



The Value of the Insolvency Industry

Prepared by ComRes on behalf of R3

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INTRODUCTION

R3 commissioned ComRes to conduct research to replicate the Value of the Insolvency Industry report produced by ComRes in 2010.

This report addresses the state of the industry and the practice as a whole in the UK. Using up-to-date data on the economic contribution of the industry; the number of insolvencies and IPs; and detailed research among IPs through the ComRes R3 Membership Survey, we have addressed each of the key factors in identifying the value of the insolvency industry.

METHODOLOGY

ComRes interviewed 429 insolvency practitioners across the UK, all of whom are members of R3. The interviews were conducted online between 12th December 2012 and 22nd January 2013 as part of the R3 quarterly membership survey. The results have been used to extrapolate and model all IPs in the UK.

In particular, part of the survey addressed the detail of the nature of the last five corporate insolvency cases that respondents had worked on. These cases have been used to model the state of UK businesses which have gone through insolvency procedures. Combined with analysis using data from the Office of National Statistics and the Insolvency Service, this allows us to calculate the value of the insolvency industry through its multifarious contributions to the wider economy.

Where this report references the ONS, this data is from 2010, which is the most up-to-date data available.



EXECUTIVE SUMMARY

The Industry

The number of insolvency cases in 2012 is estimated to be 22,590, a decrease of 11% from 2009 (25,432). In summary, in 2012 the UK insolvency industry is calculated on –

- Being responsible for rescuing approximately 6,100 businesses;
- Helping to save around three quarters of a million jobs (estimated at 761,000) in companies going through insolvency;
- Providing assistance to businesses with a combined turnover of an estimated £270 billion;
- Employing approximately 11,000 people across the UK in 2010.

Using the most recent figures available, we calculate that in 2010, the UK's insolvency industry made an estimated direct contribution estimated of £580 million to the national GDP, in addition to an indirect contribution of an estimated £159 million.

Combining both the direct and indirect contribution, the total financial contribution in 2010 is estimated to be **£739 million**.

SECTION A: INSOLVENCY PRACTICE IN THE UK

1.1 INDUSTRY CONTRIBUTION TO GDP

In order to identify both the direct and indirect contribution of the insolvency industry ComRes examined the ONS Input-Output tables from 2010. The insolvency industry falls into the category 'accounting, bookkeeping and auditing activities; tax consultancy'. ONS data relating to the insolvency service specifically is no longer available. Therefore we have used the same model that was used in the last "Value of the Industry" survey - the insolvency industry has been modelled on 4% of the 'accountancy services' sector in terms of employee number estimations.

DIRECT CONTRIBUTION

The gross value added of the insolvency industry to the UK economy was £580 million in 2010. The figures are derived from the 2010 ONS Annual Business Inquiry, and have been compared to figures from 2008 and 2009.

The figures for the gross value added figures, sourced from the ONS, give the direct financial contribution of each business sector in the UK. Since the insolvency industry makes up 4% of the accountancy services sector, the estimate is derived from this.

£m	All accountancy services	Estimate for insolvency practitioners
Approximate Gross value added at basic prices - 2008	14,047	562
Approximate Gross value added at basic prices -2009	14,465	579
Approximate Gross value added at basic prices - 2010	14,490	580

Figure 1.1: Direct Contribution (Gross Value Added)

(Source: ONS Annual Business Inquiry)

INDIRECT CONTRIBUTION

UPSTREAM PURCHASES

The indirect contribution of the insolvency industry is made up of the upstream effect of the sector buying goods and services from other industries, as well as the contribution to the economy of employees in the sector. The upstream effect is defined as the financial contribution that companies in the sector make to the economy by purchasing goods and services from other sectors. For example, buying consultancy services or IT supplies from other sectors would be included in the upstream effect.

The total upstream effect for the 'accountancy services sector' in 2010 was £3,964,000,000, a figure taken from the 2010 ONS Input-Output tables. Based on the assumption that the insolvency industry is 4% of accounting services, we can estimate the intermediate consumption of the insolvency industry to be **£159 million**.

