Need to know

1 Britain's services sector edged closer to growth after large parts of the economy reopened last month, according to a closely watched survey. The IHS Markit/CIPS UK Services Purchasing Managers' Index (PMI) rose from 29 in May to 47.1 last month, which was broadly in line with a preliminary reading of 47. Any reading above 50 signals growth. Pubs and restaurants can reopen today. Pages 8-9, 50

2 Rolls-Royce, the aircraft engine maker, admitted in an unscheduled late afternoon Stock Exchange statement that it was considering an emergency fundraising, sending its shares crashing to a 15-year low. Page 47

3 Steve Varley, the outgoing boss of EY, has questioned whether the planned regulatory reform of the accounting industry will improve audit quality and defended the firm's record as it comes under scrutiny over its work for Wirecard. Page 47

4 George Osborne, the former chancellor, has joined the board of his family's wallpaper and fabrics company, becoming a non-executive director of Osborne & Little. Page 47

5 The pre-pack, a contentious fast-track insolvency process that was likened during the last financial crisis to sustaining "Frankenstein monsters", has returned. A spate of pre-packs, some involving industry moguls and private equity firms, has reawakened concerns that increasing numbers of companies will turn to pre-pack administrations in the fallout from the coronavirus pandemic to offload liabilities.

6 One of the high street's biggest fashion chains is on the brink of restructuring, with jobs likely to be at risk, as New Look becomes the latest retailer to prepare for a company voluntary arrangement. This would be its second CVA in as many years after landlords turned down a request to reduce rents.

7 The ban on banks making dividend payments has rendered the sector uninvestible and should be scrapped by the autumn, Sir Howard Davies, the chairman of Royal Bank of Scotland, has said. Page 50

8 China's services sector is expanding at its fastest pace in more than a decade, raising hopes of a swift economic recovery from coronavirus. Page 51

9 Archie Norman, the chairman of Marks & Spencer, has admitted there will be "very limited" scope for its customers to be able to shop with Ocado when its £750 million partnership with the online grocer launches in September because of capacity constraints. Page 52

10 CMC Markets, the spread better, has said that it is on course to beat expectations for the year as traders scramble to make money from the Covid-19 turmoil. Page 53

High street turmoil revives 'Frankenstein' deals

Alex Ralph, Ashley Armstrong

The pre-pack, a contentious fast-track insolvency process that was likened during the last financial crisis to sustaining "Frankenstein monsters" and risked turning Britain into the "bankruptcy brothel of the world", has returned.

A spate of such deals, some involving industry moguls and private equity firms, has reawakened concerns that increasing numbers of companies will use the process in the fallout from the coronavirus pandemic to offload liabilities and stores and create "phoenix" businesses.

The latest wave comes amid problems with a weak Pre-Pack Pool, a voluntary body set up after the last crisis to provide independent oversight of such deals sold to connected parties.

This week TM Lewin, the shirt-maker, and Bensons for Beds became the latest chains to engineer pre-pack administrations since the pandemic struck, following the likes of Peter Simon's Monsoon Accessorize fashion chain, Jon Moulton's Everest double-glazing business and Cath Kidston.

The flurry has evoked memories of pre-pack processes carried out during the last crisis just over a decade ago. Among them were Robert Tchenguiz's Laurel Pub Company, which owned the Slug and Lettuce and Yates pubs, Sir Tom Hunter's USC clothing chain and Lord Bilimoria's Cobra Beer.

Lord Kirkham, former chairman of DFS, the furniture retailer, said in 2009 that pre-packs were "shameful devices" that rewarded incompetence at the expense of successful companies.

In a pre-pack deal the sale of a company's business is negotiated with a purchaser before the formal appointment of administrators, who effect the sale soon after their appointment.

Supporters, such as R3, the trade association for insolvency professionals, say they are an efficient way to rescue struggling businesses, to save jobs and maximise returns to creditors, particularly during an economic downturn. Critics say they can be abused to offload debts, particularly when assets are sold to a connected party, such as a director of the failed business.

Concerns about a lack of transparency after the last crisis led Sir Vince Cable, the business secretary in the coalition government, to commission the Graham review in 2013 which tightened the insolvency process and led to the creation of the Pre-Pack Pool.

