



# BTG Red Flag Alert Financial Report

Q1 2026



# More than 60,000 UK firms on a cliff edge in Q1 2026 as impact of tax hikes, rising costs and conflict deepen.

In Q1 2026 the number of businesses in 'critical' financial distress rose by more than a third (36.9%) compared to 12 months ago, highlighting the scale of pressure on UK businesses amid major global and domestic challenges.

The latest [Red Flag Alert](#) research from BTG, which has monitored the financial health of UK companies for over two decades, revealed 62,193 companies in 'critical' financial distress as of 31 March 2026. The financial and real estate advisory firm found this was despite a 7.7% fall in critical financial distress compared to Q4 2025 – a seasonal trend in the data at the start of a new calendar year.

Businesses in 'significant' financial distress also increased 9.6% annually in Q1 2026 to 634,867, despite a 12.9% improvement on Q4 2025.

Some of the elements that make up the complex picture of why financial distress has soared include a slew of increased taxes on businesses across the year, including increases to employers' National Insurance contributions and national minimum and living wage hikes. These challenges have been exacerbated by energy and materials inflation following the outbreak of war in the Middle East towards the end of the quarter.

## Sector outlook

- All 22 of the sectors monitored by Red Flag Alert experienced an annual increase in 'critical' financial distress in Q1 2026
- 21 out of 22 sectors experienced a year-on-year increase in 'significant' financial distress
- Consumer facing industries remain under intense strain as they navigate subdued consumer confidence and rising input and staff costs
- 'Hotels and Accommodation' (+69.3%), 'Leisure and Cultural Activities' (+65.9%) and 'Sports and Health Clubs' (+51%) delivered some of the highest annual increases in 'critical' distress at the end of Q1
- 'Construction' (+10.5%, Q1 2026 – 95,355), 'Support Services' (+7.2%, Q1 2026 – 92,983) and 'Real Estate and Property Services' (+15.1%, Q1 2026 – 79,118) saw the highest numbers of businesses in 'significant' financial distress

## Julie Palmer, Managing Partner at [BTG](#), said:

*"Businesses who are reliant on discretionary spending will have been hoping consumer confidence would make a comeback this year, but I fear they will be disappointed. Instead, the threat of rising energy bills, inflation, interest rates and unemployment will see people tightening their belts."*

*"Inevitably we expect to see an increasing number of 'zombie' businesses tipped over the edge this year. However, we are even starting to see some of the more successful businesses take a more cautious attitude than you might expect as they put cash aside to soak up higher costs and weak demand. From experience, it is the businesses who take action early during such crises and focus on saving costs, driving up stagnant productivity, trimming their operations and taking opportunities who stand the best chance of survival."*

*"As always, there will be winners and losers across sectors as geopolitical events reshape the global economy. One area to watch may be the domestic Travel and Tourism sector in the UK. With global jet fuel supplies waning and summer holidays abroad under threat, we could see a staycation boom at home this year. Should this become a reality in the summer, it could create a much-needed lifeline for hospitality, retail, leisure and tourism businesses across the country."*

*"Unfortunately, no company is immune to such a major energy shock, but some can find ways to mitigate the impact and emerge strong on the other side. However, there's always a degree of pain first and for some business leaders, overcoming the challenges of today may be a bridge too far after years of challenges since the pandemic."*

**For more information on BTG's eight service lines and how they can support your business across its lifecycle, visit [www.btguk.com/services](http://www.btguk.com/services)**

## About BTG

BTG is a leading financial and real estate advisory firm. We use our expertise to enhance, protect and realise the value of our clients' businesses, assets and investments. Turning complexity into clarity and delivering optimal outcomes; we support our clients in funding and delivering their projects and realising value.

At BTG, we don't just advise – we act, putting our **expertise into action**

## Further information

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