Total intermediate consumption at purchasers' prices (£m)	Year
4430 = for Accounting, bookkeeping and auditing activities; tax consultancy 4% of this is 177	2007
4179 = for Accounting, bookkeeping and auditing activities; tax consultancy 4% of this is 167	2008
4040 = for Accounting, bookkeeping and auditing activities; tax consultancy 4% of this is 162.	2009
3964 = for Accounting, bookkeeping and auditing activities; tax consultancy 4% of this is 159.	2010

Figure 1.2: Upstream purchases
(Source: ONS Input-Output Tables 2007 - 2010)

A breakdown of the top ten areas where this money is spent is provided below, and has been compared to the figures from 2007, 2008 and 2009.

	2007		2008		2009		2010	
	Accountancy services (£m)	Insolvency industry (£m)	Accountancy services (£m)	Insolvency industry (£m)	Accountancy services (£m)	Insolvency industry (£m)	Accountancy services (£m)	Insolvency industry (£m)
Legal services	450	18	414	17	395	16	417	17
Education services	417	17	383	15	384	15	384	15
Computer programming, consultancy and related services	372	15	339	14	332	13	336	13
Architectural and engineering services; technical testing and analysis services	339	14	312	12	301	12	307	12
Ancillary transport services*	302	12	288	12	276	11	262	10
Accounting, bookkeeping and auditing services; tax consulting services	258	10	232	9	199	8	209	8
Postal and courier services	207	8	191	8	188	8	192	8
Telecommunications services	189	8	168	7	155	6	166	7
Financial services, except insurance and pension funding	284	11	381	15	373	15	158	6
Office administrative, office support and other business support services	95	4	88	4	81	3	103	4

*This includes land transport services and transport services via pipelines, rail transport services, water transport services, air transport services and warehousing and support services for transportation

Figure 1.3: Breakdown of insolvency industry upstream purchases
(Source: ONS Input-Output Tables 2007 - 2010)

In addition, the figures for the insolvency industry's supply of services are given below. The supply of services is the financial contribution in terms of the industry's output of services; the industry's input of services and the tax contribution.

	2008		2009		2010	
	Accountancy services	Insolvency industry (assuming 4%)	Accountancy services	Insolvency industry (assuming 4%)	Accountancy services	Insolvency industry (assuming 4%)
Total domestic output of products at basic prices	12,136	485	11,630	465	12,172	487
Imports of services	428	17	424	17	409	16
Taxes less subsidies on products	270	11	228	9	266	11
Total supply of products at purchasers' prices	12,834	513	12,282	491	12,847	514

Figure 1.4: Supply of services and outputs from the insolvency industry
 (Source: ONS Input-Output Tables 2008, 2009, 2010)



1.2 NUMBER OF JOBS FOR WHICH THE INDUSTRY ACCOUNTS

ComRes has obtained the most up-to-date information available from the ONS Annual Business Inquiry on the turnover and employment for all businesses in the 'accounting services' sector. Based on the model that the insolvency industry makes up 4% of the 'accounting services' sector, the industry accounts for approximately 11,000 jobs in the UK, an increase from approximately 10,000 from the previous "Value of the Industry" report in 2009.

The ONS Annual Business Inquiry states that in 2010 there were approximately 275,000 people employed in the 'accounting services' sector. Given that the insolvency industry makes up 4% of accounting services, the approximate figure of people who are employed in the insolvency industry is 11,000.

	2008		2009		2010	
	Total turnover (£million)	Total in employment - point in time (Thousand)	Total turnover (£million)	Total in employment - point in time (Thousand)	Total turnover (£million)	Total in employment - point in time (Thousand)
Accounting, bookkeeping and auditing activities; tax consultancy	17,845	241	18,368	257	19,447	275
Insolvency Practitioners (at 4%)	714	10	735	10	778	11

Figure 1.5: Employment in the insolvency industry
(Source: ONS Annual Business Inquiry 2008, 2009 and 2010)

SECTION B: INSOLVENT BUSINESSES IN THE LAST YEAR

2.1 OVERVIEW

According to the Insolvency Service, the total number of IPs authorised as of 1st January 2012 was 1,784 (this includes all those authorised by the Secretary of State and RPBs).

During 2012, it is estimated that there were 22,590 insolvency cases, broken down in the table below.