However, five years after the pool was set up only 10 per cent of eligible cases are being referred for review each year. The pool's oversight committee wrote in May to Lord Callanan, minister for corporate responsibility, warning that it was at risk of collapse because it was being ignored. Sir Vince said yesterday: "In general I welcome mechanisms to keep companies operating, including pre-packs and the government's new insolvency process. But we must have a strong pool to stop abuse."

Peter Walton, professor of insolvency law at the University of Wolverhampton, who carried out research for the Graham review, said that he expected a rise in pre-packs this year as companies, not obliged to refer to the pool, "jettison all that rescue debt and start again with a fresh face", potentially leaving the taxpayer on the hook.

Insolvency practitioners are expecting a rise in administrations this year. Almost nine in ten managers believe that there will be a big rise by the end of the year, according to a survey by the Chartered Management Institute. A separate poll by R3 found that a third of insolvency experts expected administration to be the insolvency and restructuring option they most commonly recommend over the next year.

Richard Fleming, partner at Alvarez & Marsal, who recently handled the pre-packs of Cath Kidston and Le Pain Quotidien, the bakery chain, said that the rise of pre-packs was "no surprise when some sectors are on fire".

He said that businesses were a "lot more likely to fall apart" when an administrator got appointed and then ran a months-long sales process because suppliers could "run scared" and employees leave, whereas pre-packs "avoid the disruption and do the same deal without the trauma".

Mr Fleming also defended pre-pack sales to connected parties. "The reason it's sold to a related party is because these companies are already in the A&E ward. They aren't attractive; they're insolvent. They might be more functional without their corporate debt but the best person to offer value to the business is the current owner and as administrators that's what we're looking for: the highest bidder."

He added that the extra scrutiny of pre-packs meant "we test the process rigorously" but that the pool, which is supposed to provide independent oversight of connected-party sales, had "been set up to not be effective, just a play to popular opinion".

One retailer involved in a pre-pack said that they saw little point in referring the deal to the pool due to the low referral number. However, Will Wright, partner at KPMG, said, "We like the role it plays in ensuring transparency in connected-party transactions", which are often the only basis by which a business can survive.

Teresa Graham, the accountant who led the review, is in favour of mandatory referrals to the pool, a view shared by stakeholders including the British Property Federation, R3 and some prominent peers. She said: "Without mandated pool scrutiny the secretary of state's mailbag is likely to grow in size as it did before my review. Then what? Another review?"

Melanie Leech, chief executive of the British Property Federation, whose members are struggling with retailers dumping stores via pre-packs, said that mandatory referral would "stop well-capitalised businesses from abusing the process as simply a tool to restructure at the expense of property owners".

After a backlash in the House of Lords, where peers cited recent reports in *The Times*, the government last month resurrected powers, which had recently lapsed, enabling ministers to tighten up oversight of connected-party pre-pack deals. An amendment was made to the Corporate Insolvency and Governance Bill to extend until next June powers to regulate pre-packs, including through mandatory referrals.

Baroness Altmann, a former pensions minister, told the Lords that mandatory referrals "would clearly better protect against the sorts of corporate activity that have so often brought capitalism into disrepute".

