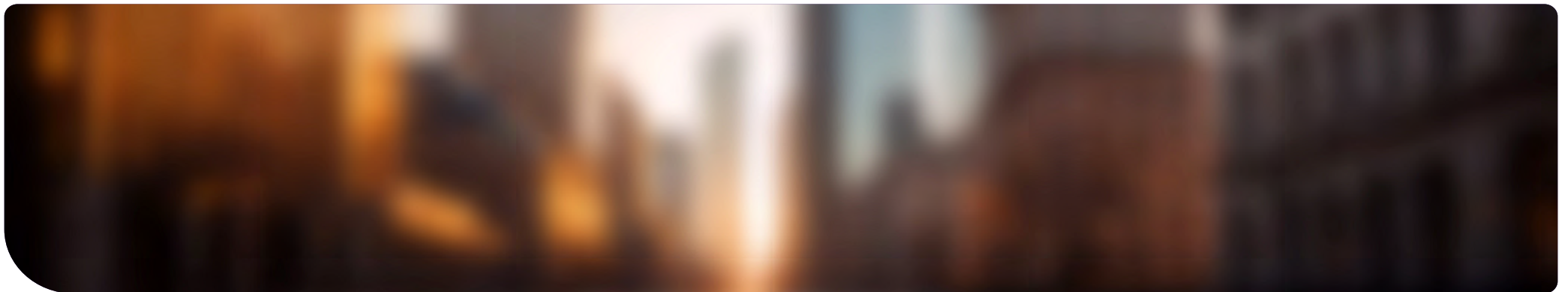
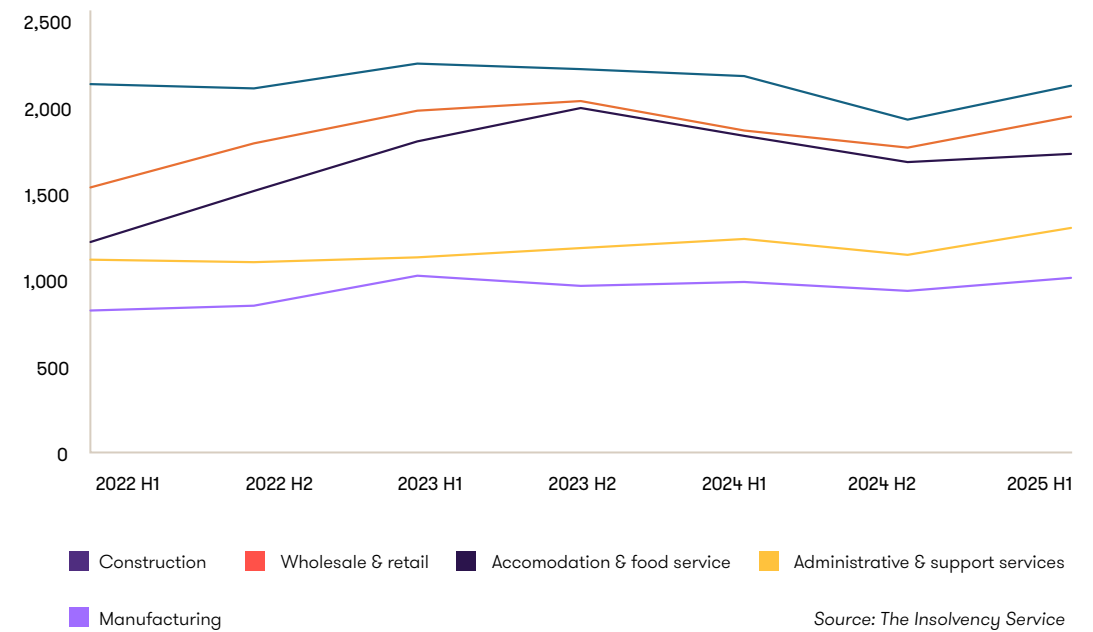


## Insolvencies

Sectors such as construction, accommodation and food services, and wholesale and retail trade consistently show the highest insolvency volumes, reflecting their vulnerability to economic shocks and cost pressures.

Smaller businesses - especially those with turnover below £1 million - are disproportionately affected, with cash flow pressures, rising input costs, and difficulty passing costs to customers being key issues. High borrowing costs, the looming refinancing wall, and inflation's lingering impact on margins are intensifying insolvency risks. Sectors which operate on thin margins and face supply chain and energy cost challenges, are particularly exposed.

Top 5 Industries by insolvencies 2022- H1 2025 (England & Wales)





# **Macro trends impacting the restructuring market**

# Macro trends impacting the restructuring market

The opportunities and challenges for UK businesses in 2025 are being profoundly shaped by four overarching macro trends that are redefining global business dynamics.

## Digital transformation and cyber security

Rapid advancements in digital technology and artificial intelligence (AI) are reshaping industries. While these innovations promise increased productivity, benefits may not be accessible for all businesses. Larger companies often struggle with outdated legacy systems, while many smaller businesses lack the resources or expertise to implement new technologies. In the UK, one-third of small business owners view AI adoption as a serious challenge<sup>1</sup>.

Obstacles ahead include the availability of skills for AI development, the disruption for job roles and recruitment, as well as managing the environmental impact of scaling digital infrastructure.

In the UK, several high-profile cyber-attacks have led to significant disruption, financial cost and undermined consumer confidence. The Cyber Security and Resilience Bill, expected to be introduced in the 2025/26 legislative session, will require businesses with critical digital infrastructure to have the necessary cybersecurity practices in place.

## Geopolitical landscapes

As governments around the world have become more populist and nationalist in outlook, economic policies are becoming more protectionist.

The most notable example of this is the introduction of tariffs as part of the second Trump presidency, destabilising the status quo and significantly impacting global economies. Many companies will have had their supply chains impacted, taking time, resources and often increasing production costs. In some parts of the world, the tensions caused by these tariff policies threaten to lead to greater political rifts, leading to rising defence budgets.

Supply chains are being redrawn, as resilience, proximity and speed become paramount.

## Climate change and energy security

Despite the global consensus on addressing climate change stalling, decarbonisation and the energy transition remain major themes. Although increasingly called into question, many developed countries are targeting net zero greenhouse emissions by 2050. New and evolving regulations and reporting standards continue to push companies and industries to reduce carbon emissions and move towards net zero targets.

Climate change and the threat of severe weather events pose real risks for companies, with climate events impacting areas such as financial risk models, insurance pricing and real estate planning.

Energy security is a key issue as geopolitical tensions impact energy prices and security of supply. To help mitigate these challenges the government recently established Great British Energy to accelerate the transition to clean energy and boost the UK's energy independence.

## People and skills

Population dynamics in the UK and around the world are changing, with many countries facing a declining birthrate and ageing population. It has been estimated that 17.5 million job openings will arise by 2035 from replacement needs alone.

At the same time, immigration remains politically contentious. The UK is still reckoning with the fallout of leaving the EU in 2016 and the associated negative impact that had on immigration with industries such as logistics, hospitality and construction amongst those most affected.

Increased use of technology, AI and automation will future proof firms from workforce shortages, but require vastly different skill sets to those jobs displaced. People and businesses will adapt, but there is no denying that the immediate future will include a level of upheaval and change which will need to be carefully navigated.

1. Employment Hero report, cited in Startupsmagazine.co.uk Small business leaders cite AI as their top concern)

## Impact of macroeconomic trends on selected industry sectors

|                                                  | Financial services                                                                                                                    | Education                                                                                                                                              | Healthcare                                                                                                                                                                                 | Retail                                                                                                                                                        | Real estate and construction                                                                                                               |
|--------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Digital transformation and cyber security</b> | Rapid digitisation of services and improved data drives industry forwards but threat of cyber attack high                             | Can improve learning outcomes and efficiency, but budget constraints and lack of people and skills to drive transformation forward                     | Improved diagnostics and connectivity drive efficiencies and improve services                                                                                                              | Disruption to skills, but potential to enhance consumer experience                                                                                            | Technology adoption boosts operations and enhances construction efficiency. Growth of data centres lead to real estate boom                |
| <b>Geopolitical landscapes</b>                   | Rising regulation, conflict and cyber threats reshaping the risk landscape. Government housing plans are set to boost mortgage demand | Political forces can impact curriculum as well as academic freedoms, and also create barriers like sanctions or restrictions on research collaboration | Healthcare systems face mounting pressure to do more with less, balancing ageing populations and infrastructure needs, while global aid cuts threaten critical outcomes like HIV/AIDS care | Rising regulation, shifting consumer spending and geopolitical tensions are straining supply chains and increasing pressure on an already struggling industry | The UK's 10 year infrastructure strategy presents opportunities for growth but delivering on its goals will require substantial investment |
| <b>Climate change and energy security</b>        | Major risks/financial losses resulting from the increasing frequency of climate events                                                | Impacting budgets via increased costs and the need to retrofit buildings to aid sustainability. Plays vital role in educating next generation          | Focus on reduction of NHS carbon footprint for emissions controlled directly, as well as suppliers                                                                                         | Increasing scrutiny of ethical practices. Circular economy driving waste reduction                                                                            | Climate events influencing real estate planning. Focus on sustainability in the supply chain                                               |
| <b>People and skills</b>                         | As banking goes digital branches and staff are reduced - risking exclusion for some consumers. Need for digital skills is paramount   | Declining birthrate and immigration policy will impact student numbers, affordability will continue to be an issue                                     | In the UK, staff shortages and strikes (consequences of under funding) are straining the sector, just as demand rises due to an ageing population                                          | Skills will change on account of digitisation. Growth of middle classes in emerging economies will increase demand for goods                                  | Still impacted by Brexit and the associated loss of workers                                                                                |

# **Restructuring plans - where are we now?**



# Restructuring plans - where are we now?

The Part 26A Restructuring Plan is now 5 years old, having been introduced as part of the Corporate Insolvency and Governance Act which came into force 26 June 2020. A restructuring plan is a modified scheme of arrangement, and includes a cross-class cram down provision, allowing for the compromise of certain creditors even if they do not approve the plan. Undertaking a restructuring plan can make a company a more viable proposition to attract new funding from investors, while allowing directors to retain control.

