LOCAL NEWS PARTNERSHIPS

Insolvencies during coronavirus

The Drum
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What's the story?

Businesses kept afloat by government funding fear they will go insolvent coming out of lockdown.

Analysis shows around 5,000 companies have filed for insolvency since March, down compared with 6,500 last year, as government funding meant they went into effective hibernation.

The drop follows a spike in March around the start of lockdown.

Experts have pointed to the billions in emergency support for businesses and changes to insolvency law but warned the true impact is unlikely to appear for months as businesses try to adjust to social distancing and other challenges.

The Shared Data Unit analysed data from the London Gazette, the official journal of record that carries notices of corporate insolvencies.

We also found a resurgence in new businesses being set up during lockdown, with around 180,000 companies registering in the UK from April to June.

Our data includes:

- How many companies filed for liquidation in your local authority during lockdown
- How many companies filed for liquidation over the same period last year
- Which sectors were most affected
- How many new businesses were registered in your local authority area from April to June this year

Which sectors are most affected?

We found companies working in information and communication had seen the largest increase in insolvencies.

Those working in the events sector without a known date for when social distancing restrictions can be lifted, told us the sector was on its knees.

Richard Millward has helped run major events but is now working as a driver for Waitrose.

He said the margins for festivals and concerts were too small for reduced capacity due to social distancing and the risk was some events simply would not return.

“Several companies that I know are looking at going into administration or have already closed down. It’s sad and also quite worrying.

“We’re going to lose an awful lot of the skill, the talent pool that we have. I think a lot of people are just trying to hang on for as long as possible.”

Insolvency changes by sector

Lockdown insolvency notices compared to 2019

Broad industry group	% change year-on-year
Information & communication	46.3%
Education	4.9%
Prof. scientific & technical	-4.2%
Finance & insurance	-10.0%
Business support	-17.7%
Manufacturing	-24.4%
Wholesale	-25.9%
Transport & storage	-27.5%
Health & social work	-28.3%
Property	-29.7%
Retail	-30.2%
Motor trades	-33.1%
Arts, entertainment, leisure	-39.42%
Construction	-40.00%
Accommodation & food	-40.63%

Source: BBC Shared Data Unit, abbreviated table.

The Event Suppliers and Services Association (ESSA) is also urgently calling for support for large indoor events such as exhibitions and conferences.

Conferences are provisionally due to be allowed from October 1, subject to the outcome of pilots and social distancing measures.

ESSA director Andrew Harrison, said: “Redundancies are already underway, a conservative estimate is as high as 30% within the industry, that is approximately 40,000 direct jobs lost.

“We also estimate 60% of our supply chain businesses will not reopen in October as furlough comes to an end and we do not get the fiscal support so urgently needed by many thousands of companies.”

What has the Government done?

HM Treasury says it has spent around £160bn in support for businesses.

Economic support has ranged from loans to business rate relief, tax deferrals, top-up grants, a future fund for blue chip companies and the Bank of England issuing bonds to corporations.

There have also been legal changes. The Corporate Insolvency and Governance Act 2020 means that if a company cannot pay its debts due to coronavirus, its creditors cannot apply for it to be wound up until the end of September.

Added to the fact that courts have been less able to handle insolvency cases, this means figures on insolvency are likely to be lower than normal.

In separate research, Begbies Traynor said 527,000 businesses were in significant financial distress at the end of June and the true impact would only be seen in months to come.

Partner Julie Palmer said: "This crisis will force many zombie companies out of business. While these were clinging on to survival prior to the pandemic, many will now have become simply unviable due to high levels of debts and poor sales."[1]