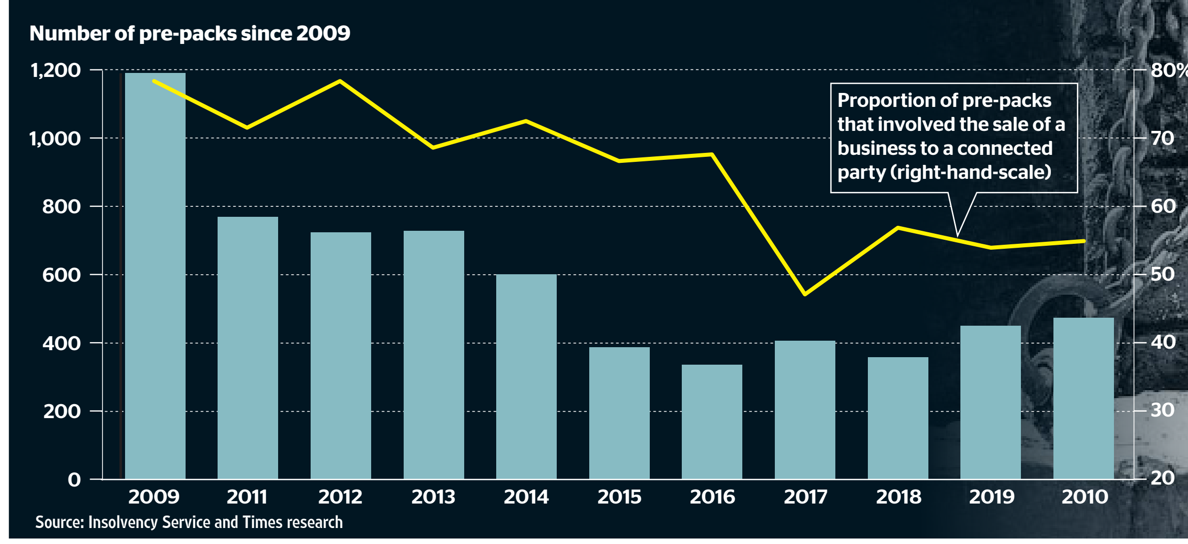
The government plans to publish its review of the voluntary measures in the summer and to set out proposals. Officials are due to meet the pool and the Insolvency Service, part of the business department.

A spokesman for the Insolvency Service said: "Pre-pack sales are an important rescue tool, helping to save businesses and preserve jobs."

Monstered

Company	Administrator	Previous owner	Acquirer	Purchase price	When
Everest	FRP	Better Capital	Better Capital	£12.6m	June
Go Outdoors	Deloitte	JD Sports	JD Sports	£56.5m	June
TM Lewin	Resolve Group	Stonebridge*	Stonebridge*	£25m	June
Bensons for Beds	PWC	Alteri	Alteri	Not yet disclosed	June
Oak Furnitureland	Deloitte	Jason Bannister	Davidson Kempner**	£31.8m	June
Le Pain Quotidien	Alvarez & Marsal	Cobepa	Cobepa	£500,000	June
Monsoon Accessorize	FRP	Peter Simon	Peter Simon	Not yet disclosed	June
Quiz	KPMG	Tarak Ramzan	Tarak Ramzan	£1.3m	June

* Private Equity **Capital Management



Source: Insolvency Service and Times research

Behind the story

The coronavirus-induced economic downturn is likely to make pre-pack administrations one of the most contentious post-Covid 19 business issues and one that leaves the CBI, a leading business lobby group, in a tricky position (Alex Ralph writes).

Lord Bilimoria, the new president of the CBI, was involved in a pre-pack deal arising from the last financial crisis and one that he is still quizzed on a decade later.

His Cobra Beer business collapsed in 2009 and was sold to Molson Coors, the Canadian-American brewer. Lord Bilimoria, 58, emerged with half the shares, while 340 creditors were left with claims of more than £72 million. The pre-pack prompted one creditor to say he had been "burnt alive" while the peer rose from the "ashes like a phoenix".

He committed to paying former Cobra creditors back from his share of the dividends. He told *The Sunday Times* last August that he was doing his "utmost" to pay back creditors, and for "as long as it takes".

He spoke in a debate in the Lords last month on the Corporate Insolvency and Governance Bill, which was amended to potentially tighten up oversight of connected party pre-pack deals by the Pre-Pack Pool, set up in 2015.

The CBI said in 2010 "changes will help ensure it is a legitimate rescue effort, and not just a vehicle for management to carry on with business as usual having shed their original debts". It said yesterday the Pool, at risk of collapse because it is being shunned by businesses, "is a valuable resource which can help assure creditors and ensure the good faith sale of firms or assets".

Jobs at risk as New Look seeks rent agreement

Ashley Armstrong Retail Editor

One of the high street's biggest fashion chains is on the brink of restructuring, with jobs likely to be at risk, as New Look becomes the latest retailer to prepare for a company voluntary arrangement.

This would be its second CVA in as many years after landlords turned down a request to reduce rents.