It has been extremely interesting seeing the continued evolution of this powerful restructuring tool, including a growing number challenges by creditors. Most notably, in July 2025, the Court of Appeal overturned the sanction of Petrofac's restructuring plan – the implications of which we discuss in more detail overleaf.

Each judgment has shed further light and guidance on what is and is not acceptable in the eyes of the Court, and the changing and differing approaches being taken by creditors seeking to challenge a restructuring plan.

Grant Thornton was instructed on **50%** of the restructuring plans in the market in 2024, and **64%** of the RPs in the market to date in 2025, building on our credentials as leading advisors in RPs.



### Petrofac Court of Appeal ruling: what are the implications for the restructuring plan?

The Court of Appeal overturned the sanction of Petrofac's restructuring plan in July 2025. The judgment contains significant new guidance. Does this mean an increase in complexity and cost of future restructuring plans, or can the market adapt so companies can continue to benefit from the flexibility?

On 1 July 2025 the Court of Appeal set aside the sanction of Petrofac's twin restructuring plans. This is the third time that a restructuring plan has been heard by the Court of Appeal, after Adler in 2024 and Thames Water in 2025. It is the second time (including Adler) that an appeal has been successful.

### Background

In May 2025 the High Court sanctioned twin restructuring plans for Petrofac Limited and Petrofac International (UAE) LLC, despite dissenting creditors, led by Saipem and Samsung. Petrofac – a UK based energy equipment and services company – proposed the restructuring plans to equitise nearly \$772 million of secured bond debt and provide \$350 million in new money, predominately from an ad hoc group of bondholders.

The dissenting creditors were granted permission to appeal this decision on two grounds:

- Whether the 'no worse off' test in the relevant alternative required the Court to consider the loss of indirect economic benefits (ie commercial gains from the insolvency of a competitor)
  - The Court of Appeal dismissed the appeal on this first ground, clarifying that there is a distinction between a creditor's 'rights' and their broader interests
- Whether the allocation of value generated by the restructuring was unfairly allocated between plan creditors, considering the substantial value that was bestowed on new money providers
  - The Court allowed this appeal, finding that the plans allocated over two-thirds of the value preserved or generated by the restructuring to the providers of new money, leading to returns of over 200% on their investment. Crucially, the plan companies did not provide evidence (either by market testing or expert evidence) that the returns generated by the restructuring fairly reflected the cost at which funding could have been obtained in the market.

### Implications for Part 26A restructuring plan

Previously, the opposition of out-of-the-money creditors were deemed to 'carry no weight' – a position that had been set out in the Virgin Active judgment (2021). This is now emphatically no longer the case. The Court of Appeal noted that even if creditors were due to receive nothing in the relevant alternative, they were still contributing to the restructuring by giving up claims. They therefore deserve to receive some value in return.

Assessing the entitlement of out-of-the-money creditors to ensure a fair allocation of value is now a key issue that must be addressed in any future restructuring plans:

- Proposed allocations need to be justified to the Court using evidence that goes beyond the relevant alternative report
- A market testing exercise, or expert evidence as to the availability and pricing of new money would assist the Court in assessing the fairness of any proposal (where new money is a feature of the plan)
- The burden of proof to provide this evidence lies with the plan company.

“Assessing the entitlement of out-of-the-money creditors to ensure a fair allocation of value is now a key issue that must be addressed in future restructuring plans.”

**Kevin Coates**  
Partner, Head of  
Restructuring and  
Debt Advisory



## How can a plan company demonstrate the fairness of its proposal in light of this new guidance?

In reality, a market testing exercise can be costly, take up management time and be a disruptive process (and there will be concerns about confidentiality or leaks). Lenders approached may not be willing to be used for such purposes, and existing lenders may have concerns about being primed by new debt or losing control of the situation if new creditors receive a portion of the equity. However, parties may need to build time into processes to allow for, at least, some market testing.

The use of expert evidence as to the market price of any debt or equity, and the distribution of the benefits generated by a restructuring plan is likely to be an integral to the success of future restructuring plans.

It will also be interesting to see how parties continue to use valuation evidence. It will remain critical. The decision in Petrofac may see a shift from focusing on the current value of the company/group to the post re-organisation value to assist with assessing the now critical question of the allocation of the benefits.

The company and/or an expert will still need to set out the outcome to creditors in the Relevant Alternative as compared to the plan to ensure the 'no worse off' test is satisfied. The valuation methodology used for this purpose will depend on the scenario identified as the Relevant Alternative.

The addition of post re-organisation valuation evidence may not add considerably to the cost of the process. It is, in our experience, common for a valuation to be performed on the company/group already and adapting that to reflect the post restructuring position need not be too complicated. Both valuations are likely to use the same cash flows and forecasts as their starting points. The difference is likely to be more around the Enterprise Value to Equity Value bridge, which will need to account for the post-restructuring capital structure, pricing of the future debt and working capital assumptions.

As has been demonstrated now in a number of cases, the experts producing evidence need to be prepared to be cross examined and challenged on their expert opinions.

## Grant Thornton prepares the first plan benefits report

Grant Thornton prepared this expert evidence (a 'plan benefits report') for a restructuring plan proposed by IBMG, a building merchants' supplier. This was the first restructuring plan to be heard after the Petrofac Court of Appeal judgment and is the first time such a report has been used in restructuring plan proceedings. The plan was sanctioned by the High Court in July 2025.

In light of the Petrofac judgment, Andy Charters, a Grant Thornton restructuring partner, sought to show that the benefits from IBMG's proposed restructuring were being fairly shared among secured and unsecured creditors. In this case, the plan benefits report showed that unsecured creditors were due to receive 14.4% of the plan benefits compared to only contributing 4.1% in value to the plan.

Submissions to Court noted that this type of report is 'likely to become common place in the future in light of the increased focus on the need for a fair distribution of the benefit of the restructuring following (Thames Water) and (Petrofac)'.

## Will restructuring plans decrease in popularity?

A restructuring plan is currently not a cheap process. Advisors are continuing to look at how costs can be controlled and reduced, especially in the mid-market. The increasing number of contested restructuring plans together with a new onus on the plan company to provide evidence to Court means the cost and complexity of undertaking a restructuring plan may be perceived as increasing. However, as mentioned above, the additional valuation evidence does not necessarily need to add considerable extra cost.

Market participants have questioned whether the use of pre-pack administrations will increase as they can potentially achieve the same outcome with less time and expense. Pre-packs are a very effective tool and continue to be used, especially in the mid-market. At the larger end of the market, there has been a slight shift away from them since the restructuring plan was introduced in 2020. Parties may re-consider that approach, in light of Petrofac, but we think the restructuring plan remains a very effective tool and that pre-packs are not always the answer.

Interestingly, in the case of IBMG, the result achieved by their restructuring plans could have been achieved via a prepack. However, the complex structure involved meant the company saved an estimated £12.8 million via the plans compared to undertaking a prepack administration.<sup>2</sup>

2. Global Restructuring Review: English court sanctions 13 IBMG plans following landmark plan benefit analysis, 9 July 2025

## The restructuring plan continues to be a powerful tool in the right circumstances

The restructuring plan remains a useful and relevant tool not only due to the cross-class cram down provision. The ability to retain the corporate shell is valuable, meaning change of control clauses may not be triggered and enabling the continuity of contracts or regulatory permissions etc. This is not the case in a prepack administration.

Restructuring plans have been popular for international groups. While those groups might be able to use a pre-pack, a share pledge enforcement or other overseas restructuring tools (for example, Chapter 11, the WHOA or StaRUG), we think the restructuring plan will continue to be an attractive tool.