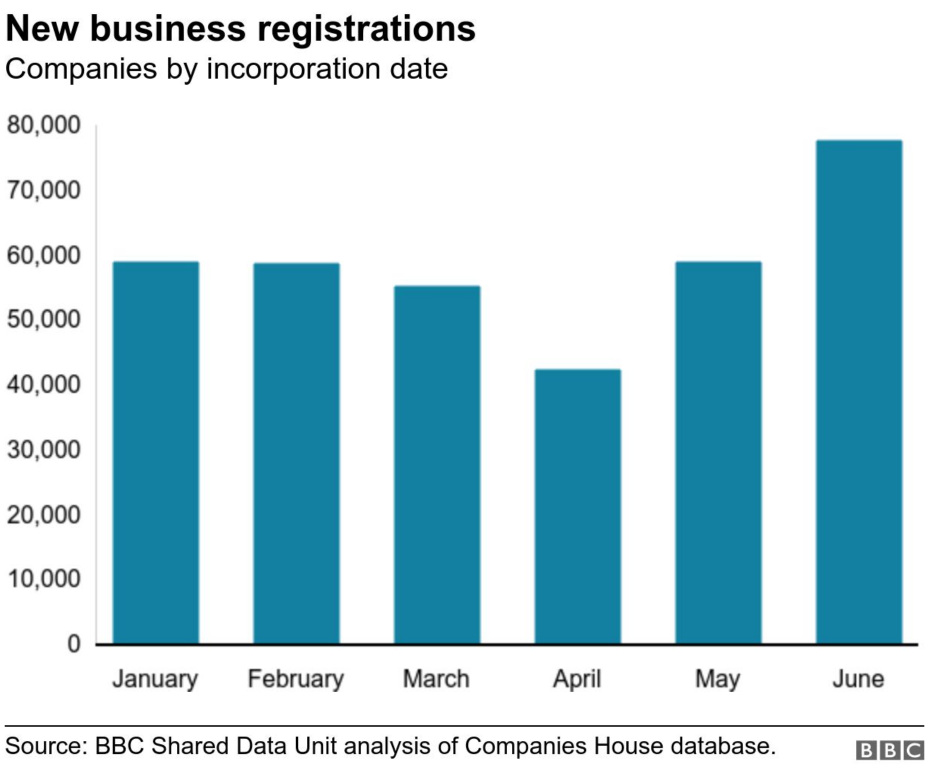
Economist Stuart Adam said that without government intervention, the situation might have been worse, but businesses coming out of lockdown faced multiple challenges.

Social distancing measures, reduced spending, larger debt and general market uncertainty could all have an impact, he said.

He said: “Since many firms will undoubtedly shrink or go out of business and jobs will be lost – especially as the furlough scheme comes to an end – it will be vital over the coming months and years for others to start up or expand, to fill the gap and employ those left out of work.”

[1]‘Zombie’ companies are, true to the name, neither growing nor dead. The companies have so much debt they cannot repay it, or find money to invest or grow, but they continue to operate.

The entrepreneurs who started a business during lockdown



Retail and wholesale sectors have led a resurgence in new businesses being set up, after a slump in April.

Shahid Hussain said people thought he was “crazy” for setting up a company in lockdown, but his food delivery business is doing “really well”.

He said: “The delivery market was picking up even before Covid, it just accelerated it. We definitely launched at the right time.”

Key findings:

- Insolvency notices counted from lockdown to the end of June were around 25% lower than the same period last year.
- Information and communication is the **worst affected sector** so far, with an increase of 31%. (999 notices in 2020 compared to 683 in 2019)

- Education has also seen a slight rise on last year.
- Accommodation and food services, arts and recreation, retail and construction have all seen insolvency drop, although these sectors are anecdotally badly affected by lockdown.

Data:

This is the number of insolvency notices by local authority area for the period of lockdown (from March 24) up to June 30 compared to the same period last year:

Link:https://drive.google.com/file/d/1noWJbIBbj1Ky5dniTGsJV5SZBz3vmaPJ/view?usp=sharing

Note the summary in the pack intro is from the end of March, not lockdown.

Sourcing:

We analysed data on insolvency notices from the London Gazette, the official public record, from January 2019 onwards. Notices included: Appointment of liquidators, Appointment of Administrators, Appointment of Receivers Resolutions for Winding-Up and Winding-up Orders.

We looked up the location of the companies filing notices using the Companies House database. Location is therefore **by registered office address** by company.