The move comes after more than 10,000 jobs were lost this week at companies including Harrods, Arcadia and SSP, the owner of Upper Crust cafés. More losses are expected before furlough payments end in October.

New Look, which employs 12,000 people, has engaged advisers to explore restructuring options and negotiate with landlords on a switch to turnover-linked rent for its 500 stores. It is understood that many of the retailer's big landlords have balked at the idea after refusing to agree to similar terms with healthier tenants.

As a result the retailer is considering a CVA to push through its demands, which are regarded as necessary to ensure its survival. Sources say that an arrangement could be triggered by the end of this month. Two years ago New Look used the same scheme, which allows a company to reach agreement with its creditors over repayment of its debt over a set time, with a shift to monthly rather than quarterly bills.

The lockdown, which forced its stores to close, has weakened its finances further. About 380 of its stores have reopened but those that are too small to manage social distancing, and those in Scotland and Wales, remain shut.

New Look would not be the first company to repeat a CVA. JJB Sports went through two in quick succession and attempted a third before it collapsed in 2012. They are increasingly being used by struggling companies to reduce their property costs. The measure requires the approval of 75 per cent of creditors, which can include them voting in favour of store closures or changes to lease terms.

380
of New Look's stores have reopened after being shut during the lockdown
Source: New Look

Creditors of the fashion retailer All Saints are due to vote on Monday on its restructuring, which focuses on switching its 41 British shops to turnover-linked rents rather than closing stores.

A CVA is regarded as preferable to a pre-pack deal for New Look's shareholders, including South Africa's Brait and the hedge funds Alcentra, Avenue Capital and CQS, as it would reduce the biggest drag on its finances without diluting their financial positions.

About 2,000 jobs are at risk after creditors approved Poundstretcher's restructuring plan, which could result in half its stores closing within six weeks.

US investors line up restaurant chain

Dominic Walsh

The casual dining chain behind the Ask Italian and Zizzi chains may be put through a pre-pack administration to facilitate a sale of the business to an American investment firm.

Azzurri Group is understood to be in negotiations over a sale to Towerbrook Capital Partners, which recently acquired the car rental group Car Trawler.

A sale process attracted bids from five private equity and investment firms, and has yet to progress to exclusive discussions, although Towerbrook is understood to have edged ahead of a field including Epiris, a former backer of Parkdean Resorts and TGI Friday's.

The potential pre-pack of Azzurri, which could lead to restaurant closures and job losses, adds to turmoil in the casual dining sector. Chains including Chiquito and Carluccio's have fallen into administration since the lockdown. Casual Dining Group, the Café Rouge and Bella Italia operator, joined the list on Thursday, bringing the closure of 91 restaurants with the loss of 1,900 jobs. Tasty, the Aim-listed operator of 51 Wildwood restaurants and five Dim T outlets, said yesterday it was cutting 284 staff, almost a third of its workforce.

Azzurri, which also owns the Coco di Mama food-to-go concept, is being advised by KPMG on its options after the Covid-19 lockdown closed its estate.

The group was created via a £250 million buyout of Ask Italian and Zizzi by Bridgepoint in 2015. It has about 310 restaurants and employs more than 6,000 staff. Its Zizzi brand includes three sites in Dublin and one in Shanghai while the group also has three Radio Alice restaurants.

Sources close to the process suggested that Bridgepoint had been willing to make an equity injection of between £30 million and £40 million to cover any shortfall for the banks, but its offer is understood to have been rejected. Azzurri's banks include RBS and Lloyds.

One source suggested that the desire of the banks to take out their debt, coupled with suggestions that Towerbrook wants to avoid taking uneconomic sites made a pre-pack administration likely. "A pre-pack is one of the options under consideration," the source said.

None of the parties involved would comment or could be reached.

Wealth tax is unfair, but it can work

BUSINESS COMMENTARY Patrick Hosking

The odds on a wealth tax of some sort are shortening. Lord O'Donnell, former head of the civil service, told an online conference organised by the Institute for Fiscal Studies this week that some kind of levy on assets was more likely than ever in the light of the pandemic.