Because of the Petrofac Court of Appeal judgment, as well as other contested restructuring plans, we expect to see a greater focus on creditor negotiations taking place before a plan goes before the Court. Courts will want to see evidence that such engagement has taken place.

While the relevant alternative report will always be essential to establish compliance with the ‘no worse off’ test, there may be a shift in emphasis for experts to provide evidence as to the value of a company on the day after the restructuring, once current debts have been released or amended.

Recent restructuring plans in the market (River Island, Poundland and Madagascar Oil were all sanctioned in August 2025) illustrate the willingness of the Court to sanction plans (and use the cross-class cram down provision) post Petrofac. Notably however, in light of the precedent set by Petrofac, the Court declined to sanction a restructuring plan proposed by Waldorf Production UK, holding that the plan company had failed to establish that the plan was fair to its out-of-the-money creditors.

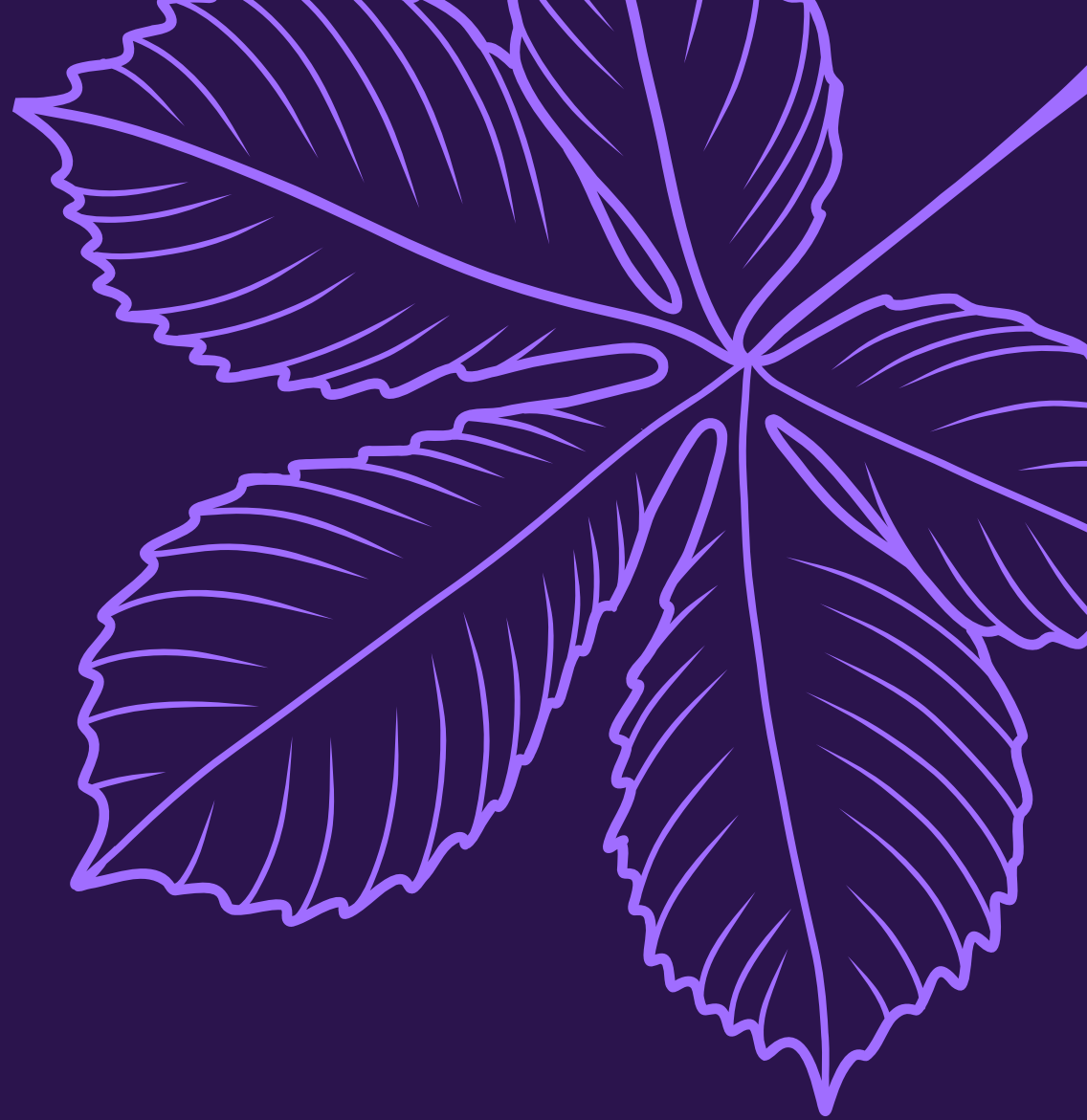
Ultimately, we have had 150 years of case law for the scheme of arrangement, 40 years for the pre-pack administration, but only five years of case law for the restructuring plan. There may be a brief hiatus in the use of restructuring plans as the market digests the implications of Petrofac’s Court of Appeal judgment. This was also the case after Adler’s restructuring plan was overturned in 2024.

But the restructuring plan is here to stay and will remain a powerful tool to be used in the right circumstances.



# Sector insights

At Grant Thornton, our sector specialists produce regular insights to help our clients understand the big picture trends and issues in their industry. This is critical to navigating ever changing landscapes and building both financial and operational resilience. The following pages include insights for some of our key sectors: financial services, education, healthcare, consumer and housebuilders, as well as our Debt Advisory team.



# Sector insight: Financial services

## Unpacking the FCA's proposed motor finance redress scheme: What firms need to know

- On 6 October 2025, the Financial Conduct Authority (FCA) published its consultation paper outlining the proposed scope, methodology, and timeline for an industry-wide redress scheme. The consultation runs until 18 November 2025, with final rules anticipated in early 2026, although this will be dependent on feedback the FCA receives throughout the consultation.
- The proposed scheme has raised concerns from market participants, including whether the redress methodology accurately reflects actual customer loss, the threshold used to define 'high commission', challenges accessing relevant records dating back to 2007 and implementation timelines post-launch.
- The FCA currently estimates that around 14 million agreements may qualify for redress, with a potential industry cost of £11 billion – comprising £8.2 billion in compensation and £2.8 billion in operational costs. While this sits at the lower end of previous estimates, the operational and financial impact on firms is expected to be significant. Many lenders are increasing their provisions as a result.

### Proposed scope and eligibility

The FCA has proposed that the scheme will apply to regulated motor finance agreements entered into between April 2007 and November 2024, where commission was paid by lenders to brokers. It focuses on discretionary commission arrangements and cases where commission disclosure was insufficient, or commissions were disproportionately high relative to the cost of credit.

Three key indicators have been outlined to identify whether a customer may have been treated unfairly. These include:

- The presence of a DCA
- High commission, defined as 35% or more of the total cost of credit, and at least 10% of the loan value
- Contractual ties between lender and broker, such as exclusivity or right of first refusal

The existence of one or more of these indicators is likely to result in redress being payable to a consumer.

### Calculating redress

The FCA has proposed a structured approach to compensation that reflects varying commission arrangements: In terms of calculating redress, there are three remedies being proposed:

- The first being a full refund of commission (**commission repayment remedy**) where an arrangement had both undisclosed contractual ties and very high commission which is equal to, or greater than, 50% of the total cost of credit and 22.5% of the loan value
- The second is the **APR adjustment remedy** which applies a 17% reduction to the APR actually paid – the APR adjustment remedy will take precedent if it results in a higher redress amount than the full refund of commission as referenced above
- The third applies where there is unfairness for any other reason and is calculated using a **hybrid remedy** – being the average of the full commission refund and the APR adjustment remedy. Although, if the APR adjustment remedy results in a higher redress amount than the hybrid calculation, that amount will be payable

In all scenarios, compensatory interest will be added using the bank of England base rate plus 1%. The current weighted average is 2.09% per annum.

### FCA expectations of firms

On 7 October, the FCA issued a Dear CEO letter outlining actions they expect motor finance firms to take now. The regulator states that it is crucial lenders do not await the outcome of the consultation and prepare now to deal with their existing portfolio of complaints and for a potential redress scheme.

Lenders are expected to identify and contact affected consumers, assess liability, calculate compensation, and ensure timely payments. Brokers, while not responsible for delivery, are expected to cooperate by providing relevant data and historical records.

The FCA also reminds firms of the importance of maintaining adequate financial and non-financial resources, and are expected to review and, where necessary, improve them to ensure they can meet any potential liabilities that arise.