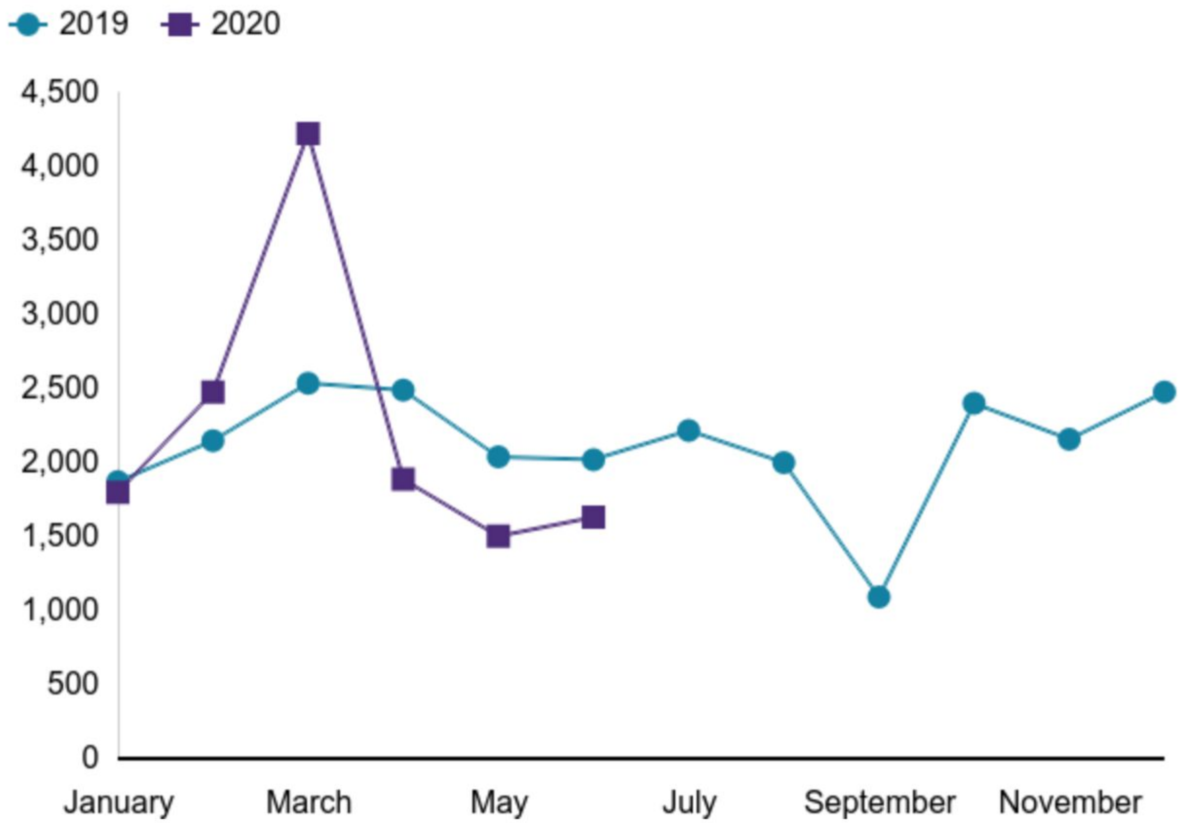
This data is therefore from a different source to the government's national level Insolvency Statistics, which are based on monthly changes in the register and the Insolvency Service's own data on compulsory liquidations. The monthly statistics also show a drop in insolvencies year on year. https://www.gov.uk/government/collections/monthly-insolvency-statistics.

NB: **Data on Northern Ireland has been particularly affected** by a complete **closure of** the Courts and **Insolvency Service** offices in that region in April and May 2020. This means that there were no new compulsory liquidations, as these require a court order.

A full methodology can be found here:https://docs.google.com/document/d/11UY-VHrP9bDM4nSqb4RcF77y9nyElTEqLQxhtZhTjKw/edit?usp=sharing

Insolvency notices have slowed from April

More firms have gone under this year so far



Source: BBC Shared Data Unit analysis of Gazette notices

BBC

Which businesses started during lockdown?

