

Profiles of companies in compulsory liquidation: 2003/4 to 2005/6

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Section 1: Executive Summary

1.1 Introduction

This report looks at the profiles of companies in compulsory liquidation, collectively in England & Wales and on a regional basis, over a three-year period. It focuses on the following areas:

- Petitioner type
- Business sector
- Length of trading
- Assets
- Liabilities, including the level of debt owed and number of creditors

The aim of this research was to ascertain whether there have been changes over the study period in respect of these characteristics, and whether any regional differences exist. This research will add to the evidence base for future policy decisions. Additionally, the information will assist in determining the scope for further research into compulsory liquidation.

The Insolvency Service intends to issue further profiling reports in future years and these will also include information on the cause of failure in compulsory liquidation cases¹.

¹ The Insolvency Service has published a separate report regarding causes of failure in compulsory liquidation cases in 2003/4 and 2004/5 entitled 'Causes of Failure in Bankruptcy and Compulsory Liquidations', which can be accessed at: <http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/policychange/causes/Report%20-%20Cause%20of%20Failure.doc>

1.2 Key Findings

For England & Wales

- The Crown was the petitioner in about half of all compulsory liquidations and trade creditors were the petitioner in about a third of all compulsory liquidations.
- The breakdown of the business sectors of companies in compulsory liquidation has remained largely unchanged over the study period.
- Just over two-thirds of companies that entered compulsory liquidation had traded for less than 5 years.
- The average level of assets of companies in compulsory liquidation decreased over the study period.
- Over 70% of companies in compulsory liquidation had no assets.
- The average amount of scheduled debt excluding companies with debts of over £10 million decreased over the study period.
- The proportion of cases with 10 or less creditors fell in 2004/5 compared to the previous year, and then rose in 2005/6.

Regional results

- In broad terms, the regions follow the pattern seen at the national level.
- The London region, in particular, shows noticeable differences compared to the rest of England and Wales.
- Throughout the study period, the London region had the lowest proportion of compulsory liquidations where the Crown was the petitioner.
- The London region had the highest proportion of companies in the services business sector and conversely, had the lowest proportion of companies in the construction and transport and manufacturing business sectors.
- The Midlands region had the highest proportion of companies in the manufacturing business sector.
- The London region had the largest proportion of companies that had traded for less than 5 years in 2003/4 and 2004/5, and then the smallest proportion of companies that had traded for less than 5 years in 2005/6.
- The Midlands region had the largest proportion of companies with no assets throughout the study period.

1.2 Key Findings (continued)

Regional results

- The Anglia and South-East regions had the lowest proportion of companies with no assets throughout the study period, along with the South-West region in 2003/4.
- The London region had the highest average debt levels, both including and excluding companies with debts over £10 million.
- The London region had the largest proportion of companies with 10 or less creditors.
- The South-East region had the smallest proportion of companies with 10 or less creditors throughout the study period.

1.3 Methodology

Data on the profiling information have been extracted from The Insolvency Service's internal database for the periods 2003/4², 2004/5, and 2005/6. The Service collects this information routinely, but in some cases the data are missing where, for example, the director has not been traced or has not fully co-operated.

Detailed statistics for England and Wales, including the extent of the missing data, are shown in [Appendix 1](#).

As regards information on assets and debts owed, this is based on information provided to the Official Receiver by the director or by third-parties. The data do not include information regarding assets or debts received after an insolvency practitioner has been appointed liquidator. The percentage of cases where an insolvency practitioner has been appointed is shown in Table 1.

Table 1: Percentage of cases where an insolvency practitioner has been appointed liquidator

	2003/4	2004/5	2005/6
No. of winding-up orders made ³	4,857	4,477	5,605
No. of cases where an IP has been appointed ⁴	1,014	1,030	1,061
% of cases where an IP has been appointed	20.9%	23.0%	18.9%

For the regional analysis, the bankruptcy data have been broken down according to The Insolvency Service's broad operational regions. Detailed regional statistics, including the extent of missing data, are shown in [Appendix 2](#).

² The period 2003/4 refers to the year ended 31 March 2004

³ Based on statistics published by The Insolvency Service (previously the DTI Statistics Directorate) (not seasonally adjusted)

⁴ Information based on The Insolvency Service's performance data

1.3 Methodology (continued)

The profiling information in respect of petitioner type, assets and liabilities for 2003/4 and 2004/5 has been supplemented by information from a case sampling exercise of reports to creditors. The samples were drawn from reports to creditors issued in respect of winding-up orders made in 2003/4 and 2004/5, and for each year, a total of 1,000 reports to creditors were randomly sampled stratified on a regional basis. In some instances, the reports to creditors did not contain profiling information because, for example, the director had not co-operated with the Official Receiver. Details of the population sizes and the number of reports to creditors where profiling information was available are shown at Table 2.

The Official Receiver issues a report to creditors in every compulsory liquidation case. It is primarily based on information provided by the director and almost all reports to creditors are issued within 12 weeks of the making of the insolvency order⁵.

Table 2: Population and sample sizes for the sampling of reports to creditors

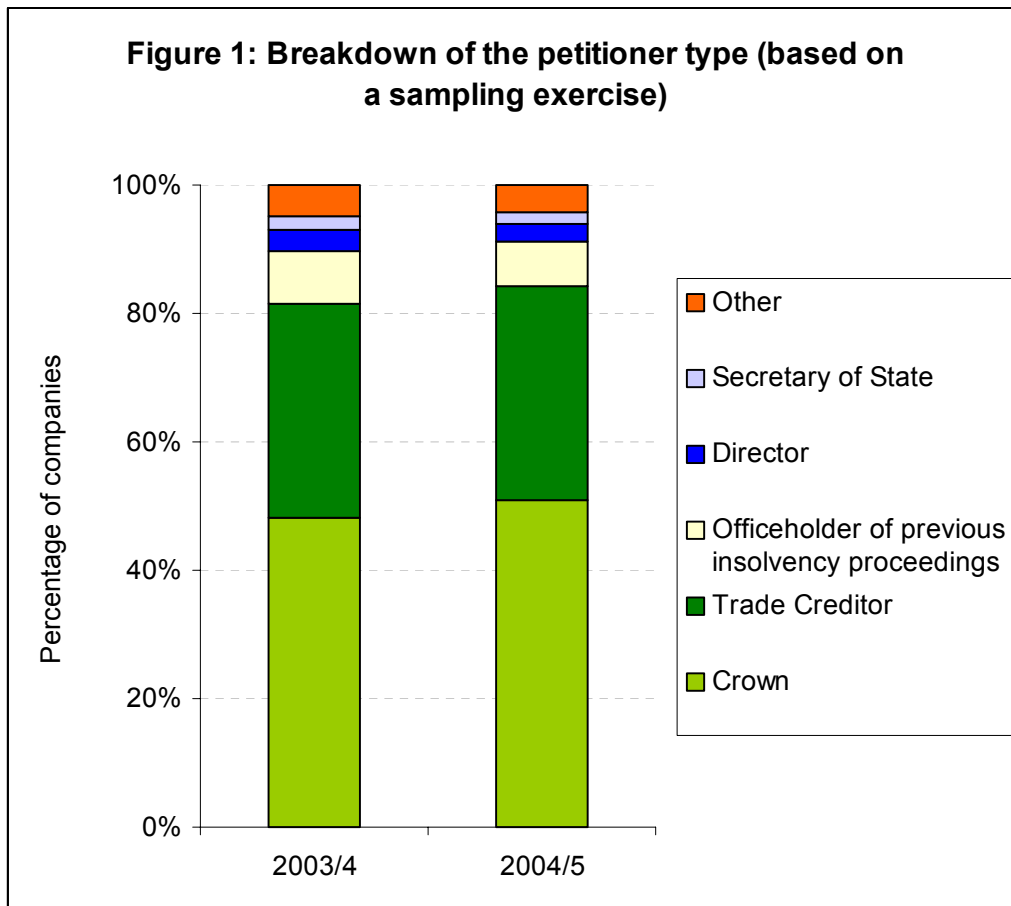
	2003/4	2004/5
Companies		
Total number of winding-up orders ³	4,857	4,477
Size of compulsory liquidation sample where information was available on:		
The petitioner	997	999
The assets and liabilities	915	861

⁵ Internal statistics maintained by The Insolvency Service show that 99.1% of company reports to creditors were issued within 12 weeks of the making of the order in 2003/4. Similarly, in 2004/5, 95.5% of company reports to creditors were issued within 12 weeks of the making of the order.