It is hard to disagree. The economic case is unimpeachable: when you need a macro-stimulus extract money from the wealthy, who tend to save it, and hand it to the poor, who will spend every penny.

The moral case has strengthened, too. As Lord O'Donnell argued, Covid has had a "a very unequal impact". The working poor have risked their health to man care homes, buses and supermarkets while the officer class works safely from home.

The technical case has never been stronger, either. Avoidance used to be the objection. The crackdown on tax havens means it is far harder to salt away wealth out of reach and gaze of the tax authorities.

The fiscal case will one day be urgent. For now, the bond and currency markets are perfectly content for the Bank of England to print money and underwrite Rishi Sunak's bulging borrowings. That won't last forever. Taxes of some sort will have to rise. Even the electoral case is no impediment. Voters are content for a wealth tax — just so long as they are not personally affected. Sixty-one per cent of respondents to a recent survey favoured a levy on people with nest-eggs exceeding £750,000.

Wealth taxes are, of course, not fair. They are imposed on accumulated incomes taxed once before. We already have stamp duty, capital gains tax and inheritance tax.

But Mr Sunak may one day need to learn from the gangster Willie Sutton who, when asked why he robbed banks, replied, "Because that's where the money is." British wealth levels now amount to £13 trillion — about six times GDP.

Most proposals suggest that wealth taxes should be levied on assets less borrowings, and exclude pensions and primary residences. The problem for governments is that this approach immediately wipes out most of the tax base.

Of that £13 trillion, £4.5 trillion is in property (mostly first homes) and £5.4 trillion in pensions. Strip out Isas, which most would argue should also be sacrosanct, and cars and suchlike and you are left with a taxable base of just £900 billion, points out Richard Murphy of Tax Research UK.

It's harder than it looks, this wealth tax idea. A good start, however, would be to tax income from investments at the same rate as income from employment.

Land insecurity

Another day, another property company tale of tenants defaulting on rents. Land Securities collected 29 per cent of rents in its shopping centres on the June due date, worse than British Land at 36 per cent and Capital & Regional at 35 per cent, but better than Hammerson on 16 per cent.

The operator of destination shopping centres such as Bluewater has inevitably been hit. Who would plan a day out there when the cafés and cinemas have been shut and the movement restrictions make it harder to have a carefree browse?

A fifth of its shop tenants remain closed and footfall was down by 40 per cent in the last two weeks of June. One cheering note was that transaction values were up by 22 per cent compared with a year ago, but this might just be a temporary surge due to pent-up demand.

The situation in offices is better. But even here collection rates are at only 81 per cent. Some tenants are genuinely struggling. Others are taking the mickey. The moratorium on evictions seems to have given even the most comfortable of tenants, like lawyers, accountants and other professionals, permission to dodge their rents. Not good.

Land Secs is proposing to restart dividends beginning with payments being made from January. Many investors will cheer that promise, but it looks like a hostage to fortune when visibility is so unclear. As a signal, it could be counterproductive too. Tenants will have more moral ammunition to refuse to disgorge.

Banking bubble

At least this crisis isn't a banking crisis, we are told, usually by people who work in London EC2 and Canary Wharf. It's rubbish. Every economic disaster is also a banking crisis, either actual or potential.

The vast leverage of banks and a business world built on credit means they are always the vulnerable beasts at the end of the financial food chain, and never far from an explosion in bad debts that could wipe out a large chunk of their capital. The only reason banks aren't already on their knees is because of unprecedented measures that have prevented households and firms from defaulting on bank debt in their droves.

Sir Howard Davies, chairman of Royal Bank of Scotland, which only 12 years ago ran out of money and tapped taxpayers for £46 billion, argues that the ban on bank dividends should be lifted this autumn (report, page 50). Full marks for chutzpah, nul points for sensible policy.

Suspicious minds

"I'm an optimist, but I'm an optimist who worries a lot." So says Steve Varley, the outgoing UK chief at accountants EY (interview, page 55). Not a bad philosophy for a business leader. Not such a good motto for his colleagues in audit. EY in Germany was rather too optimistic about the existence of a €1.9 billion cash pile in Wirecard. We want our auditors sceptical and pessimistic, please.

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Alistair Osborne is away