## Navigating director duties in uncertain times

Given the scale and complexity of the proposed scheme, it is particularly important that directors (and senior management) take a proactive and well-informed approach to governance. Directors need to be mindful of their duties which are designed to protect stakeholders, promote good corporate governance and maintain accountability. Central to this are core responsibilities, including:

- **Promoting the success of the company:** Directors must act in a way they believe will benefit the company's members, having regard for the interests of stakeholders such as consumers, employees, and suppliers
- **Exercising independent judgement:** Decisions should be supported by critical evaluation of all information, for example assessing the financial impact of the proposed scheme or reviewing compliance and risk management functions to ensure they are fit for purpose
- **Exercising reasonable skill, care, and diligence:** Directors are expected to apply their expertise effectively, act prudently and remain informed about their company's affairs, for example remaining up to date with regulatory developments, identifying data requirements and skill retention at senior levels, among other matters that could impact the business.

As firms assess the implications of the proposed scheme and prepare for the period ahead, directors should ensure all key strategic, operational and financial decisions are well-documented.

“Given the scale and complexity of the proposed compensation scheme, motor finance firms should take proactive steps to prepare, ensuring they have adequate operational and financial resources.”

**Chris Laverty**  
Partner  
Restructuring



## Proactive actions directors can take now

While there may be scope to challenge and influence certain elements of the proposed scheme, the below are key actions directors can take now to prepare:

- **Governance and oversight:** Establish a project management office and assign a senior manager function holder to lead programme delivery
- **Population identification:** Commence targeted data discovery to identify potentially affected agreements from 2007 to 2024. Consider the format, quality and availability of data, including any reliance on legacy systems or data held by third parties
- **Documentation and evidence:** Build a structured document library capturing relevant records to support redress calculations and complaint handling
- **Redress modelling:** Develop a calculation tool aligned with the FCA's proposed methodology
- **Resources:** Identify the operational requirements to undertake a remediation programme, including the need for additional resources or third-party support
- **Financial assessment and funding:** Conduct detailed financial analysis to estimate potential compensation and operational costs, as well as establishing how the remediation programme will be funded. This exercise may also highlight areas of potential stress or vulnerability and triggers that may lead to financial pressure

Where a firm may be experiencing financial difficulties or have concerns about the impact on future performance, directors should engage with their advisors (both legal and financial) early to consider options available and how best to navigate the challenges.

We have advised on restructuring engagements for many firms in the consumer credit sector who have needed to navigate challenges associated with large-scale remediation exercises. We bring together specialists to provide the resources and skillsets required, ensuring you are well positioned to respond to the outcome of the FCA's consultation and final rules set out for the scheme.

# Sector insight: Education

## Testing times: Support for independent schools under stress

There has been a fall of 11,000 pupils attending independent schools in January 2025<sup>3</sup> compared with the same time last year, according to figures released by the Department of Education in June 2025 coupled with a record drop of over 5% in enrolments at reception, year 3 and year 7 – the main intake years. Primary schools have seen the largest impact, with pupil rolls declining by 3.5% between January 2024 and January 2025, compared to 1.7% for secondary schools, according to data from the Independent Schools Council (ISC)<sup>4</sup>.

### Falling pupil numbers adds to pressure on schools

The drop in pupil numbers - while exacerbated by the introduction of VAT in January 2025 and subsequent increase in employers' National Insurance contributions and removal of business rates relief to charitable institutions - is also indicative of longer-term trends, including a falling birth rate. In certain locations, most notably central London, we have also seen the removal of non-dom tax status impacting enrolments as people leave the city.

Like all businesses, schools have also faced a significant increase in their operational costs, most notably staff and energy costs. The level of impact of these headwinds on independent schools will be felt on a case-by-case basis. Geography, demographics, competition, market reputation and size of school all play a part with smaller, stand-alone schools often being more vulnerable.

With over half of independent schools having fewer than 285 pupils and one quarter of schools having fewer than 153 pupils, there are many who are now experiencing a level of financial stress.

### Further changes ahead for independent schools

Further changes are yet to come. The Government has announced its intention to introduce higher business rates for properties with rateable values of £500,000 and above, while properties below the threshold see reduced rates<sup>5</sup>. This is part of a reform, announced in the 2024 Autumn Budget, aimed at supporting the high street and encouraging investment and growth. However, this will inevitably impact the majority of independent schools, whose properties will fall above the £500,000 threshold.

There are also changes being proposed to the capital goods scheme, which requires VAT to be looked at across a longer period of 10 years for land and buildings<sup>6</sup>. The threshold for this scheme is expected to rise from £250,000 to £600,000. While it is expected that this will be a prospective change only, and therefore one of administration, this is yet another area of uncertainty across the taxation environment for schools.

3. Department for Education, Schools, pupils and their characteristics, June 2025

4. ISC Census and Annual Report, 2025

5. HM Treasury, Policy paper – Business rates: forward look, September 2025

6. HMRC, Policy paper – Tax update Spring 2025, April 2025

## Operational restructuring

Independent schools are working hard to ensure that their business model remains sustainable and can withstand these challenges. Many schools will have spent significant time investigating alternative income streams, for example, opening nurseries or repurposing or renting/selling buildings or land where applicable. They will also have been busy identifying cost-cutting opportunities, such as reducing staff numbers, cutting back subject choice or reducing bursaries.

Care must be taken that measures do not affect the quality and attractiveness of the school's offering to prospective parents, or if selling assets, affect the school's ability to raise finance secured on land or property. If a school is a registered charity, the charitable objectives must also continue to be met.

## Cash flow forecasting is essential

When navigating change, granular cash flow forecasting becomes more important than ever. It allows schools to model various scenarios based on different pupil numbers, measuring and assessing the impact of additional revenue streams or cost-cutting programmes. Including a sensitivity analysis allows management to understand how cash balances could be affected by circumstances such as an increase in the late payment of fees.

Careful forecasting and scenario analysis, using real-life evidence from restructurings in the sector, will aid informed decision making, help identify realistic and impactful KPIs, and provide greater clarity on areas of potential stress, enabling a school to take pre-emptive action.



## How to approach lenders

Schools may need to approach lenders to raise new capital or refinance existing facilities. Options to consider when looking to raise new finance include:

- secured lending – backed up by a valuation from specialists in the independent school sector
- sale and leaseback transaction – selling an asset to an investor and taking a lease for a fixed period at market rent
- ground rent transaction – selling the freehold and taking back an ultralong-dated lease at a rent lower than sale or leaseback levels.

Raising new capital or refinancing can be more challenging when a business is facing some financial distress. Schools will find that lenders will want to see robust stress testing of forecast cash flows to gain comfort that debt repayments will still be managed under a wide range of circumstances, or if pupil numbers continue to fall.

Optimising your capital structure, presenting your credit story in the best light and giving lenders comfort in any financial forecasts can be key.

## Surge of M&A activity

Merging with a larger school group can bring vital investment for an individual school, as well as access to shared assets and services such as HR, IT and finance, and more robust recruitment channels. As financial pressures hit schools, there has been a surge of merger and acquisition (M&A) activity in the sector.

Mergers can take several forms. The most common in the market right now is the creation of new groups of schools operated by a single charity, or mergers between charitable organisations. We are also increasingly seeing charitable prep schools being taken on by senior schools (Radley College merging with the Prep Schools Trust being a high-profile example), or charitable schools being acquired by a commercial for-profit education provider.

We do expect M&A activity to stabilise, but the shape of the independent sector will be altered, with a significant number of schools joining charitable or for-profit groups.

M&A always brings cultural, strategic, legal and financial complexities however, and you should seek guidance from an experienced advisor in this area.

## How we can help independent schools find a way forward

If the numbers are not looking promising, the earlier you seek advice, the more control and choice you have over what the future holds for your school. We can assist through our restructuring and corporate finance professionals.

- Strategic support: An example of how we can add value is supporting clients with strategies that maximise the impact of employee benefits in the face of rising costs. Whether it is through benefit renegotiation, restructuring, or by optimising salary sacrifice options, we uncover ways to reduce expenses without compromising the overall package of employee offerings.
- M&A advisory: We have advised extensively on transactions in the sector, conducted extensive mapping of all the independent schools in the country and have a deep knowledge of the buyers in the sector. We are proud to have recently won Financial Advisor of the Year Award at the 2024 Education Investor Awards.
- Restructuring help: There may be ways to save the school even if the underlying company is no longer viable and a restructuring adviser can guide you through this. In the event that the unfortunate decision is taken that the school itself cannot continue, then you will need support producing a plan for closing the school and the solvent or insolvent winding down of the company.

In difficult times, it is vital that schools explore all options available. We can help provide certainty and a course of action, including having a robust 'Plan B', through contingency planning. Our internal expertise and services span all restructuring options, debt advisory, acquisitions and mergers, and tax advice.

“When navigating change, granular cash flow forecasting becomes more important than ever. It allows schools to model various scenarios based on different pupil numbers, measuring and assessing the impact of additional revenue streams or cost-cutting programmes.”