Section 2: Profiles of companies in compulsory liquidation in England & Wales

2.1 Petitioner type

- The results of the reports to creditors sampling exercise show that in 2003/4 and 2004/5, the Crown was the petitioner in about half of all compulsory liquidations and that trade creditors were the petitioner in about a third of all compulsory liquidations (see Figure 1).



2.1 Petitioner type (continued)

- The results of the reports to creditors case sampling exercise indicate that HM Customs & Excise⁶ was the most common Crown Department petitioner (see Table 3).

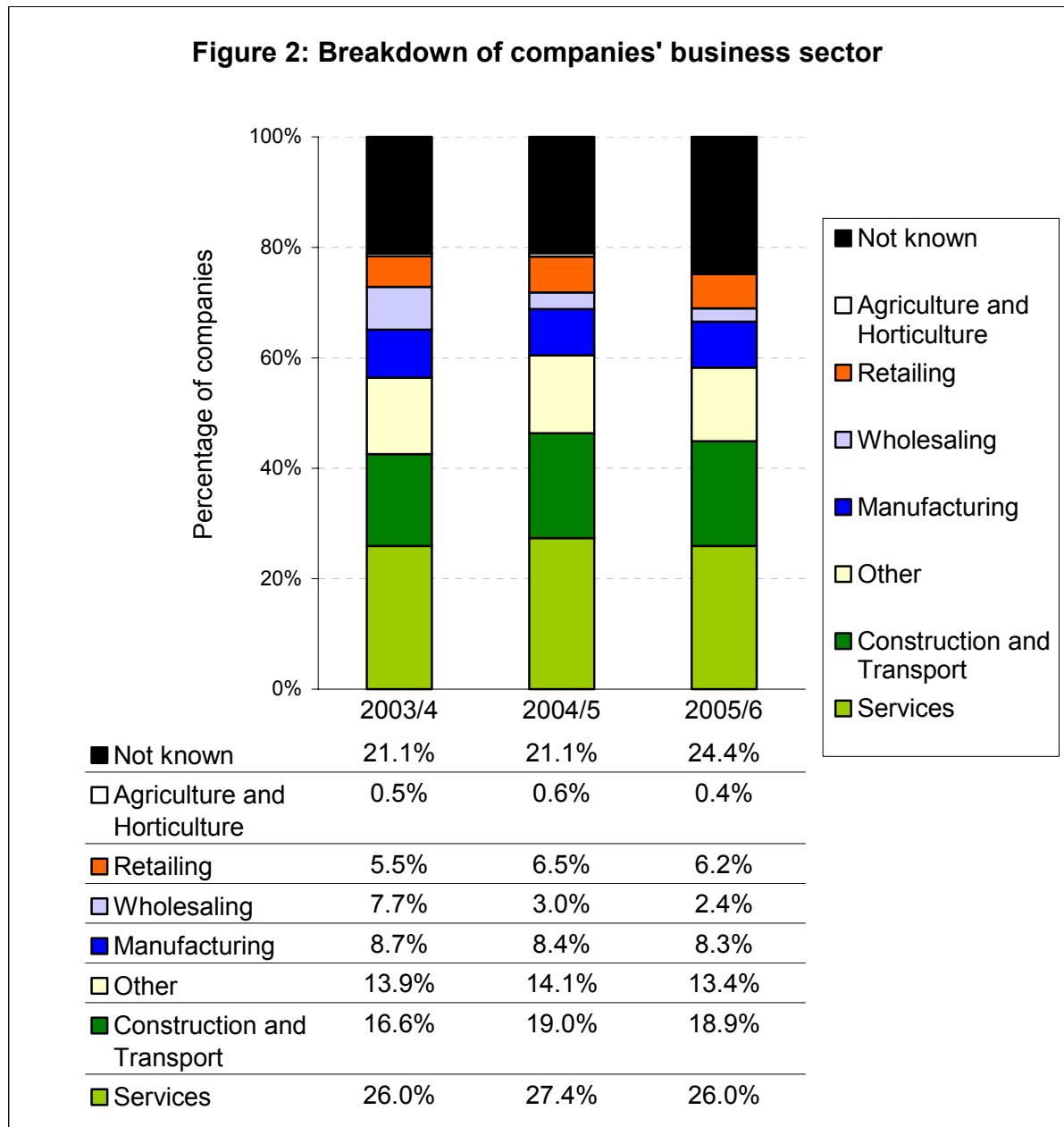
Table 3: Percentage breakdown of the Crown Departments who were petitioners (based on a sampling exercise)

	2003/4	2004/5
HM Customs & Excise	64.9%	64.2%
HM Inland Revenue	34.3%	34.4%
Other Government Departments	0.8%	1.4%

⁶ HM Customs & Excise and HM Inland Revenue have now merged and are known as HM Revenue & Customs.

2.2 Business sector⁷

- The breakdown of the business sectors of companies in compulsory liquidation remained largely unchanged over the study period (see Figure 2)⁸.
- The main changes are that the proportion of companies in the wholesaling sector fell by around 5 percentage points over the study period and the proportion of companies in the construction and transport industry increased by around 2 percentage points over the study period (see Figure 2).

