

UK Insolvency Trends 2025–2026: Horizon Scanning for Businesses and Lenders

The Bank of England’s decision to cut interest rates to 3.75% in December has been cautiously welcomed by businesses, with the prospect of easing borrowing costs and a gradual uplift in consumer spending. However, the benefits of monetary easing are colliding with persistent structural pressures across the UK economy — and insolvency risk remains elevated heading into 2026

Retail and Leisure: Headwinds Persist

Whether lower interest rates can offset rising employment costs — particularly the increase to National Insurance Contributions (NICs) — remains to be seen. The past year has already delivered a stark warning, with a series of high-profile retail and leisure insolvencies including Fired Earth, Bodycare, Claire’s Accessories, TGI Fridays, Pizza Hut and Leon.

These failures underline the fragility of discretionary spending and the ongoing challenge for consumer-facing businesses operating with thin margins, legacy leases and rising input costs.

Construction, Enforcement and Director Risk on the Rise

Charles Boyne, Insolvency and Restructuring Partner at Weightmans, comments:

“2025 has seen a surge in enquiries for our team, particularly within the construction sector. We are seeing borrower development issues leading to the appointment of administrators or receivers, alongside large-scale contract disputes triggering severe cash-flow cliff edges.”

“Creditor enforcement appetite has also increased markedly. Our debt team is receiving record instructions, and it is clear that HMRC — through the volume of winding-up petitions issued — is sharpening its sword against persistent non-payers.”

“Alongside this, we have seen a significant increase in director duty advice enquiries, both from boards and individuals. Businesses are under growing working capital strain and are increasingly exploring restructuring and rescue options.”

This convergence of construction distress, HMRC enforcement and director liability risk is expected to remain a defining feature of the insolvency landscape into 2026.

Real Estate, Hospitality and Automation Under Pressure

Alex Cadwallader, Head of South and Offshore at Leonard Curtis, reflects:

“Whilst distress has been evident across most UK sectors, 2025 saw a pronounced uptick in real estate and associated industry insolvencies. The stress has been both location and value agnostic, with stakeholders finding it increasingly difficult to extract anticipated value from existing portfolios.”

“Business confidence remains subdued, and we expect casual dining, hospitality and retail to continue to struggle and attract headlines in 2026.”

“Construction and automation have also been flagged by credit insurers as high-risk sectors, impacted by elevated interest rates, global competition and the risk of losing technology races.”

Outlook for 2026: Cautious Optimism, Active Restructuring

There are, however, grounds for cautious optimism.

“If inflation and interest rates continue to fall, all sectors should benefit from reduced costs and improved cashflows,” Cadwallader adds. “That said, balance sheet stress will not unwind overnight.”

Allan Kelly, insolvency practitioner and Partner at FRP Advisory, adds a further note of caution for operators in the retail, hospitality and leisure sectors:

“The April 2026 rates revaluation is a significant and often underestimated risk. Despite reductions in the business rates multiplier, some operators will face increases of up to 400% as rateable values reset. For businesses already operating on tight margins, these step-change cost increases could be the tipping point between recovery and insolvency.”

“We are increasingly seeing otherwise viable operators forced into restructuring discussions simply because their fixed cost base no longer reflects trading reality.”

Key Takeaways for Businesses and Directors

Insolvency risk remains elevated despite interest rate cuts

HMRC enforcement activity is intensifying

Construction, real estate, hospitality and retail face heightened pressure

Director duties and restructuring advice are increasingly critical

Early engagement with advisors can preserve value and optionality

As we move into 2026, proactive horizon scanning, early restructuring and robust governance will be essential tools for businesses navigating an uncertain economic landscape.