**Alistair Wardell**  
Partner  
Restructuring



# Sector insight: Education

## University Challenge: Navigating the hurdles for UK higher education

Latest figures from UCAS show that the number of applicants to UK universities in 2025 has risen slightly to 665,070, a 1.3% increase on 2024 levels. While this increase will be welcome, the longer-term effects of years of frozen tuition fees, rising staff costs, and uncertainty in both domestic and international student numbers mean universities are still facing significant financial pressures.

### The tuition fee challenge

Universities are heavily dependent on tuition fees, which account for over half of their funding. Tuition fees in England have only risen by £250 since the Government set the cap on fees to £9,000 a year in 2012, which presents a significant challenge for the sector. Universities say they make a loss of more than £3,000 on each domestic student<sup>7</sup>, leading to a reliance on international students to help bridge the funding gap caused by the domestic tuition fee freeze.

The rise in tuition fees from the 2025/26 academic year to £9,535 provides some relief for the sector, and is expected to raise an additional £320 million<sup>8</sup>. However, there is concern that this benefit is negated by the rise in National Insurance contributions for employers implemented in April 2025. The OfS estimated this will cost universities £430 million each year from 2025/26<sup>9</sup>.

### Government policy impacting international student numbers

The larger decline in international student numbers is more concerning for many universities. International students can pay up to two to three times the amount of UK students and have become essential for some universities' financial viability. However, measures taken by the Government, such as restrictions on bringing family members to the UK and changes to student visas, have discouraged many international students from pursuing education in the UK.

As a result, in 2024 there was a significant decrease in student visa applications from countries that traditionally have been a major source of students to the UK. For example, the number of applicants from India fell by 28,585 (20.4%) year on year, and the number from Nigeria decreased by 25,897 (44.6%).

Another significant development being considered is the Government's proposal to introduce a levy on income from international students. Suggested at a rate of 6%, this levy would be reinvested into the broader higher education and skills system. While details are expected in the upcoming Autumn Statement in November 2025, the proposal has already sparked concern among institutions that rely heavily on international tuition fees to balance their budgets.

UK universities currently have a unique opportunity to capitalise on American policies on higher education. The US administration has launched stringent policies on research grants and academics. Both US and overseas students are reconsidering decisions to study with American institutions as a result of these policies. Interest in UK degrees was 25% higher among US students in March 2025, compared to March 2024. Despite some uncertainty on UK immigration processes, visa caps in Canada and Australia mean that the UK is an attractive option for students wishing to study abroad.

### Increased operating costs erodes margins

Inflationary pressures on operating costs and increasing salary and pension costs are contributing to the overall financial strain and eroding gross margins. Universities have implemented cost-cutting measures, such as voluntary redundancy processes, course reductions and delaying investment in infrastructure, to mitigate these financial challenges. But management will be acutely aware that this must be balanced against the need to meet their regulatory obligations and remain competitive in the global higher education landscape.

### Gillies report

Dundee University's well publicised financial troubles resulted in Prof Pamela Gillies producing an independent report which found poor financial management, weak governance, and poor culture, were responsible for the university's sudden and serious financial crisis. This has made other universities re-think their own governance procedures and whether they remain fit for purpose, especially in the light of the challenges institutions are currently facing.

### Refinancings due 2026 will lead to higher debt service costs

There is approximately £15 billion of debt in the sector, with much of this being longer term (maturities of 10-15 years). However, much of this debt is up for renewal in 2026. Lending terms in 2011-2016 were far more attractive than they are now, which will impact universities when renegotiating terms.

Alongside cost reduction programmes, universities are heavily focused on cash preservation meaning expensive projects and non-essential capital expenditure has been delayed. We are seeing more universities seek revolving credit facilities to provide liquidity headroom, but then not using the facilities to fund the capex projects originally intended, with a real focus being on cash preservation.

7. The Times: Universities face cash 'catastrophe' with threat of mergers and course cuts, 21 July 2024

8. The Times: Hike university tuition fees further, say struggling vice-chancellors, 17 November 2024

9. Office for Students: Financial sustainability of higher education providers in England: November 2024 update

### A future of consolidation?

As the sector navigates these turbulent waters, mergers are increasingly being viewed as a viable path forward. While common in the further education sector, they are expected to become more frequent in higher education. City, University of London, merged with St George's, University of London to become City St George's, University of London, and AECC University College merged with the University College of Osteopathy to create Health Sciences University. More recently, the Universities of Kent and Greenwich have announced they will merge in time for the 2026/27 academic year to form a "super university" to be named the London and South East University Group, which will see the new institution have one governing body and executive team, in an effort to streamline costs.

It is expected that this merger will be a blueprint for others to follow, by focusing on shared services or back-office functions, without full academic integration. This would allow institutions to benefit from operational efficiencies and reduced costs going forward.

### How we can support universities

The OfS emphasises that proactive financial and strategic intervention is critical. This is not always easy for management teams in academia, however – many of whom have seen significant personnel changes in recent years – who may not have commercial or financial experience. It is important that universities develop robust and realistic financial plans that incorporate granular stress testing and contingency planning. Here are areas where we can support universities to navigate their financial challenges:

**Cash flow optimisation** - offer strategies to manage working capital more effectively, including stratification of capital projects and divestment opportunities.

**Scenario planning** - Modelling the impact of various financial and demographic scenarios to develop resilient strategies.

**Debt advisory** - Management need to be aware impact of a reduction of fee income on the universities' covenant compliance in any debt facilities. If breaches are forecast, there may be an impact on the ability of auditors to sign off accounts as a going concern. We can review the current capital structure and debt obligations to assess the consistency with strategic plans, assess actual covenant compliance against budget, and offering refinancing advice if necessary.

**Cost-reduction measures** - Recommend alternative options available to you – in particular reflecting on strategies that should be followed should you find yourself off track against budgets and forecasts.

**Expansion monitoring** - Conducting a detailed analysis of future growth strategies, including assessing costs, revenue projections and funding requirements.

**Independent review of the business** - An independent review of the the financial health of your institution, including comprehensive analysis of financial statements and cash flows against budget.

**Organisational structure support** - Advice on the structure of your leadership team and governance, make up of board of governors and finance committee, and recommendations on how to strengthen these teams if needed.

**Partnership and collaboration strategies** - Identifying opportunities for shared services, mergers or partnerships that can create efficiencies and synergies.

**Stakeholder engagement** - Supporting transparent communication with students, staff, funders, regulators and other financial stakeholders such as pension schemes to foster trust and alignment during times of transition.

Our turnaround and performance optimisation team specialises in helping educational establishments navigate complexity, financial challenges and safeguard their long-term viability.

“As universities navigate these turbulent waters, mergers are increasingly being viewed as a viable path.”

**Chris Petts**  
Partner  
Restructuring



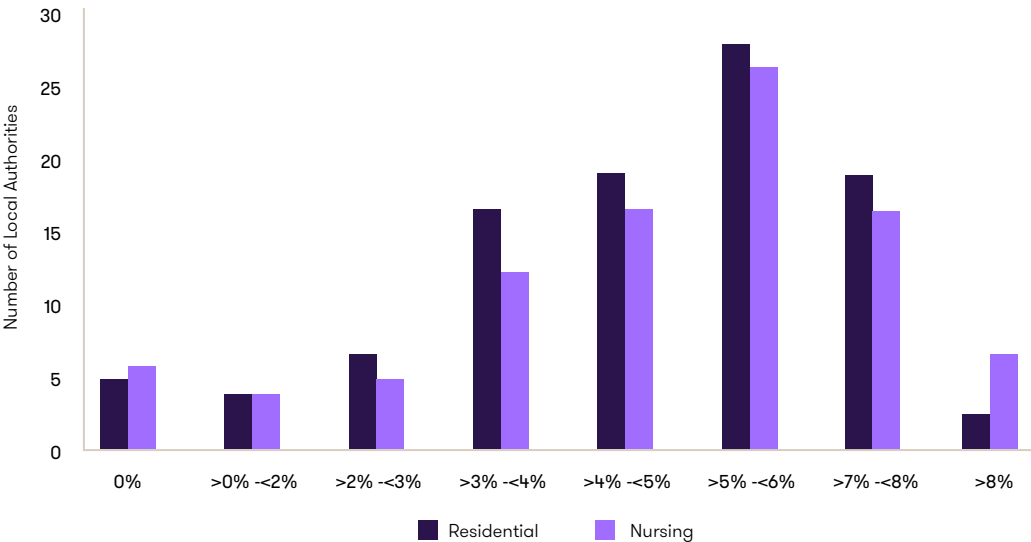
# Sector insight: Healthcare

## UK care homes - Market update and key challenges for the sector

The UK care sector continues to face acute operational and financial pressures. Modest local authority (LA) fee increases have failed to keep pace with escalating costs, leaving operators with high levels of LA funded residents in a precarious position. At the same time, all providers are grappling with persistent workforce shortages, rising wage expectations, and increasingly complex regulatory demands.