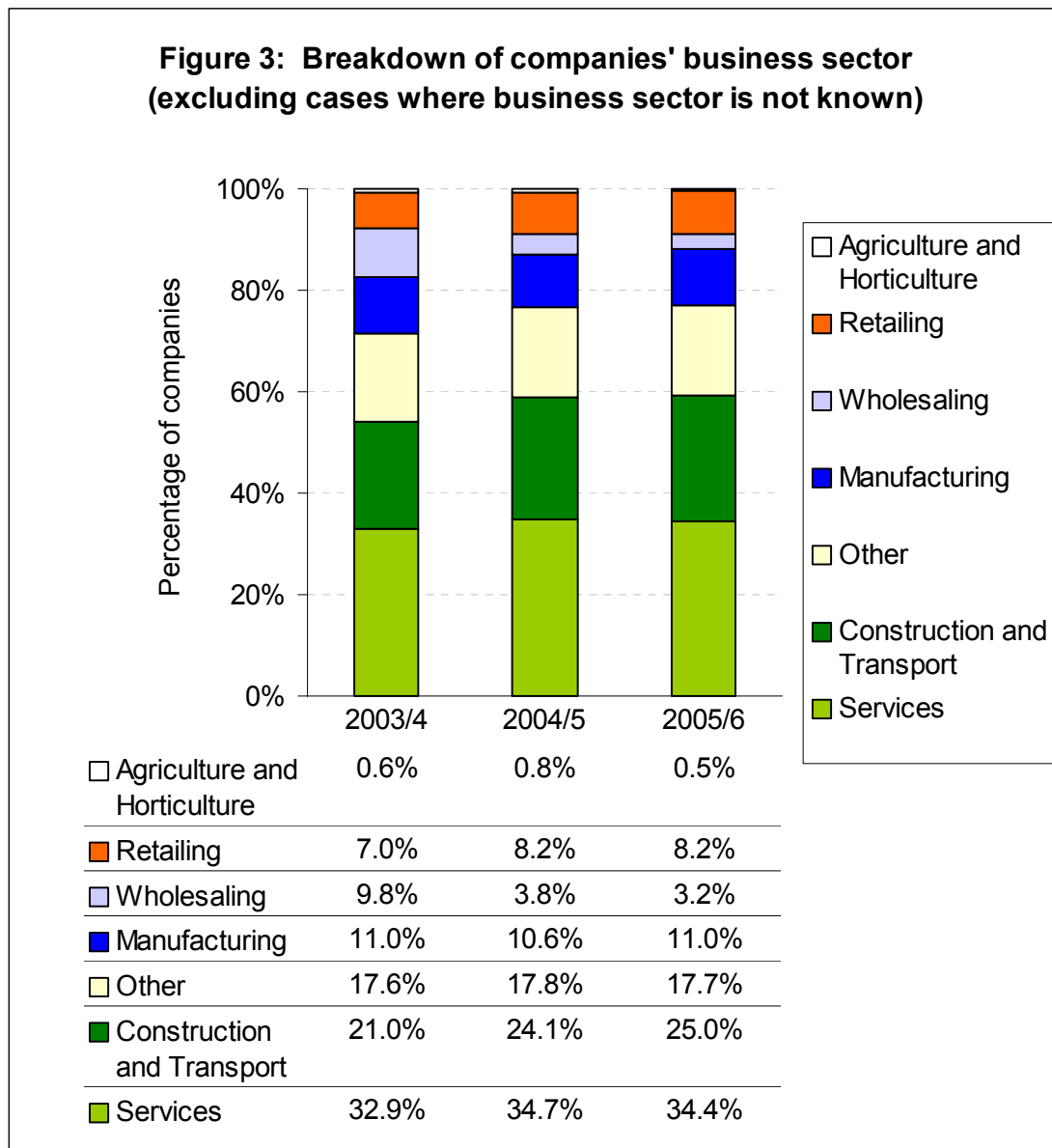


⁷ The business sector is classified according to the *Insolvency Trade Classification*, which is based on (but not identical to) a previous revision to the Standard Industrial Classification (SIC). However, as from October 2006, new cases are being classified according to the current SIC2003 at the 2-digit level of detail.

⁸ Based on the quarterly statistics published by The Insolvency Service (previously DTI Statistics Directorate)

2.2 Business sector⁹ (continued)

- If cases where the business sector is unknown are excluded, the proportion of companies in the wholesaling sector fell by over 6 percentage points over the study period, and the proportion of companies in the construction and transport sector increased by 4 percentage points over the study period (see Figure 3)¹⁰.

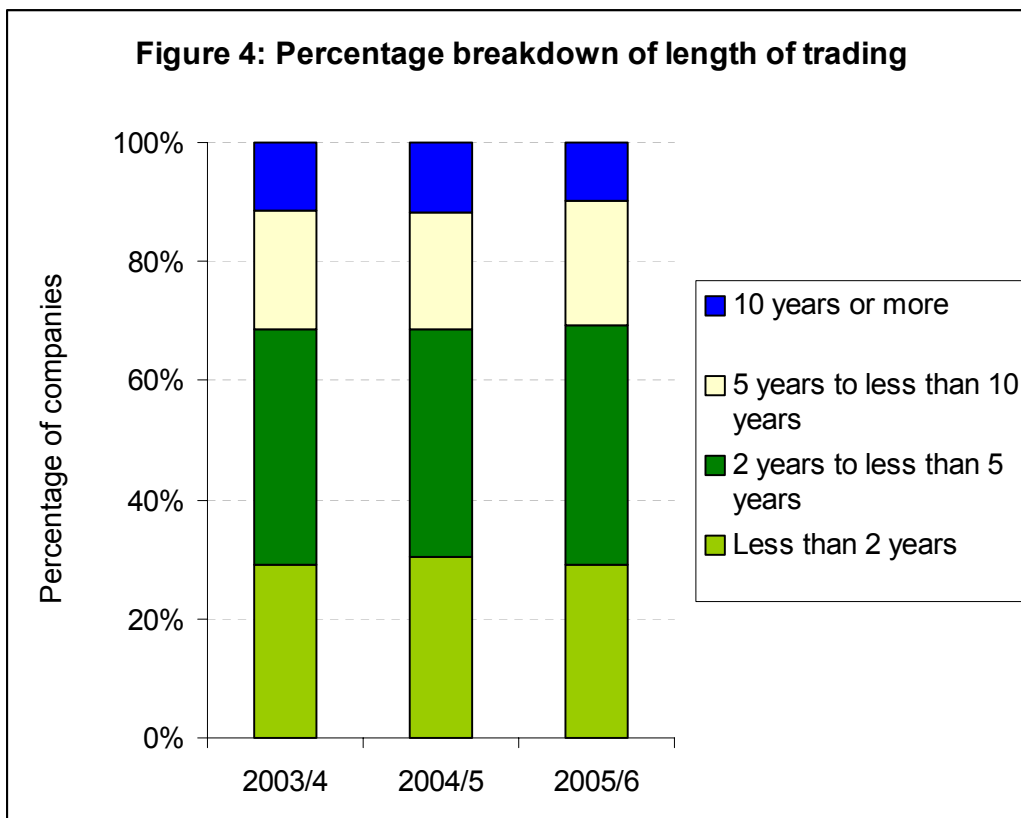


⁹ The business sector is classified according to the *Insolvency Trade Classification*, which is based on (but not identical to) a previous revision to the Standard Industrial Classification (SIC). However, as from October 2006, new cases are being classified according to the current SIC2003 at the 2-digit level of detail.

¹⁰ Based on the quarterly statistics published by The Insolvency Service (previously DTI Statistics Directorate)

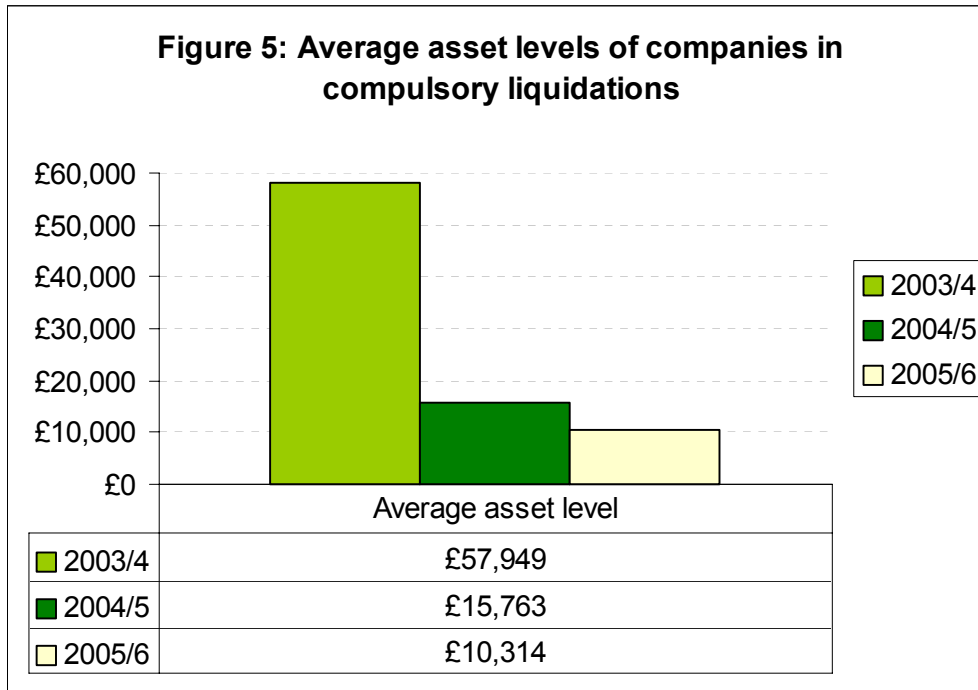
2.3 Length of trading

- Information on the length of trading is only available for about one fifth of cases.
- The breakdown of the length of trading of companies in compulsory liquidation remained largely unchanged over the study period (see Figure 4).
- Just over two-thirds of companies that entered compulsory liquidation had traded for less than 5 years (see Figure 4).



