

# Invaluable information for Accountants and Directors on the CVA experience

**M**any Directors with a struggling business may, after taking professional advice, choose a CVA which allows the business to pay its debts off over a period of time, whilst turning the business around. Having successfully managed a wide range of CVAs ICS have asked Directors operating a business with a CVA how they found the process.

The results are very insightful and helpful to accountants providing advice, and Directors who are either in a CVA or deciding between a CVA and other options; including a pre-pack, a sale of the business or paying off creditors using external funding.

## Managing suppliers:

“ I expected it to be hard negotiating with existing suppliers who we owe money to; however it's also been more difficult than I realised to get the best or even 'on a par' terms with new suppliers. This hits our pocket through higher prices and our cash flow due to shorter or sometimes even advanced payment terms; its tough. ”

Understanding the potential impact on supply and planning how to manage this is crucial to the success of many CVAs. Most Directors expected relationships with supplier's to be harder but the majority didn't consider the effect on new supplier relationships. Identifying who your most important suppliers are and thinking about ways you can rebuild the business relationship or prove your new credit worthiness is vital. Advanced payments, shorter terms, exclusive supply agreements and longer lead-times can all help.

## Job cuts & restructuring:

“ We've had to make significant cuts and change the way we operate, this has been hard, letting some people go because we need to make the business even more profitable to start paying back debts. I initially thought the CVA meant we wouldn't need to do this but it has just delayed the inevitable. ”

Depending on the causes of insolvency the level of restructuring varies considerably and reducing staff levels is reported as one of the hardest aspects.

## Financial control:

“ Some of the changes we have made as a result of the CVA are really good, our financial control is much better and we've had to make some really tough choices; but I think the business will eventually be more profitable than it was before we got into trouble; it takes lots of hard work from the whole team. ”

Successful CVAs and business turnaround plans all have one thing in common; better financial control. ICS works closely with Accountants to help recovering businesses to implement better financial control. Generally this is done by clients implementing quarterly management accounts and seeking advice earlier from their Accountants to ensure they have a clear view of their profitability.

## Still struggling:

“ Soon after the CVA began, I knew we were struggling again. I didn't know what to do and I was unsure about talking to the Supervisor of the CVA so eventually I spoke to my Accountant. ”

A common problem is when businesses with a CVA don't make significant changes and soon run into the same problems that got them into the situation in the first place. Successful CVAs need thorough planning from the client and this ideally involves working closely with an Accountant.

## The right thing to do:

“ A CVA felt like the 'right thing' to do at the time but its lots of hard work for very little reward and uncertainty remains everyday. ”

Andrew Rosler, Insolvency Practitioner and MD of ICS said “One of the hardest realisations for many clients operating a business in a CVA is that whilst they are trying so hard to do the right thing this isn't acknowledged by aggrieved creditors, which means they essentially have an extended difficult trading period which might last 3 – 5 years”. Understanding the plan for recovery and checking progress can help disheartened Management teams to keep going.

## Dividend restriction tough for Directors:

“ The restriction on company dividend has made a massive difference to the Directors. The extra cost and tax implications are significant and initially we didn't realise how much this could reduce our incomes. When you are trying to transform a struggling business, all of your costs are higher so its more difficult than before and at the end of the day, the return for their income is so much less than it was. ”

Most Directors of SMEs will receive a dividend payment which makes up a large proportion of their take home income whilst operating within a CVA, dividends are not payable as creditors must be paid first and in full before any dividends. This increases costs significantly for the business and many Directors end up working in their businesses for a much lower personal income. Calculating new salaries and tax liabilities is recommended so Directors fully understand the options available to them.

## Proper consideration:

“On reflection I don't think I fully considered the alternatives presented to me because a CVA felt like the 'right thing to do'. We eventually came out of the CVA and with hindsight it just cost us a lot of time, money and heartache. Through working with our Accountant and Insolvency Practitioner we managed to find external finance to get out of the CVA. I realise we were fortunate and whilst we still have debts we aren't trading with the CVA restrictions which were stopping our business from getting anywhere. This finance arrangement has made a huge difference to us, the business, our supplier relationships, price competitiveness, management motivation and more.”

The majority of Directors operating a CVA don't realise that they still have alternative options available to them. They feel stuck however if they seek advice from their Accountant and a Licensed Insolvency Practitioner they can carefully consider their options again.

## Staff retention:

“I'm fortunate some of my best employees have stayed. However, had the economy been better when we went into a CVA I think I would have lost more good people which would have made everything more difficult.”

Employees are generally very concerned if the company they work for goes through a CVA as they are worried about job security, this means staff can start looking for new employment and can cause concern for Directors trying to turn the company around. Therefore working on staff morale and retention is important.

## Failure was the only option:

“We tried to work with the CVA Supervisor to turn things around but it was too difficult and we seemed to have no control; so we eventually spoke to our Accountant and then a different Insolvency Practitioner. We went through all our options again and fully assessed all the pros and cons of staying in the CVA, obtaining external finance, the possibility of a pre-pack sale and closing the business; the experience of the CVA had opened our eyes and we chose to liquidate the company.”

Whilst operating a CVA Directors still have alternative options; seeking independent advice, generally from an Accountant in the first instance and then a licensed Insolvency Practitioner is important for business owners to carefully consider alternatives.

To find out more  
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## Conclusion

When considering a CVA and other options, making decisions devoid of emotion and morality is important. Doing something “because it feels right” might not actually result in paying as much back to creditors as other alternative options. Considering all the options is just the starting point; ensuring a real understanding of how each option affects individuals and working out the potential impact of key issues, such as Directors pay, is vital.

Also of significance is the number of businesses that may be struggling in a CVA. In this situation, it is important that the Directors and their Accountants have a good knowledge of the range of options available to companies.

Are you an Accountant with a client struggling in a CVA or a business owner considering your options?

ICS provide a full range of insolvency solutions, we work closely with Accountants and Directors to ensure full consideration of all solutions, including external funding. We have successfully helped businesses at each stage of the process; whether it's just considering options or those that have already started a CVA.



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