This environment is forcing operators to make difficult trade-offs between quality, compliance, and financial sustainability. Many are reassessing their operating models, renegotiating contracts (where possible), and seeking greater transparency from commissioners. The sector's resilience is being tested, and proactive planning is essential to avoid distress.

### Local Authority fee increases: FY25/26 – Residential and Nursing



The data above covers 117 LAs. Five authorities indicated that residential fee increases will be agreed on an individual basis, while nine stated the same for nursing fees. These have been excluded from the analysis presented.

Source: Grant Thornton analysis

### Key challenges for the Sector

#### Local authorities and funding

The Market Sustainability and Improvement Fund (MSIF) is designed to support local authorities in enhancing adult social care services. For 2025/26, the fund is valued at £1.05 billion and focuses on three priority areas:

- 1 Increasing fee rates paid to care providers
- 2 Increasing capacity and retention of the sector's workforce
- 3 Reduce waiting times for care

Local authority feedback indicates MSIF and wider local government financial settlements have enabled uplifts to average fee levels in 2025. However, our research indicates local authority fee rates have broadly increased between 3% to 7% for residential and nursing care in 2025 compared with an average of c9.5% in 2024 – so less than in previous years.

“The social care system is under severe financial strain. Local authorities are struggling to provide adequate fee increases while managing their own budget crises, creating sustainability concerns across the entire care market.”

**James Hichens**  
Director  
Restructuring



The various challenges facing local authorities are:

- **Mismatch between costs and funding:** Local authorities are caught between rising care costs and limited financial resources, with The Local Government Association citing Councils will face a funding gap of more than £2 billion next year ( 2025/26 ). This need to balance the books means fee uplifts are not able to fully match provider cost increases
- **Regional disparities:** The variation in fee uplifts ( from 3.5% to 9%+ ) reflects different local financial pressures and capabilities. All regions have experienced an increase in the cost of social care, although local authorities in the North have seen the highest increase of 15% compared to 13% in the Midlands, 12% in the South, and 6% in London<sup>10</sup>
- **Compounding pressures:** Rising operational costs, primarily driven by national living wage and national insurance increases, are also impacting local authorities and impacting their own budget constraints.



10. Grant Thornton: The pressures facing UK councils

## Ongoing challenges for care providers

- 1 **Structural underfunding:** Our analysis suggests an average 10% increase in wage costs in 2025, which when coupled with other inflationary pressures, have resulted in a substantial gap between the actual costs of care and the fees paid by local authorities for care provision. This widening funding gap places further strain on already tight margins, particularly for providers heavily reliant on LA placements. Without sufficient income or headroom to offset rising costs, many operators may be forced to make difficult decisions regarding service delivery, staffing levels, or the long-term sustainability of their services
- 2 **Increased reliance on private payers:** Self-funders typically pay more for a care home than a local authority. Care homes can more easily pass cost increases to private residents since they are not constrained by local authority fee-setting. This creates a two-tier pricing system where private residents subsidise local authority-funded residents. The gap between what local authorities pay and what private residents pay has widened in 2025, as care homes need to recover increased operating costs
- 3 **Workforce shortages:** Persistent workforce shortages are driving up costs and straining service delivery. Operators face challenges attracting and retaining staff due to rising wage expectations, reduced international recruitment, and competition from other sectors. Increased reliance on agency staff and unresolved wellbeing issues risk higher turnover, lower care quality, and long-term sustainability concerns
- 4 **Employment Rights Bill:** adjustments to zero-hours contracts and updates to Statutory Sick Pay ( SSP ) and the introduction of other key reforms will directly impact the care sector. Whilst the Bill is subject to revision before it becomes law in 2026, businesses should be planning now ( as far as possible ) for these changes
- 5 **Immigration restrictions:** The Government has announced the care visa route will be closed, and providers will need to hire from the existing pool of international care workers in the UK, while also improving pay and conditions to attract domestic workers. Additionally, there will be stricter rules and higher salary thresholds for all visa holders seeking to bring family to the UK. These changes will increase the complexity and cost of using international labour
- 6 **Regulatory demands:** Heightened oversight from the CQC and HSE means operators must invest more time and resources into compliance, particularly around safety, leadership, and governance. With Regulation 17 under close focus, providers are expected to demonstrate robust quality monitoring and continuous improvement systems. This adds to administrative burdens, increases operational complexity, and raises the risk of enforcement action if standards are not met - potentially affecting reputation, funding, and viability.

The distressed nature of the care sector continues to create uncertainty for operators and funders alike. For now, there do not appear to be any short-term fixes, or radical changes coming from the Government. All these issues point to why operators and funders should consider working with an experienced adviser to explore solutions to their specific challenges.

# Sector insight: Housebuilders

## SME housebuilders: can they build resilience to deliver the homes we need?

The Government has pledged to ‘get Britain building again’: it is aiming to deliver 1.5 million homes in its first five-year term – a level of output not seen since 1977. With major housebuilders currently underdelivering, small and medium-sized enterprise (SME) housebuilders are essential if the Government is to come anywhere close to delivering its stated policy of 300,000 homes a year.

The UK housebuilding sector faces a complex mix of challenges, including planning delays, financing constraints, affordability issues and sluggish market momentum. But SME housebuilders – typically defined as those building fewer than 100 homes per year – are bearing the brunt. Unlike large national developers, they often lack the financial resilience to absorb prolonged downturns or delays in sales.

That there are now 85% fewer SME housebuilders than a generation ago<sup>11</sup>, delivering just 12% of new homes<sup>12</sup>, speaks to the difficulties that these firms face.

### Barriers to building for SME housebuilders

#### Planning is a major challenge

Problems in securing planning permission remains a key obstacle for the whole sector, but one that disproportionately affects SME housebuilders. According to a survey of over 200 SME housebuilders published by the Home Builders’ Federation (HBF) in 2024, 93% say it is a major barrier to growth<sup>13</sup>.

The cost, complexity, and time required to secure permission – sometimes exceeding a year and involving multiple consultants – can render projects unviable. Unlike large developers with diversified portfolios, SMEs often rely on one or two sites, making them highly vulnerable to delays.

#### Shortage of land with implementable planning consent drives up price

Land availability is a challenge for SME housebuilders, who often get overlooked by state owners of land for being too small. The growing strain on the planning system has led to a shortage of land with implementable planning consent, driving up land prices.

This is being exacerbated by a decline in the number of planning permissions granted: Latest Government figures for England show that in the 12 months to March 2025 there was a 7% decline year on year to 265,800. Residential approvals fell even more sharply, down 8% year-on-year to 29,300<sup>14</sup>.

#### Challenging market environment

Demand-side constraints have had a big impact on SME developers over the past two years, primarily due to higher mortgage costs which have impacted consumers’ ability to buy.

Larger developers can afford to hold back delivery to wait for more favourable market conditions allowing them to maintain margins. But for smaller housebuilders, a reduction in the cadence of sales and a subsequent build-up of finished stock can have an impact on lending covenants and result in facility defaults in the short-term. This can lead to liquidity challenges unless prices are reduced, impacting profitability and, in the longer-term, solvency.

On the supply side, the easing of inflationary pressures on build costs has helped reduce strain on margins, although costs remain significantly higher than pre-2021 levels.

Disruption in the supply chain remains a key issue, however. This has been exacerbated by the high number of insolvencies in the construction sector. Forty-two percent of SME construction firms cite supply chain disruption as a major problem for their business, compared with only 27% of SME firms operating in other sectors<sup>15</sup>. It means SME housebuilders need to do more due diligence on potential contractors, adding both time and cost.

“A focus on both financial and operational resilience is essential to allow SME housebuilders to capitalise on the current demand and political sentiment to accelerate housebuilding.”

**Oliver Haunch**  
Partner  
Restructuring



11. HBF Report: State of Play: Challenges and opportunities facing SME home builders, 2 December 2024

12. NaCSBA: Levelling up and home building fund – continued support for SME housebuilders

13. HBF Report: State of Play: Challenges and opportunities facing SME home builders, 2 December 2024

14. Ministry of Housing, Communities & Local Government: Planning applications in England: Jan-Mar 2025, 19 June 2025

15. Construction News: SMEs eye higher order volumes but lack access to finance, says survey, 7 June 2024

## Homes England partnerships to improve access to finance

In recent years there has been a renewed political impetus to improve financing in the sector to support SMEs. Several new initiatives have been launched to improve SME access to funding and land:

- In December 2024, the Government extended the Home Building Fund by £700 million, aiming to support the delivery of up to 12,000 new homes by SME developers
- In January 2025, Homes England and Invest & Fund expanded their lending alliance, increasing the fund to £47.5 million and extending its term to March 2030 – the partnership now offers development loans of up to £4 million, with up to 85% loan-to-cost, and is expected to support the construction of 600 additional homes
- Homes England also launched SME Accelerator Loans, combining development finance with land acquisition support for follow-on sites
- Additionally, a £250 million joint venture was formed with Oaktree Capital Management and Greycoat Real Estate to unlock and accelerate large-scale site development across England

These initiatives build on earlier partnerships such as the Made Partnership (with Barratt Developments and Lloyds Bank) and a £50 million investment into Schroders Capital's real estate impact fund.