Business type	New registrations (April to June)
Retail by mail order/internet	11,882
Management consultancy	7,920
Letting/operating real estate	7,629
Other service activities	7,457
Other business support	6,081
Buying/selling real estate	6,058
IT consultancy	4,537
Home construction	4,034
Freight transport by road	3,888
Take-away food	3,867

Source: BBC Shared Data Unit

BBC

Full quotes:

A HM Treasury spokesperson said:

"We've outlined a three point plan for supporting businesses through the crisis and spurring the UK's economic recovery.

"The first stage of this was our £160 billion support package for business that included our job retention scheme, which has protected more than nine million jobs and has been extended until the end of October.

"Earlier this month we announced the second stage of our plan which aims to support, protect, and create jobs across the UK. It includes a 15 percent VAT cut for hospitality, leisure and retail, the Coronavirus Job Retention Scheme Bonus, and job creation through investment in greening homes and buildings.

“As the economy re-opens, we will continue to look at how to adjust our support in a way that ensures people can get back to work, protecting both the UK economy and the livelihoods of people across the country.”

Further information:

- More than 12 million claims have been made with the Coronavirus Job Retention Scheme and Self-employment Income Support Scheme.
- The Plan for Jobs announced last week will help people find work by significantly increasing help offered through Jobcentres and providing individualised advice through the National Careers Service. We are also announcing the Kickstart Scheme, a £2bn fund to create hundreds of thousands of new, fully subsidised jobs for young people.

Andrew Harrison, director of ESSA (Event Supplier and Services Association):

“Exhibitions are the beating heart of every industry, which need to be re-ignited to help in both the economic recovery post COVID-19, but also post Brexit. We are a sector that employs 114,000 and contributes £11bn economic impact to the UK.

“Exhibitions create the trading platforms, which permeates activity throughout every industry they serve and their subsequent supply chains across the UK. The uncertainty of not having a ‘go date’ caused the rescheduling and cancelling of events, removing these much-needed trading and marketing platforms for them.

“Redundancies are already underway, a conservative estimate is as high as 30% within the industry, that is approximately 40,000 direct jobs lost.

“We also estimate 60% of our supply chain businesses will not reopen in October as furlough comes to an end and we do not get the fiscal support so urgently needed by many 1000’s of companies.

“The exhibition sector, through the provision of the Nightingale Hospitals, has played an active role in supporting the Government at a time of crisis, and very much looks forward to playing an active role in recovery, however, getting a ‘go date’ for our industry was not the end of the struggle, we need direct fiscal support as a matter of utmost urgency in order to rebuild our industry so we can rebuild others.

By October, the exhibition industry will have been closed for trading for 7 months."

Richard Millward (business in difficulty):

Richard Millward has worked 30 years in the events industry, putting on large-scale gatherings such as the London Marathon, festivals, concerts at Leeds Castle, Silverstone and The Bloxham Steam Rally.

Faced with no events income until at least April 2021, he's now working as a driver for Waitrose, watching his business of 17 years run out of money.

"You can't run the London Marathon with everyone in masks," he said.

"You can't run a big public event with any kind of social distancing, it would just go out the door. "We really need to have 'you can start on this date, with no restrictions', then you can start asking promoters for deposits."

