UK: Leicester garment factory bosses banned from running businesses for more than 400 years

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Insolvency Service data shows more than 50 people banned in cases costing HMRC millions

Directors of clothing manufacturers in Leicester have been struck off for a combined total of more than 400 years in cases costing HMRC millions, data shared with the Guardian reveals.

Details of disqualified directors in Leicester provided by the Insolvency Service show that more than 50 people with links to the city's textiles industry are currently banned from running companies for between three and 14 years.

They represent about 40% of all disqualified directors linked to companies listed on Companies House as headquartered in Leicester, suggesting that clothing manufacturers are hugely overrepresented against the city's business community as a whole. Just over 1,000 of the 38,393 active companies registered in Leicester are listed as manufacturers of textiles or wearing apparel, or about 2.5%.

Leicester's textiles factories have faced heavy scrutiny since the city became the first in the UK to face a second lockdown. One factor linked to the spread of coronavirus was a lack of social distancing measures in some of the hundreds of factories and workshops in Leicester's garment district, where companies are also accused of failing to pay workers the minimum wage.

The fast fashion firm Boohoo has also been heavily criticised over its oversight of its supply chain in Leicester. Last week the Guardian revealed that 18 Boohoo suppliers had failed to prove they paid workers the minimum wage, and industry sources said they were aware of similar audits on dozens more firms.

The new disclosures suggest minimum-wage issues in Leicester go alongside a range of other problems in factories there, including employer tax violations and allegations of so-called "phoenixing" – when a company goes bust owing significant sums in tax, only to reopen under a different name soon afterwards.

HMRC said it made 25 investigations into textile firms' VAT affairs in 2018-19 and recovered more than £2m in tax.

Neil Williams, a legal director at the law firm Rahman Ravelli who has worked on serious tax fraud cases, said the figures "certainly seemed on the face of it to be disproportionate. A concentration to that level suggests that something's going on. A lot of it will be about the fact that many of the workers in these companies will not be on HMRC's radar, and that can mean PAYE fraud."

The Guardian understands that a dossier of public records on clothing businesses' financial affairs has been submitted by industry experts to the National Crime Agency, which has been ordered by Priti Patel, the home secretary, to examine allegations of modern slavery in the city.

Andrew Bridgen, the MP for North West Leicestershire who has campaigned on factory conditions in Leicester and described the garment industry there as "the wild west", said the activities of such companies were putting legitimate competitors out of business.

"Many of those who have been struck off will continue to act as shadow directors," said Bridgen, a former regional chairman of the Institute of Directors. He called on HMRC to focus attention on the problem. "The regulators need to concentrate on areas of concern, and clearly what's going on in Leicester is an area of concern. They need to risk-assess these businesses and sectors and concentrate their resources where there are obvious problems."

While a director may be struck off over tax issues, they are not barred from owning a company if others manage it. There are fears that in some cases, banned directors may continue to play an active role in running the new companies, simply installing a new director to sign documents and be the public face of the business. Several of the struck-off directors are now "persons of significant control" in companies created after their previous businesses went into liquidation.

When HMRC finds that a former director acts in breach of a disqualification order or undertaking, it may seek to make them personally liable for any tax debts accrued while disqualified. They may ultimately face criminal investigation and a prison sentence of up to two years.

The reasons for disqualifications were not available in all of the cases examined by the Guardian, but in 21 of the 28 files where the basis for disqualification was provided, it related to tax fraud, inadequate tax returns, inadequate accounting records or trading to the detriment of HMRC – an umbrella term for cases where other creditors, including directors, have been paid but the tax authority has not.

While only limited information was available on the tax liabilities owed when the companies in question went bust, significant sums were owed to HMRC in some of those where information was provided.

In one case, a director was struck off for eight years after his company went into liquidation owing £848,214. In another, a director was struck off for seven years when he failed to submit VAT returns and his company went bust owing £739,232.27. A third director who "failed to preserve or deliver up adequate accounting records" took his company into liquidation owing £491,799.37 in tax. The nine companies where figures were available went bust owing a total of £3.5m – an average of £389,000.

Williams said HMRC was often the main debtor in phoenixing cases. "HMRC will be looking for shadow directors, family members, or patsies paid to sign documents with no accessing to banking, essentially – but [the former directors] will remain the controlling minds. It's hard for HMRC to prove without an investigative capacity: where there's a closed shop factory, it's very hard to gather that information."

Frances Coulson, the head of insolvency and litigation at Moon Beever solicitors and deputy chair of the Fraud Advisory Panel, said such activity in the clothing industry was nothing new. She said HMRC needed to do more to allow creditors to appoint independent liquidators to investigate insolvent businesses. "You can disrupt these activities and recover funds if you appoint a liquidator," she said. "People should be prosecuted, but that takes a long time and a lot of money. You can do both."

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