## Good demand from lenders and investors

In addition to funding available through joint ventures, demand for residential investment remains strong across a broad range of lenders and investors. According to CBRE's 2025 European Investor Intentions Survey, 98% of investors targeting the UK expect to acquire the same or more real estate this year compared to 2024<sup>16</sup>. This renewed appetite is driven by stabilising interest rates, improved market sentiment, and a growing pipeline of opportunities.

However, the amount of leverage lenders are willing to offer has continued to decline – down approximately 10-15% compared to 2021 – due to elevated debt servicing costs and more conservative risk assessments.

Purpose-built student accommodation (PBSA) and build to rent (BTR) remain particularly attractive. Tenant demand is recovering, especially in urban centres, and investor interest in stabilised rental assets remains high. This is despite ongoing uncertainty around the full implementation of the Renters (Reform) Bill, which is expected to reshape landlord-tenant dynamics.

## What should management prioritise?

A focus on both financial and operational resilience is essential to allow SME housebuilders to capitalise on the current demand and political sentiment to accelerate housebuilding. Management should consider the following questions:

- Are your working capital requirements appropriately funded?
- Have you undertaken granular forecasting to understand problem areas in the business?
- Are you forecasting to be compliant with your debt covenants and do you know how your lenders will react if there is a covenant breach?
- Are you actively managing your supply chain risk?
- Is your cost base flexible enough to adapt to changes?
- Have you stress-tested your business plan against different market scenarios?
- Are you maintaining strong relationships with lenders and investors?

SME housebuilders play a vital role in delivering high-quality, locally tailored homes. With the right support and strategic focus, these firms can overcome current challenges and help drive the sector forward.



16. European Investor Intentions Survey 2025, 20 January 2025

# Sector insight: Retail

## Independent retailers face unique challenges

The retail sector continues to be impacted by a challenging trading environment, accounting for 16% of insolvencies in the 12 months to June 2025 – the second highest sector total<sup>17</sup>. On a brighter note, this was slightly lower than the corresponding period the prior year. Notable administrations in 2025 include: Claire's Accessories, Winfields Outdoors, In The Style, Select Fashion and Quiz Clothing.

Larger retailers can have more options available to them than smaller, independent retailers when facing stress or distress. For example, they may have an existing shareholder-base to call upon, hold more negotiating power with their landlords or be able to afford the cost of a restructuring plan. The use of restructuring plans in the consumer sector continues to grow, with River Island being a recent example, but CVAs are also making a bit of a comeback.

Small retailers often do not have the same choices, and can be family-owned and managed. Many were only able to stay afloat during the pandemic by making use of government loan schemes. These firms have now been facing headwinds for a number of years and with dwindling reserves, they may be facing the following challenges:

### Limited access to equity investment

Small retailers do not have the same financial resources to draw upon as larger chains, with a limited existing shareholder base to call on. Where larger retailers might attract trade buyers or the attention of foreign retail groups looking for an entry point into the UK, smaller retailers often cannot attract private equity or interest from other trade buyers.

### Higher cost of debt

Debt service costs are a huge challenge for many businesses, with repayments due on bounce-back loans, Recovery Loan Scheme, and CBILS. The cost of any new debt for small retailers is also significant, driven by higher interest rates together with the risk currently associated with the sector. A lack of collateral can also hamper small retailers in accessing debt, although there are different financing options to be considered, including asset-based lending.

### Shortage and cost of labour

It has always been difficult for small retailers to compete for talent against the greater resources of larger competitors and the cost of attracting and retaining staff continues to be a challenge. Added to this is the cost increases that came into effect in April 2025, in particular the rises in National Living Wage and the rate of employer NIC, and the reduction in the threshold for tax being levied. This increase in cost is now really beginning to bite and companies are working hard to build strategies to mitigate these costs.

### Tariffs and supply chain disruption

As tariffs continue to change, this unpredictability makes it hard for businesses to plan effectively. Setting prices has become difficult and supply chains are becoming increasingly complicated for retail businesses. To prepare for the future, businesses need to take a closer look at their whole supply chain and understand the component parts much more fully.

### Lack of bargaining power with landlords

While some landlords have been willing to move towards more flexible lease arrangements with rents linked to turnover, small retailers can often lack the same bargaining power with their landlords compared to larger chains. With the current shortage of residential property, landlords faced with tenants asking for flexibility may be more motivated to consider residential developments instead.

“2025 has seen a surge in cyber-attacks targeting UK retailers, with ransomware and phishing campaigns causing widespread disruption.”

**Philip Stephenson**  
Partner  
Restructuring



<sup>17</sup> The Insolvency Service: Company Insolvency Statistics July 2025, 19 August 2025

### Cost of crime

Shoplifting has risen to unprecedented levels, with losses to retailers from customer theft reaching £2.2 billion in 2024, up from £1.8 billion the previous year according to the British Retail Consortium's 2025 Crime Survey<sup>18</sup>. While the retail sector as a whole has spent £1.8 billion in crime prevention measures, smaller retailers are much more limited in what resource they can commit to crime prevention – and report that the police are often not investigating these crimes, making insurance claims difficult.

### Increased risk of Cyber attacks

2025 has seen a surge in cyber-attacks targeting UK retailers, with ransomware and phishing campaigns causing widespread disruption. Whilst smaller retailers are less frequently targeted, they are still vulnerable as many lack robust cybersecurity infrastructure. The fallout extends beyond financial metrics with previous studies noting a rising threat to consumer trust following these attacks.

### The cost of standing out from the crowd

Small retailers are often not destination shops, but rely on customer footfall to towns or shopping centres, and are disproportionately impacted by reduced discretionary spend. Without large marketing budgets it can be hard for smaller retailers to make an impact online and compete with attractive payment options, such as BNPL, offered by larger chains. While many large retailers are leveraging technology and AI to forecast customer sentiment and demand, this is something that smaller retailers do not always have the resources to do. We are experienced advisors in the retail sector and are currently supporting a range of businesses in navigating the challenges they face, including evaluating strategic options. Most recently, we worked on the Relevant Alternative for River Island's restructuring plan which was sanctioned in August 2025 allowing the company to restructure and avoid insolvency. This work highlights our ability to provide critical insight and support on complex restructuring matters within the retail sector.



18. British Retail Consortium, Crime Survey 2024 Report

# Debt advisory - Insight

## FRS102 amendments: How to approach lenders

UK borrowers currently reporting under FRS 102 need to thoroughly prepare for the implementation of new changes to the Financial Reporting Standards, which come into effect for accounting periods beginning on or after 1 January 2026.

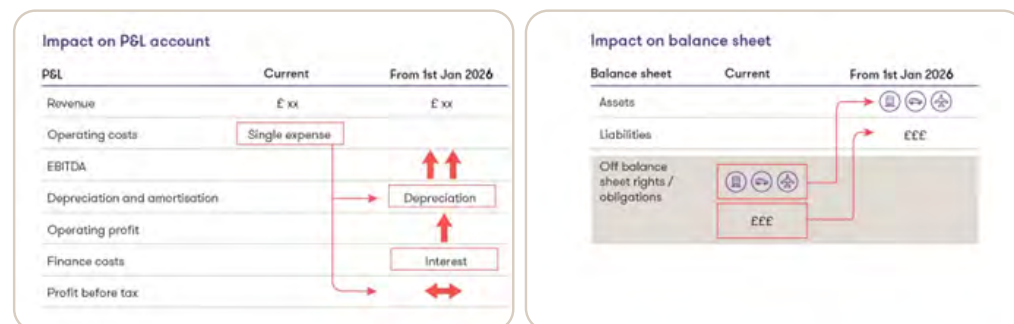
The Financial Reporting Council (FRC) published amendments to FRS 102 on 27 March 2024, with the intention of aligning it more closely to UK-adopted international financial reporting standards (IFRS). Most notably, these include important changes to both revenue recognition and lease accounting:

### Section 23 Revenue

- There will be a new five-step revenue recognition model which could potentially alter how and when revenue is recognised
- Many companies, particularly those in technology, media and communications (TMT), construction, and professional services sectors, could recognise revenue and profits later under the new rules

### Section 20 Leases

- Leases will need to be capitalised and brought onto the balance sheet, recognising a right-of-use (ROU) asset and a corresponding lease liability. There are exceptions for short-term leases of 12 months or less and for leases of low-value items
- This accounting change will impact both the profit and loss and balance sheet - EBITDA and operating profit will increase and liabilities (and therefore leverage) will also increase
- The impact of these changes to lease accounting is illustrated below:



19. Financial Reporting Council: Impact Assessment, Periodic Review of the Financial Reporting Standards, March 2024

## Which businesses will see the greatest impact?

The amendments are relevant for companies reporting under FRS 102, and broadly reflect changes implemented by IFRS 15 and IFRS 16 back in 2018 and 2019 respectively. The new accounting guidelines are expected to affect 1.6 million reporting entities in the UK<sup>19</sup>.