	England and Wales	Scotland	Northern Ireland
Company liquidations – Compulsory liquidations	4,243	926	253
Company liquidations – Creditors’ Voluntary Liquidations	11,895	273	158
Receivership appointments	1,222	31	N/A*
In administration	2,532	193	N/A*
Company voluntary appointments	839	25	N/A*
Total	20,731	1,448	411

*Information not provided by the Insolvency Service.

Figure 2.1: Number of insolvency cases in 2012

(Source: Insolvency Service)

Total number of business insolvency cases in the UK.

2006	2009	2012
17,819	25,432	22,590

The total number of insolvency cases in 2012 is estimated to be 22,590, an 11% decrease from 2009 (25,432).



2.2 JOBS SAVED

The number of insolvency cases in 2012 is estimated to be 22,590. The survey of R3 members identified the last five business cases that were dealt with by IPs. In each case respondents identified the number of people individual businesses employed before and after the procedure.

R3 members provided details for 570 business cases for those which went through formal insolvency procedures. In total, R3 members say that on average they saved 33.69 jobs per business case, therefore cumulatively saving around 19,200 jobs. Modelling this data for all insolvency cases, the estimated number of jobs saved in 2012 was around **761,000**.

2.3 COMBINED TURNOVER OF BUSINESSES TO WHICH IPS PROVIDE ASSISTANCE

The combined turnover of businesses to which IPs provide formal insolvency assistance is equal to the average turnover of businesses that have gone through formal insolvency, multiplied by the actual number of business failures.

In the membership survey, details were given for 425 businesses that had been through insolvency procedures and who have data available for the turnover of the business. In each case respondents were asked to give details of the turnover of the business that they advised, rounding up any approximations to the nearest £500,000. Based on this, the average turnover of a business from the survey that has gone through an insolvency procedure is **£11,983,000**.

Extrapolating this data for all businesses that have gone through insolvency procedures and rescues, the combined turnover of businesses to which IPs provide assistance in the UK is **£270 billion**. This compares to £336 billion in the previous “Value of the Industry” report, and £132 billion in the 2007 CEBR report.



2.4 HOW MANY BUSINESSES WERE SAVED THROUGH RESCUE PROCEDURES IN THE LAST YEAR?

In total, according to the most up-to-date figures from the Insolvency Service, there were 22,590 business failures in the UK in 2012. Using the R3 membership survey, 640 business case details were provided regarding the outcome of the formal insolvency procedure, of which 467 companies were said to have closed entirely. As such we can assume that there were 173 businesses rescued in the last year. This figure (173) is 27% of the total number of number case details provided (640). This figure does include 15 (2%) for which the situation was still on-going or unresolved at the time of the survey.

If we assume that the 640 business cases provided are representative of all business failures in the UK, we can model the business rescues for all UK business failures. Of the business failures identified in the survey, 27% were rescued, which, when extrapolated to all business failures in the UK, equals approximately 6,100 business cases. There were, therefore, at least an estimated **6,100 business rescues** in the UK in the last year.



SECTION C: ADDITIONAL COMPANY AND IP INFORMATION

3.1 COMPANIES' INSOLVENCY RELATED TURNOVER

All R3 members, who either work in personal insolvency only, corporate insolvency only, or in both corporate and personal insolvency were asked approximately what their company's insolvency related turnover was for the last financial year.

The average insolvency related turnover is reported to be approximately £20,250,000.

3.2 NUMBER OF BUSINESS THAT IPS ADVISE

Based on the R3 membership survey, respondents say that on average they advise 53 businesses a year. Given that, according to Insolvency Service figures¹, there are 1,784 registered insolvency practitioners in the UK, and assuming that the R3 membership survey is representative of all IPs in the UK, we can estimate that IPs advise almost **95,000 businesses** each year (94,552).

R3 members also estimated roughly what proportion of the business that they advise close at the end of the insolvency procedure. R3 members say that on average **55% of business** they advise close at the end of the procedure.

Given that IPs advise approximately 95,000 businesses each year, we can estimate that **52,000 businesses close at the end of the procedure**, while around 43,000 continue in some form.

¹ Insolvency Service website: <http://www.official-documents.gov.uk/document/hc1213/hc03/0358/0358.pdf>