Tale of the Trends

Nicky Fisher, President of R3, the UK's insolvency and restructuring trade body, looks at what is driving corporate insolvencies in England and Wales...

Last year saw a rise in corporate insolvencies – a trend that continued in the first two quarters of this year, with numbers higher than Q1 and Q2 2022, as businesses traded amidst a tumultuous economy, increased costs and a cost-conscious customer base.

These issues have partly led to levels of Creditors' Voluntary Liquidations remaining higher than they were pre-pandemic. I say 'partly', as another factor behind this is that some of the firms who would have wound down during the pandemic but did not are now reaching the end of their natural lives and this process is being used to help them wind up.

Compulsory Liquidation numbers have also risen since the start of the year, with figures for the first half of this year 81.6% higher than they were between January and June 2022.

There are a couple of factors behind this. The Government's winding-up petition restrictions ended from 31 March last year and this will have been a major factor behind the lower numbers in the first quarter of 2022. Alongside this, HMRC has resumed issuing winding-up petitions for non-payment of tax debts – albeit not at pre-pandemic levels – and recovery action is being taken in respect of CBLs and BIBLs.

And from a sector-specific perspective, challenges for retail, construction and hospitality have been exacerbated by recruitment issues, some of which have been attributed to Brexit and the loss of open access to the EU labour market.

Retail challenges

Figures from the Insolvency Service show that the retail industry has had one of the highest number of insolvencies this year, with 1,090 between January and June – higher than last year (859) and 2019 (675).

The pandemic, several lockdowns and reopenings, as well as social distancing all took their toll on the sector, while rising inflation and increased costs have further challenged the sector. To these, cautious consumer spending has contributed, with more people making the move towards online shopping.

The question now is whether the industry recovers from this as we move into the winter months and household and commercial costs increase, or whether the trend in rising retail insolvencies continues as the year progresses.

Construction Concerns

Construction insolvencies have remained high this year, with figures from the Insolvency Service showing that there were more than 2,200 between January and June – more than 5% higher than the same period last year, and substantially higher than the first half of 2019, when 1,667 businesses in the sector entered an insolvency process.

The key driver behind this is an increase in firms working in electrical, plumbing and other construction installation activities; building completion and finishing; and construction of residential and non-residential buildings.

As we move into the autumn and winter months, energy and staffing costs payment for work and project completion times are likely to be the key challenges for firms in this sector – and how these affect businesses who have survived to date will be the driver of any future insolvency trends.

Hospitality hit

The hospitality industry was probably the economic sector that was hardest hit by the pandemic and has struggled over the last two years with rising energy prices and a customer base whose spending has been constrained by the cost-of-living crisis.

These challenges have been reflected in levels of insolvency, with numbers for the period between January 2023 and June 2023 higher than the same period last year. This increase has been largely driven by a rise in restaurant and mobile food services insolvencies, which are substantially higher than in 2022.

The industry does not appear to be optimistic about the rest of the year, with concerns about energy prices, business rates, cashflow levels and consumer spending front of mind for many, and it will be interesting to see how the sector performs over the summer and winter months, which are traditionally its busy periods.

The next few months will be critical for businesses in this industry and in many others. If the issues that have affected firms in England and Wales over the last couple of years do not resolve or lessen in the next couple of months, it is highly likely insolvency numbers will remain high for the rest of 2023. ■

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