2.4 Assets

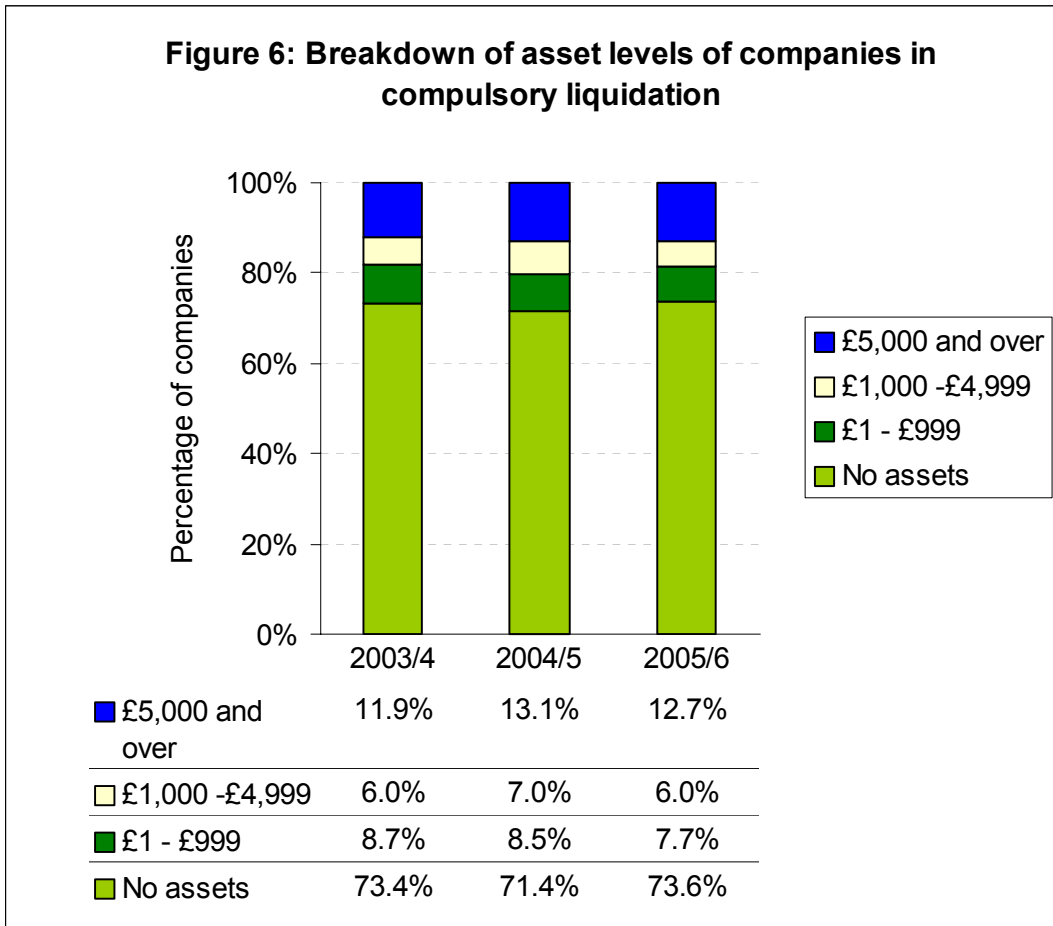
- The average level of assets of companies in compulsory liquidation decreased over the study period (See Figure 5). However, it should be noted that in 2003/4, the London and North-East Region had particularly high regional asset averages, which will be due to a limited number of cases with exceptionally high assets recorded¹¹ (see Section 3.4).



¹¹ Due to limitations in the data availability, it has not been possible to exclude unusually high asset values recorded, or to calculate additional summary statistics.

2.4 Assets (continued)

- The breakdown of the asset levels of companies in compulsory liquidation remained largely unchanged over the study period (see Figure 6).
- Over 70% of companies in compulsory liquidation had no assets throughout the study period (see Figure 6).



2.4 Assets (continued)

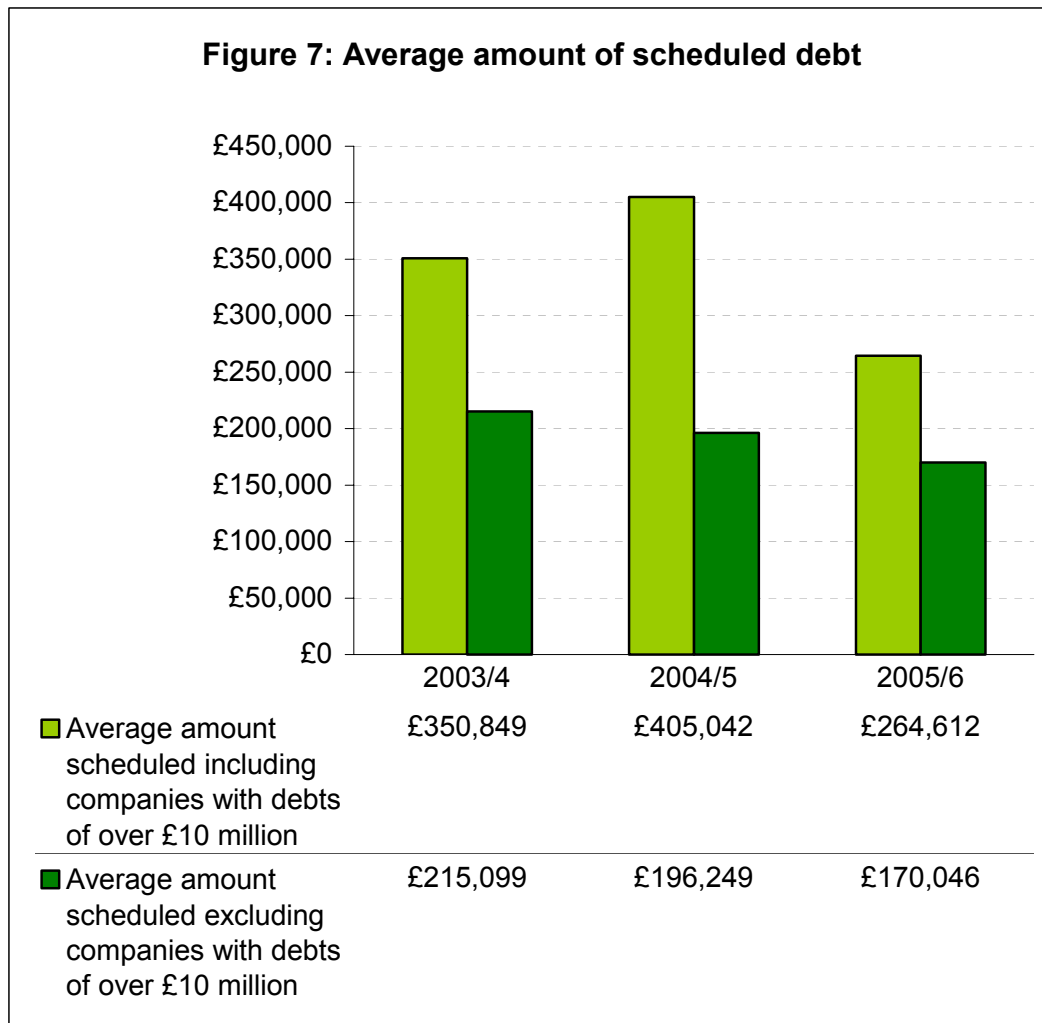
- The results of the reports to creditor sampling exercise indicate that the most common assets were book debts and cash (at bank or in hand) (see Table 4).