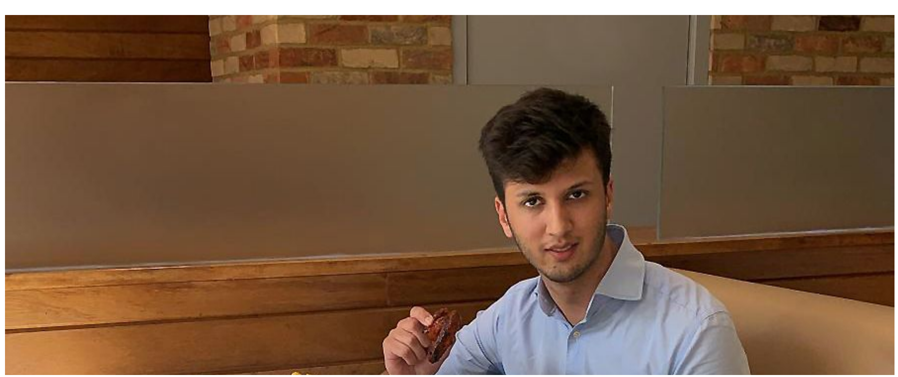
He said the margins for festivals and concerts were too small for reduced capacity due to social distancing and the risk was some events simply would not return.

"Several companies that I know are looking at going into administration or have already closed down. It's sad and also quite worrying.

"We're going to lose an awful lot of the skill, the talent pool that we have. I think a lot of people are just trying to hang on for as long as possible."

Shahid Hussain, 29:

Shahid set up and registered his food delivery business, 'Wraps, Pittas and Buns',



during lockdown and now has 8 branches:

“People said we were crazy to be setting up a business during Covid when everyone was going into lockdown. What we realised was that Covid was going to fundamentally change the way we eat. People wanted fast delivery food, but restaurant quality.

“It’s going really, really well. The delivery market was picking up even before Covid, it just accelerated it. We definitely launched at the right time. It’s going so well, we have got plans to open two or three outlets in the next week or so.”

Tom Parkinson, 25, (new enterprise):

Nurse Tom Parkinson had baked for friends and family before but realised he wanted to do something more with his passion for sourdough while on the frontline.

Signing up to help on a Covid ward meant he had to isolate.

“I was sat in a hotel room not being able to bake for the first time in a few years,” he said.

“The first thing I did when I got back was to bake again. It’s something I really enjoy and I can do alongside being a nurse, I don’t want to give that up.”

His partner has agreed to let him turn a room in their new house into a kitchen, and Tom hopes to invest in cooking equipment to get up and running properly.

“I think there’s going to be a revival, I think more people are into food that’s come from a local producer and done with a bit of love and care, people like that, I think there’s a market for it.”

Institute for Fiscal Studies, economist Stuart Adam:

“Some firms may continue to have their activity constrained by social distancing for a considerable period. Others may face weaker demand if the recession leads people to spend less, or if the broader crisis changes how we choose to live and spend our money. And even if firms’ future activities are not affected in these ways, debts built up during lockdown might make it harder to keep going. The size of all of these effects is highly uncertain – but the uncertainty itself can put a brake on economic activity, especially for cash-strapped households and firms.

“All of these problems might have been worse without the economic support the government has provided, imperfect though it is. To the extent that shoring up the economy during the crisis prevents a much bigger cost over the coming years, it’s money well spent – especially while low interest rates make it so cheap for the government to borrow. Whether the current package of support will be the last word remains to be seen: it would not be a surprise to see the Chancellor come back with more as the picture becomes clearer.

“There will also be new business opportunities, created both by changes in consumer demand and by the various government support schemes. Since many firms will undoubtedly shrink or go out of business and jobs will be lost – especially as the furlough scheme comes to an end – it will be vital over the coming months and years for others to start up or expand, to fill the gap and employ those left out of work.”

Julie Palmer, Partner at Begbies Traynor (commenting on the firm’s own research into companies in financial distress):

“Despite more than 30,000 businesses having fallen into distress since the start of the year, the real level of corporate underperformance is being concealed by inaction on distressed businesses in the courts.

"With government initiatives to support businesses now winding down, we will start to see the true impact of coronavirus on the UK during the autumn. This crisis will force many zombie companies out of business. While these were clinging on to survival prior to the pandemic, many will now have become simply unviable due to high levels of debts and poor sales. Going forward, businesses that have the capital and the management ability, will adapt to the new normal and likely flourish at the expense of weaker rivals.

“It is likely that this situation will get worse for many businesses before it gets better, but those that can operate and adapt to these conditions will survive the flood and live to prosper on the other side.”