# Company Voluntary Arrangement
# Case Study 2

**New Thinking. Leading.**

We were recently approached by a local company that was on the verge of receiving a winding up order from HMRC. In the initial meeting, we identified that the company had struggled during the economic downturn due to a large reduction of work but, as the directors always looked at the pipeline optimistically, staff numbers were not reduced at all. Both profit and reserves had been exhausted and the company had fallen into arrears with creditors (around £70k to suppliers, £80k to HMRC and a £50k bank overdraft).

The overdraft reached its limit each month when wages were paid, a few suppliers had put the company on stop, and the company was paying HMRC £6,000 per month that it could no longer afford, however HMRC were threatening the business with winding up proceedings if the payments stopped and so it was imperative that action was taken quickly to protect the business.

Jamie Playford, Licensed Insolvency Practitioner, conducted a full review of the company's financial position, including the assets and liabilities, the recent trading performance and also the future work pipeline. This review showed that although a number of new contracts had recently been won, these were not yet having any significant impact on the overall profit and, in fact, due to very generous terms offered by the company in order to win the work, the new contracts were actually hampering the cash flow even further.

It was established that the future order book was very promising and the directors were keen to keep the business trading. There were also personal guarantees provided by the directors to the bank, which they were keen not to see called in.

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Having discussed the financials with the directors, we were able to suggest a number of changes that would make an immediate impact on profitability and cash flow and, as the future of the business looked viable, a Company Voluntary Arrangement (CVA) was proposed over a three year period, with the company paying £2,500 per month, which the directors were confident was affordable. This was projected to pay creditors around 40 pence in the pound on their debts.

We opened discussions with major stakeholders, including the bank and HMRC, and also kept employees and suppliers informed to provide reassurance that the company would continue to trade.

The bank was generally supportive, although the overdraft needed to be refinanced and so we introduced the company to a specialist commercial finance broker, who was able to raise funds against some of the company's assets in order to replace the overdraft and prevent the personal guarantees being called in. This was implemented and funds drawn down within ten days.

Within four weeks of the initial meeting with the client, we had convened and held the creditors meeting and gained the creditors' approval for the CVA. The company was able to continue trading and the exercise has highlighted the problems with low-margin contracts and weak credit control. As a result, the company has been able to increase profitability and cash in a short space of time.

To date the company has met its obligations under the CVA and the directors are thrilled with the resulting restructure, as it enabled them to continue trading with an improved cash flow and no distractions that creditor pressure causes. Once the term of the CVA has concluded, the outstanding balance that is due to creditors will be written off. To find out how we can help to rescue your business, contact our team today.