Table 4: Percentage of cases with asset types (based on sampling exercise)

	Percentage of cases with asset type	
	2003/4	2004/5
Book Debts	35.2%	28.6%
Cash	24.8%	22.4%
Fixtures & Fittings	11.9%	6.9%
Stock/WIP	10.9%	7.3%
Plant & Machinery	10.8%	8.4%
Motor Vehicles	8.2%	6.4%
Freehold Property	5.2%	3.0%
Tax Refunds	4.7%	2.7%
Other	4.2%	8.4%
Shares/Investments	3.2%	1.4%
Leasehold Property	0.9%	1.0%
Intellectual Property Rights	0.8%	1.2%

2.5 Liabilities

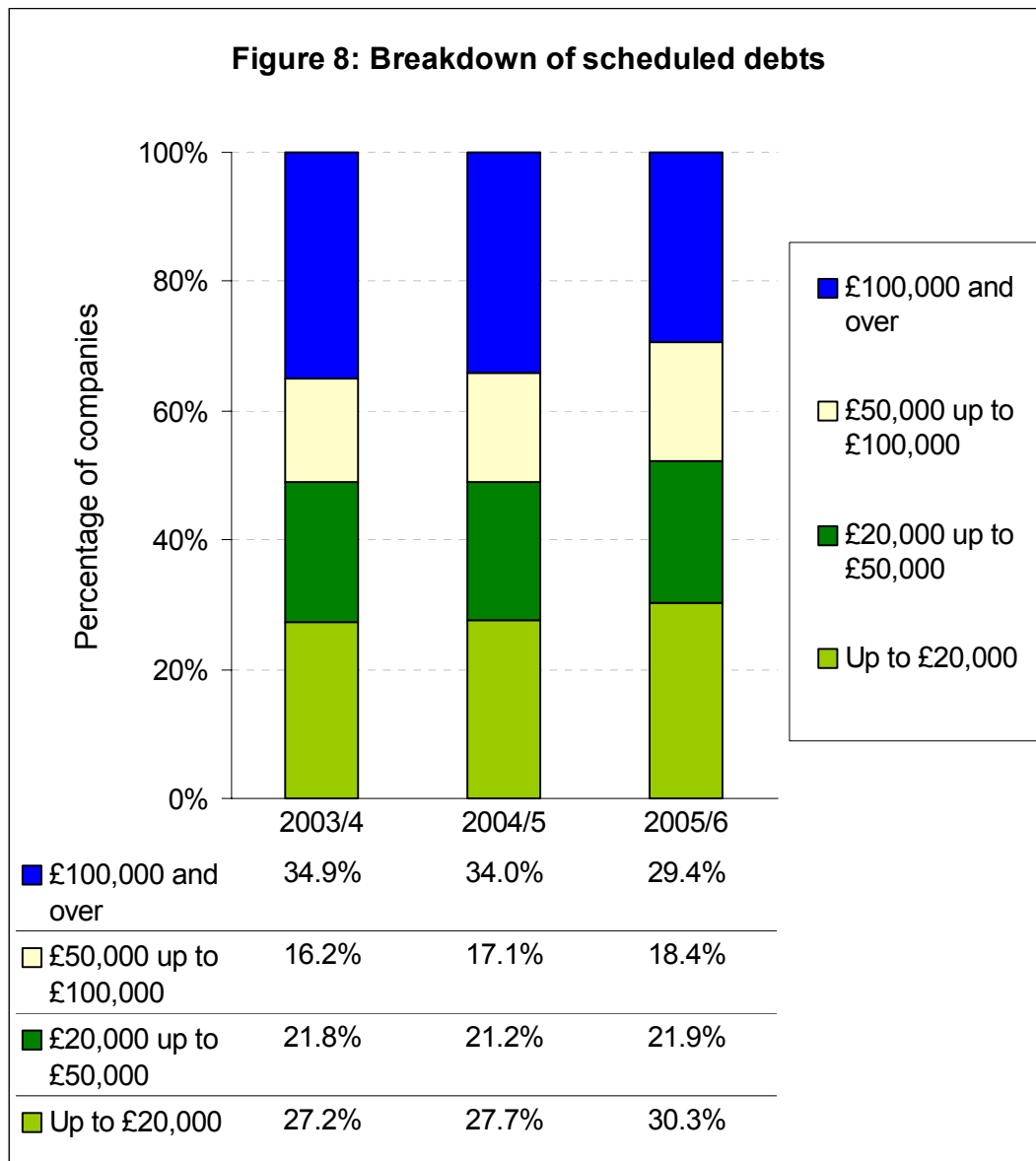
- The average amount of scheduled debt¹² including companies with debts of over £10 million increased in 2004/5 compared to the previous year, but then fell in 2005/6 (see Figure 7).
- The average amount of scheduled debt excluding companies with debts of over £10 million decreased over the study period (see Figure 7).



¹² The average debt per case was calculated as the sum of the debt in the year divided by the total number of cases in that year. Cases with no listed debt have been excluded when calculating the average debt levels.

2.5 Liabilities (continued)

- The proportion of cases with debts of under £100,000 increased by 5.5 percentage points over the study period (see Figure 8), which is consistent with the fall in the average asset value excluding companies with debts of over £10 million.



2.5 Liabilities (continued)

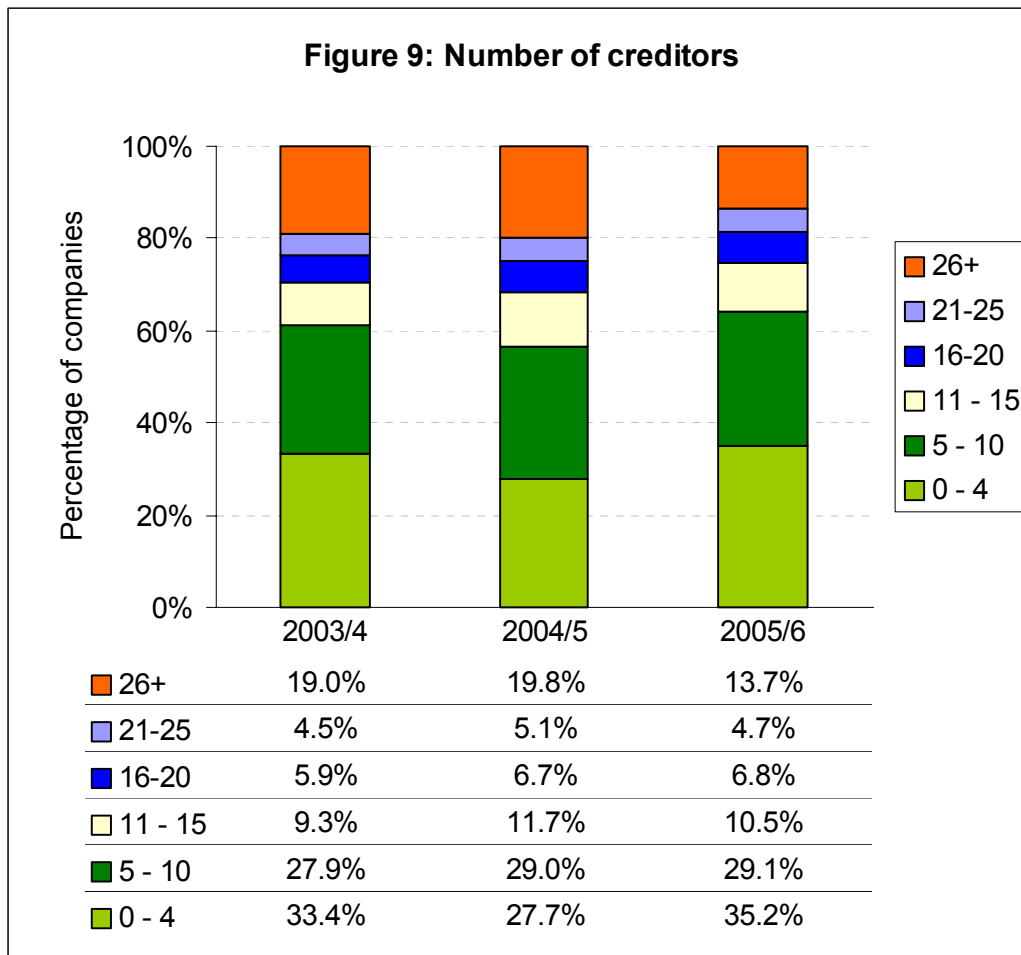
- The results of the reports to creditor sampling exercise indicate that the most common creditor type was trade and expense (see Table 5).