The changes required by Section 23 Revenue are expected to have greater impact on firms providing services or have long-term contracts, for example firms in the TMT sector, professional services and construction companies.

The changes required by Section 20 Leases are expected to have a greater impact on firms who lease large quantities of retail stores, offices, cars, aircraft, or other big-ticket items.

While some investors and stakeholders may have already adjusted, and mid-market listed companies already have to report under IFRS at a plc level, underlying group accounts and financial covenants may be entirely FRS 102-based.

“Management need to be aware that the impact of FRS 102 amendments on financial reporting, the perception of indebtedness and covenant compliance could be substantial. Firms should seek to give existing lenders comfort that their underlying business is still the same. Taking the initiative to engage in early discussions with lenders and conducting thorough modelling of expected changes will ensure that you approach these conversations well prepared.”

**Chris McLean**  
Partner  
Head of Debt Advisory



## Impact on financial ratios and covenant compliance

While these accounting changes do not change underlying cash flows, management need to be aware that the impact on financial reporting, the perception of indebtedness and covenant compliance could be substantial:

- Financial ratios and performance metrics will be impacted, including interest cover, EBITDA and operating profit
- Leverage may increase and capital ratios may decrease
- 'Permitted baskets' in restrictive covenants may also be breached due to the different treatment of operating leases

These changes may therefore affect a company's ability to meet financial covenants and comply with existing loan documentation.

Some loan agreements may contain 'frozen GAAP' clauses, allowing borrowers to continue to calculate covenants for the duration of the loan under the accounting principles in place at the loan agreement date. However, while it might be possible to reverse out the new lease accounting rules which will apply from 1 January 2026, frozen GAAP which will be much more challenging for the revenue recognition changes required under Section 23.

## How can companies approach their lenders?

Firms should seek to give existing lenders comfort that their underlying business is still the same, and that management is fully prepared for these accounting changes:

- Management should model how these changes will affect the profit and loss statement and balance sheet, seeking advice if necessary
- The complexity involved in changes to revenue recognition makes it even more critical that impacted firms produce detailed modelling, showing the impact on revenues – which will also impact EBITDA and operating profit
- Once the impact on key metrics such as EBITDA, operating profit and net debt has been ascertained, financial covenants and other key performance indicators can be recalculated considering FRS 102 changes
- Borrowers should speak to their lenders as soon as possible if they have covenants which may be affected by these accounting changes as financial and restrictive covenant levels may need to be amended
- As well as discussions with an existing lender base, these considerations will be relevant for borrowers seeking new financing as well

## What are the wider implications for the business and other stakeholders?

Firms should also consider the impact of changes on other stakeholders such as equity investors, credit insurers, customer and employees.

- Where the timing of revenue recognition changes, there may be an impact on profit and therefore distributable reserves, affecting dividend payouts. Early communication with investors is key to maintaining financial stability
- FRS 102 accounting changes may also affect the valuation of a business in any M&A activity<sup>20</sup>
- Will customer contracts need to be revised? The wording on contracts can have implications on revenue recognition under the new FRS 102 amendments
- Bonus / remuneration / share option schemes that are linked to financial performance could also be affected
- Consider the impact on taxable profits or losses so that lenders and other stakeholders are confident there will not be any unexpected tax liabilities arising from these changes
- Will internal KPIs remain relevant and useful, or do they need to be amended?
- There will be additional data collection and analysis required to implement these changes, and the cost of upgrading or implementing new systems and controls could be significant
- Management should understand the magnitude of this cost and communicate to relevant stakeholders
- Engage with your auditor in good time to address the risk that they disagree with expected impacts

## How can you be prepared?

Companies should start preparing now to be ready for the implementation date of 1 January 2026. Taking the initiative to engage in early discussions with lenders and conducting thorough modelling of expected changes will ensure that you approach these conversations well prepared. This proactive approach will reassure lenders and stakeholders that business fundamentals remain intact, boost confidence in management and ultimately strengthen these key relationships.

20. Grant Thornton: FRS 102 changes: impacts on financial reporting for M&A transactions, 4 December 2024

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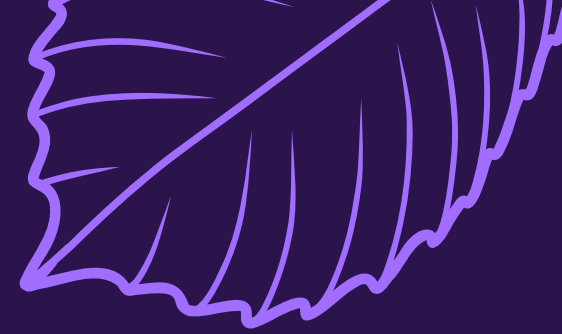
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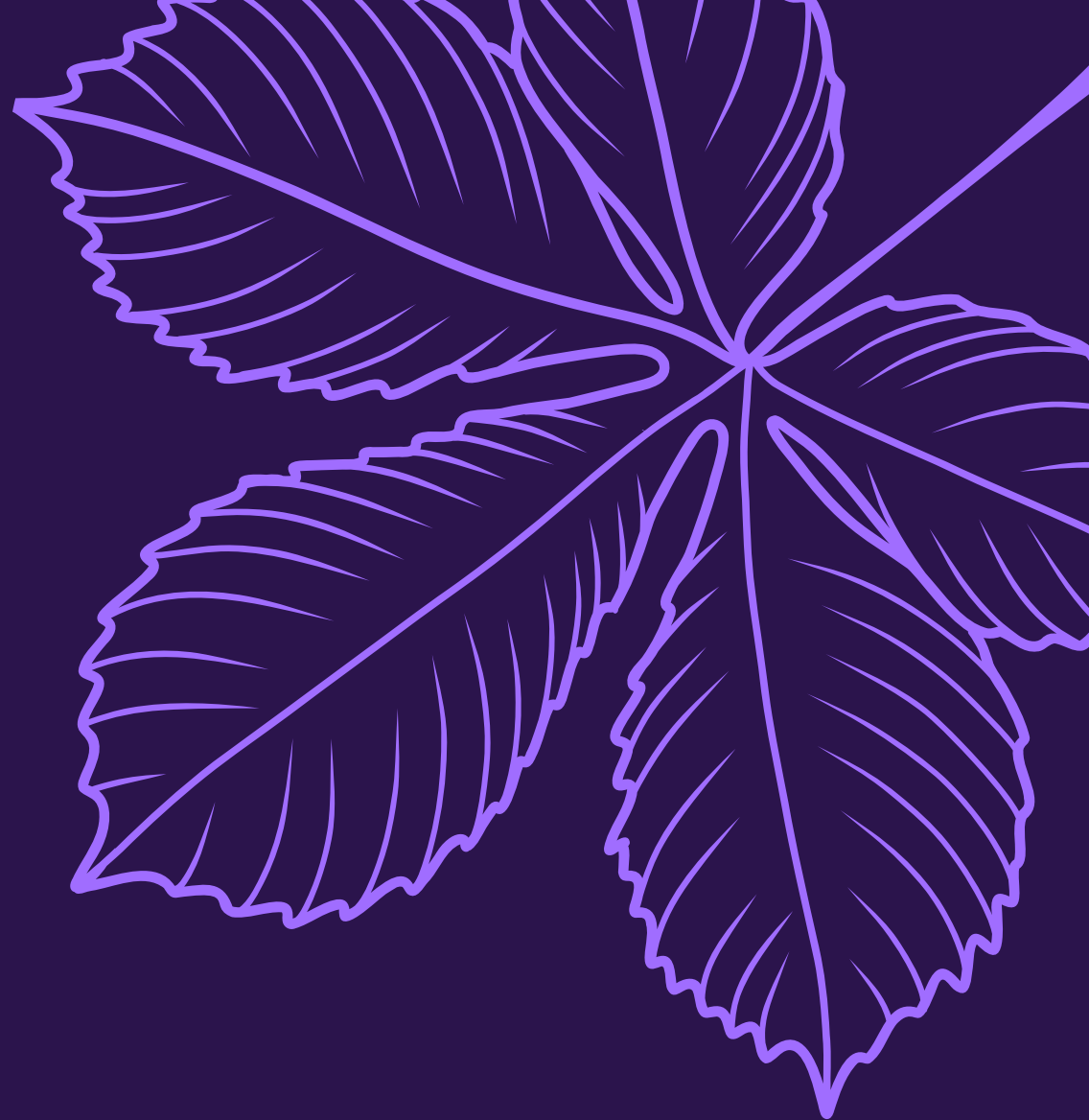


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