Update on national insolvency statistics from the UK

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On 28 July 2023, the Insolvency Service in England published its latest insolvency statistics for the period April to June 2023.[1] The announcement only relates to corporate insolvencies and have revealed that corporate insolvency rates have risen sharply, being: "*the highest since Q2 2009 and 9% higher than in Q1 2023 and 13% higher than in Q2 2022.*"

A large proportion of these insolvencies are voluntary 'shutdowns' of smaller businesses by directors and shareholders: creditors voluntary liquidations ("CVLs"). The number of CVLs was at its highest quarterly level since the earliest publication of these statistics in 1960.

Overall, according to the Government, there were 6,342 (seasonally adjusted) registered company insolvencies, comprising 5,240 creditors' voluntary liquidations, 637 compulsory liquidations (petitions largely by HMRC, who are continuing to get their petitions back up to pre pandemic rates), 409 administrations and 56 company voluntary arrangements (CVAs).

It is apparent that, in the UK, more and more businesses are struggling to make ends meet. This is hardly a surprise, given that their outgoings have increased with significant rises in overheads due to inflation and in the cost of debt servicing due to persistent increases in interest rates. Wage pressures are a major issue. Their customers are being squeezed for similar reasons, which, in turn, will lead to slower payment.

Of course, anecdotally, lots of businesses have been teetering on the brink of insolvency for several years, impacted by Covid-19 and other market challenges. Inflation and interest rate increases, it appears, are now pushing them over the edge. Companies are "throwing in the towel".

There is no obvious light at the end of the tunnel, at least not in the short term. However, for the optimists amongst us, the UK rate of inflation dropped a little in June and whilst the Bank of England again raised the base rate on 3 August 2023 (and it seems likely that rate rises are not wholly off the agenda, as the Bank is determined to keep working to reduce inflationary pressures) it opted not to increase the rate at all in September, and it is to be hoped rates can start to drop in 2024. Furthermore, it is possible that this increase in insolvencies will finally clear out some of the so called "zombie companies", which have limped along (some since the financial crisis of 2008) and have only managed to keep going, because of low interest rates and costs. This might well be a good thing in the medium term by improving the business and competitiveness of better-quality companies.

Interestingly, also as a positive, the great exodus of people from work, which arose from the pandemic appears to be somewhat reversing. In May, the Office for National Statistics said that the number of people aged under 64 who are in retirement fell by 93,000 in the 12 months to March 2023, as the cost-of-living crisis is forcing people back to work. This trend started at the end of 2022, with a report by the House of Lords Economic Affairs Committee stating that earlier retirement among 50- to 64-year-olds was the biggest contributor to a rise of 565,000 UK citizens in economic inactivity since the start of the pandemic. Peers said then that this trend was putting the economy at risk of weaker growth and persistently higher inflation.

It seems that the cost of living is changing all that and so we can take some comfort that there may be better times to come. We still look likely, however, to be busy in the insolvency profession for some time to come. ■

Footnotes:

1 Available at: www.gov.uk/government/collections/insolvency-service-official-statistics