Table 5: Percentage of cases with creditor types (based on sampling exercise)

	Percentage of cases with creditor type	
	2003/4	2004/5
Trade & Expense	86.6%	87.7%
Crown - VAT	43.3%	51.6%
Crown - Tax/NIC	41.9%	49.0%
Bank	41.0%	40.4%
Directors' Loans	35.0%	35.2%
Others	19.6%	18.6%
Employees	13.1%	12.7%
Other Financial Institutions	9.7%	14.2%

2.5 Liabilities (continued)

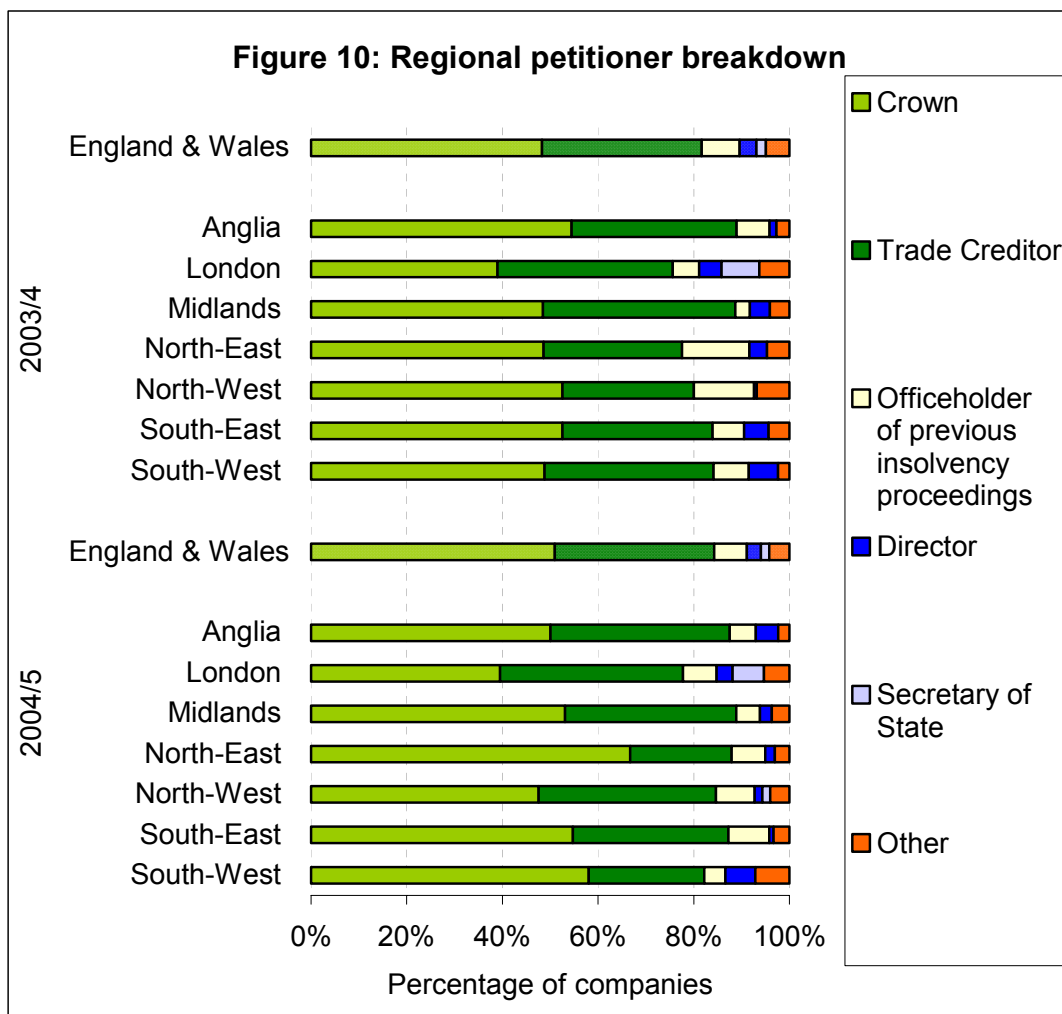
- The proportion of cases with 10 or less creditors fell in 2004/5 compared to the previous year, and then rose in 2005/6 (see Figure 9).



Section 3: Regional Results

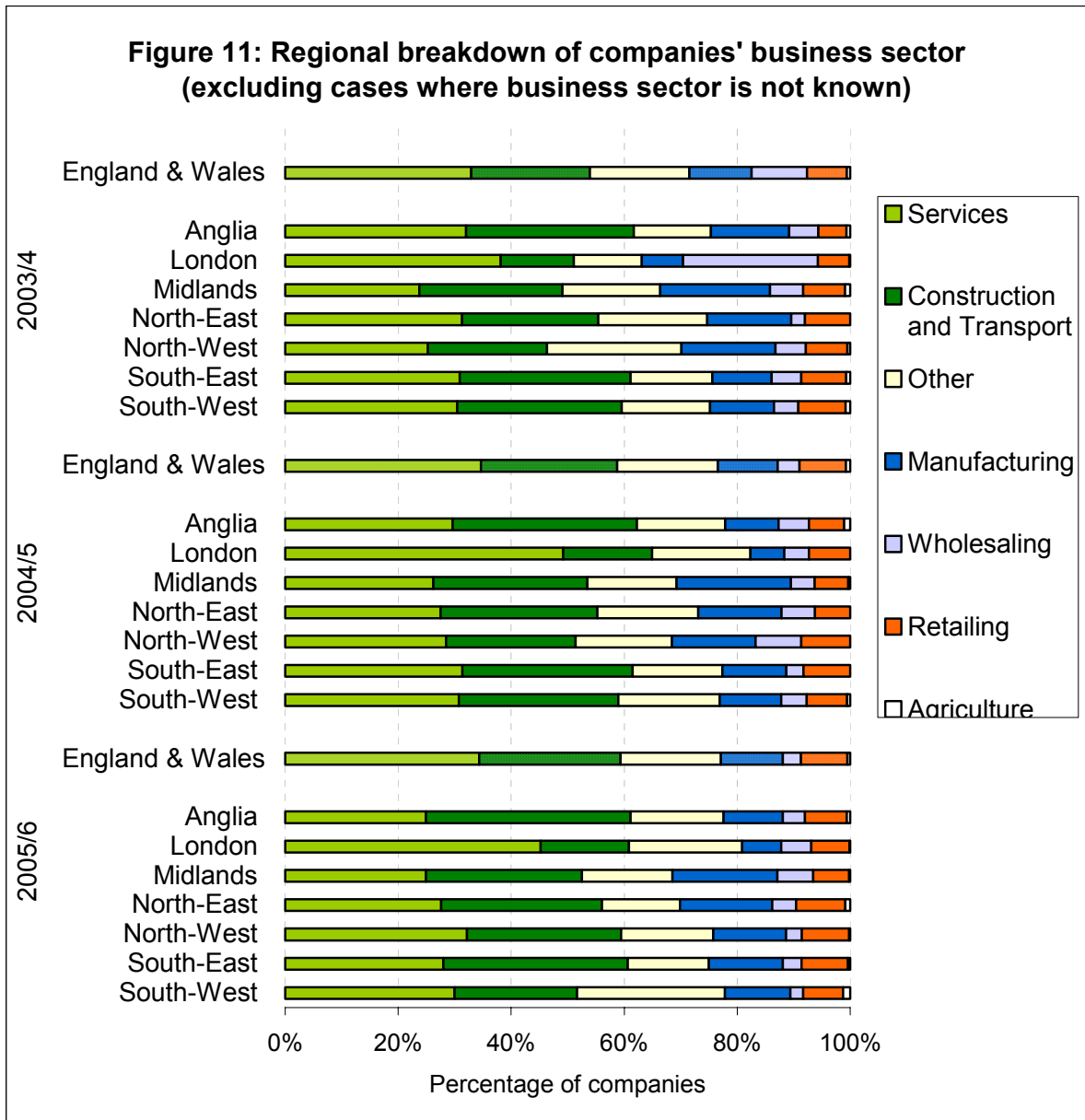
3.1 Petitioner type

- Regional petitioner information is based on the results of the reports to creditors sampling exercise.
- In all regions, the Crown was the petitioner in the largest proportion of cases (see Figure 10).
- The London region had the lowest proportion of companies where the Crown was the petitioner in both years (see Figure 10).
- It should be noted that all cases where the Secretary of State is petitioner are dealt with by The Insolvency Service's Public Interest Unit (PIU). In 2003/4, PIU was located in the London region, and in 2004/5 a further PIU office was opened in the North-West region. This explains the regional distribution of cases where the Secretary of State was petitioner (see Figure 10).



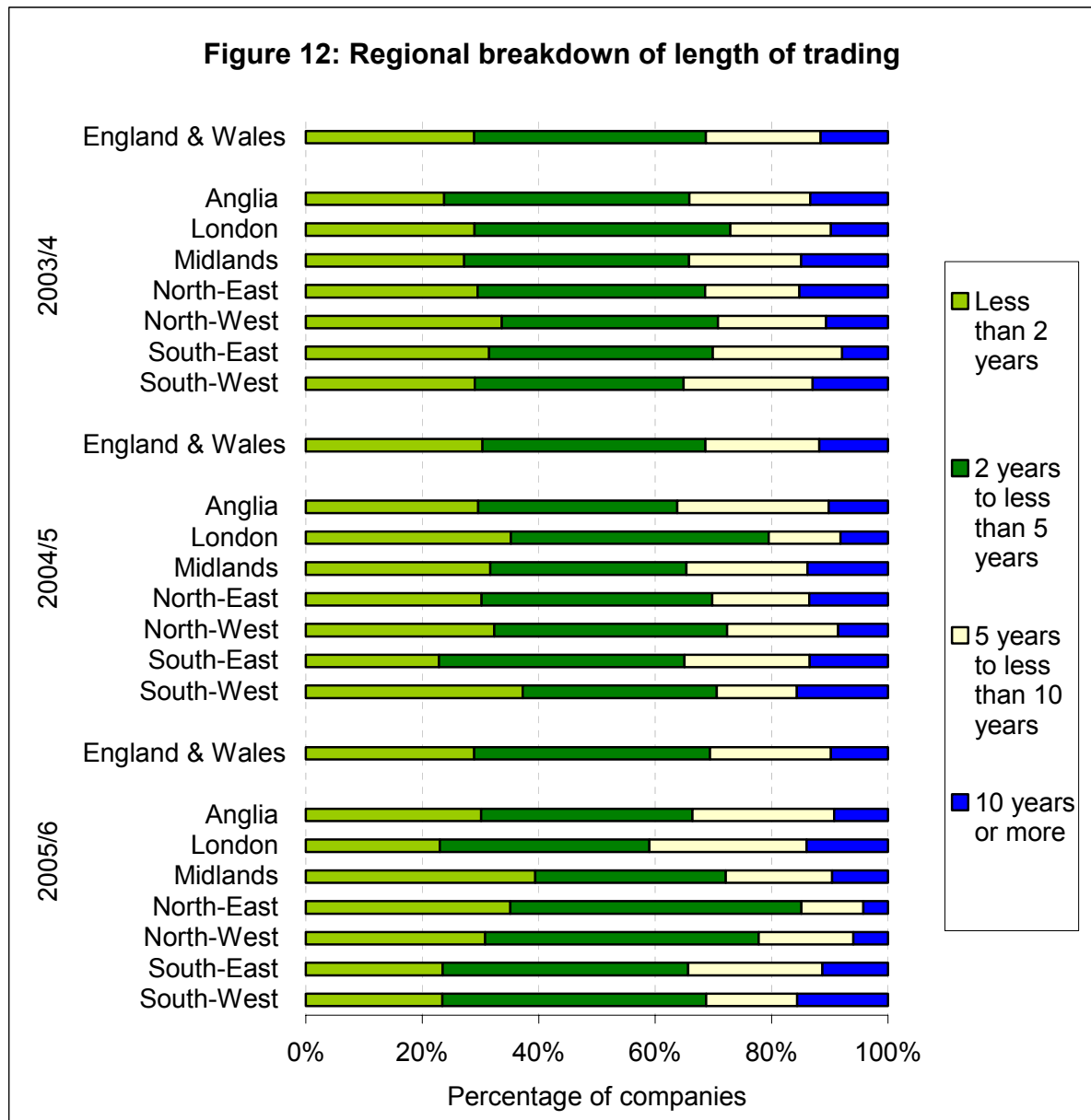
3.2 Trade type

- The London region had the highest proportion of companies in the services business sector throughout the study period. Conversely, the London region had the lowest proportion of companies in the construction and transport and manufacturing business sectors throughout the study period (see Figure 11).
- The Midlands region had the highest proportion of companies in the manufacturing business sector throughout the study period (see Figure 11).



3.3 Length of trading

- Information on the length of trading is only available for about one fifth of cases across England and Wales as a whole.
- The London region had the largest proportion of companies that had traded for less than 5 years in 2003/4 and 2004/5, and then the smallest proportion of companies that had traded for less than 5 years in 2005/6 (see Figure 12).



3.4 Assets

- In 2003/4, the London and North-East Region have particularly high regional asset averages, which will be due to a limited number of cases with exceptionally high assets recorded¹³ (see Table 6).

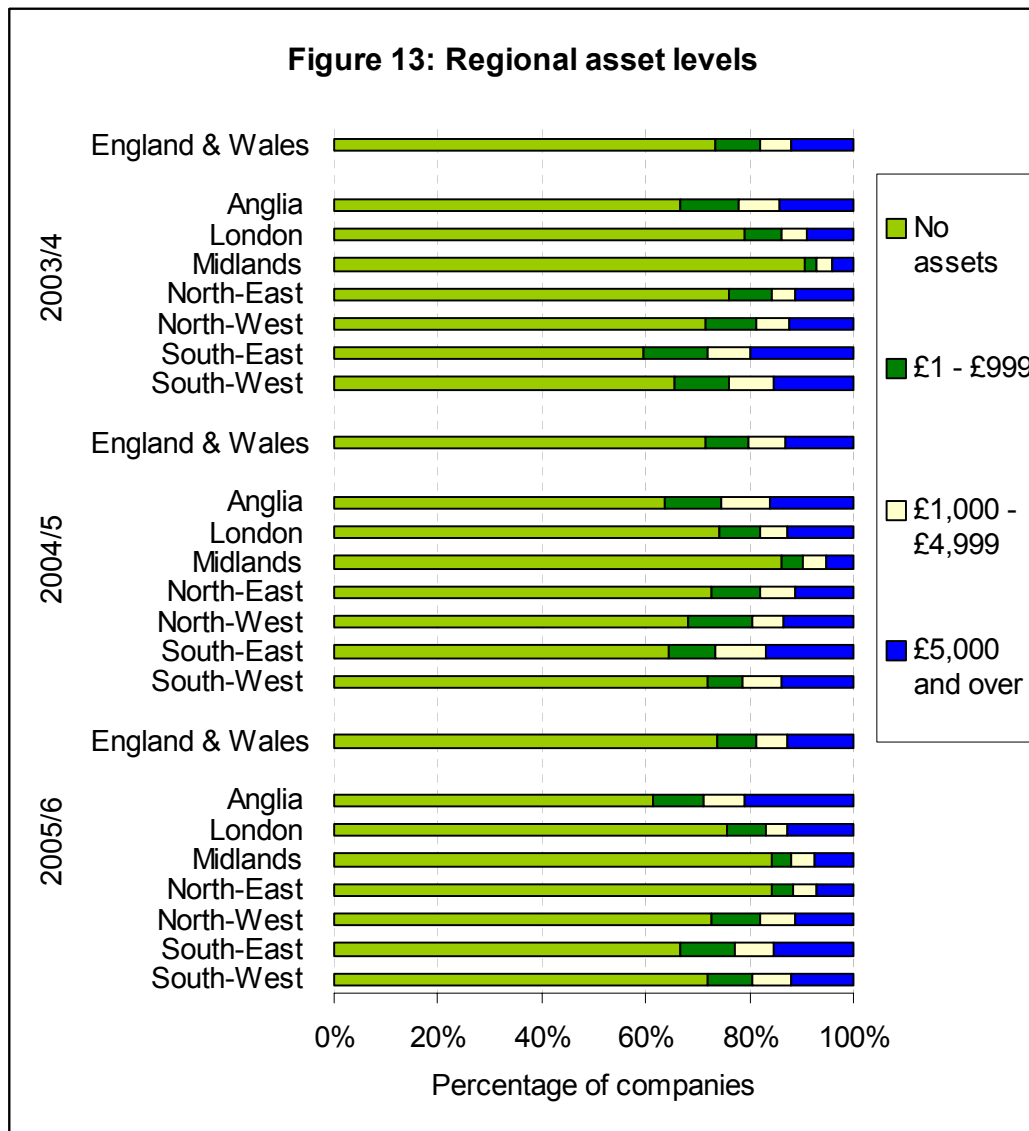
Table 6: Regional average asset values

	2003/4	2004/5	2005/6
Anglia Region	£9,790	£10,080	£17,778
London Region	£120,204	£17,183	£13,054
Midlands Region	£1,890	£4,035	£4,806
North East Region	£133,896	£2,846	£3,431
North West Region	£10,237	£30,159	£6,418
South East Region	£13,978	£25,879	£9,831
South West Region	£9,666	£13,188	£12,051
England & Wales	£57,949	£15,763	£10,314

¹³ Due to limitations in the data availability, it has not been possible to exclude unusually high asset values recorded, or to calculate additional summary statistics.

3.4 Assets (continued)

- The Midlands region had the largest proportion of companies with no assets throughout the study period (see Figure 13).
- The Anglia and South-East regions had the lowest proportion of companies with no assets throughout the study period, along with the South-West region in 2003/4 (see Figure 13).



3.5 Liabilities

- The London region had the highest average debt levels, both including and excluding companies with debts over £10 million (see Tables 7 and 8).

Table 7: Regional average debt levels including companies with liabilities of over £10 million

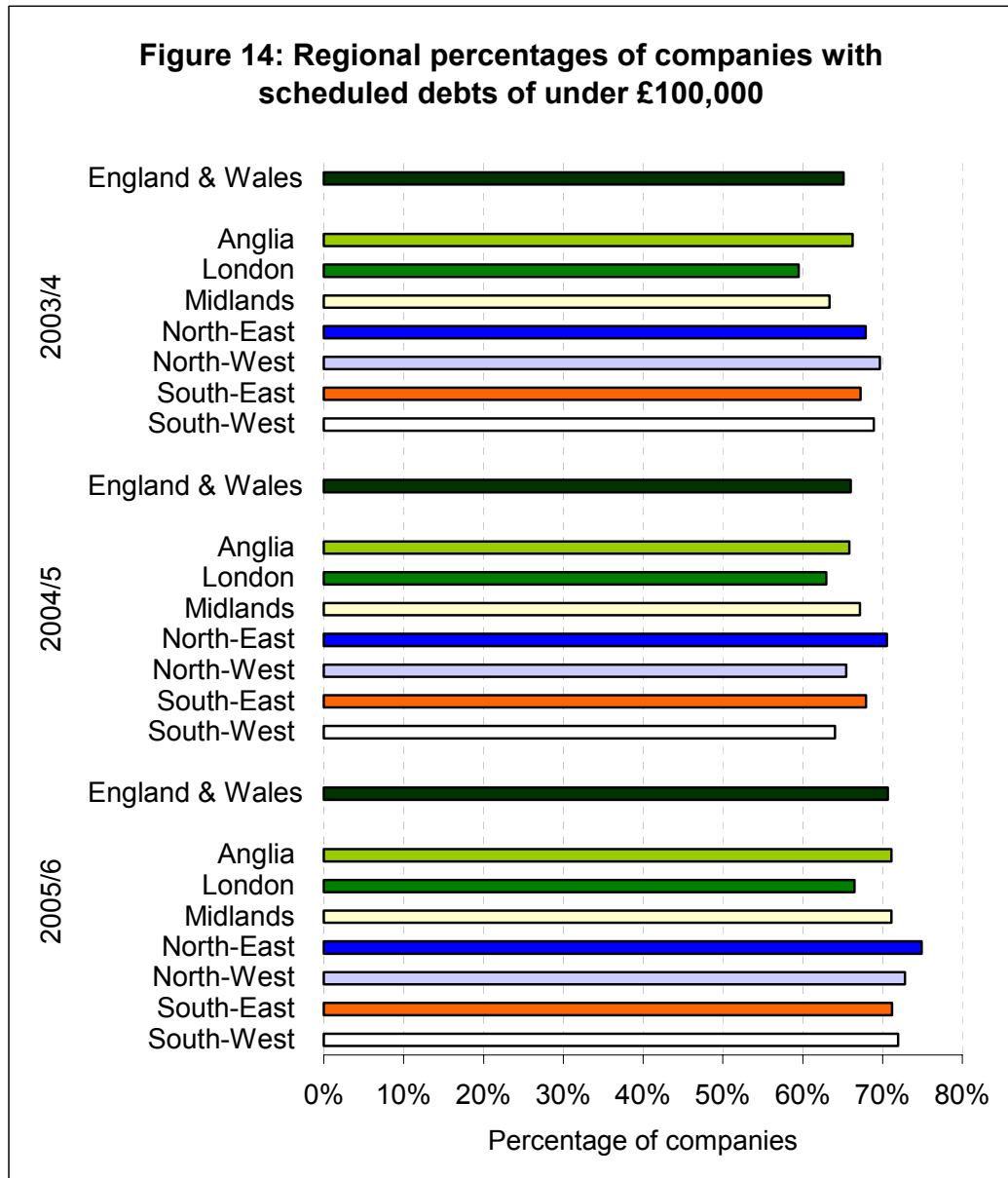
	2003/4	2004/5	2005/6
Anglia Region	£190,118	£158,733	£219,236
London Region	£793,255	£743,129	£575,179
Midlands Region	£225,870	£234,123	£172,946
North East Region	£187,621	£411,642	£94,325
North West Region	£170,574	£208,803	£165,854
South East Region	£171,099	£154,404	£157,765
South West Region	£162,337	£695,040	£110,026
England & Wales	£350,849	£405,042	£264,612

Table 8: Regional average debt levels excluding companies with liabilities of over £10 million

	2003/4	2004/5	2005/6
Anglia Region	£148,126	£158,733	£124,900
London Region	£363,865	£290,915	£308,827
Midlands Region	£156,638	£158,601	£132,164
North East Region	£187,621	£177,677	£94,325
North West Region	£170,574	£168,798	£147,571
South East Region	£140,232	£154,404	£120,438
South West Region	£162,337	£176,484	£110,026
England & Wales	£215,099	£196,249	£170,046

3.5 Liabilities (continued)

- The London region had the lowest proportion of companies with debts of under £100,000 throughout the study period (see Figure 14), which is consistent with it having the highest average debt level throughout the study period.



3.5 Liabilities (continued)

- The London region had the largest proportion of companies with 10 or less creditors throughout the study period (see Figure 15).
- The South-East region had the smallest proportion of companies with 10 or less creditors throughout the study period (see Figure 15).

