

# FINANCIAL 'FIRE FIGHTING'

**SO WHAT DO YOU DO IF YOU CANNOT RAISE FINANCE** to ease severe cashflow problems?

Don't panic says Mark Smillie of Middleton Partners, there are still options available



**T**imes are hard for business, and companies may find themselves facing a range of financial difficulties, in particular when it comes to raising additional finance.

Most company directors, quite understandably, are very concerned about the stigma of a possible insolvency. They are often particularly worried about letting their family, staff, and suppliers down and about the personal embarrassment from within their

trade or word getting out to their friends. It is for this reason, and their belief that no-one else can help, that they tend to leave seeking advice until very late in the day.

If your company is experiencing severe cashflow problems or you think it will be facing problems in the near future and you cannot raise sufficient finance, you need to seek professional advice. A good firm of licensed Insolvency Practitioners should not charge you for an initial meeting and will quickly be able to tell you the best way to help save your business from insolvency.

One possible solution is a Company Voluntary Arrangement ("CVA"). This is particularly suitable for a company that has had a problem which has now been resolved and although the company is once again trading profitably, it is being strangled by debt. In essence a CVA allows a company with cashflow problems to repay its unsecured liabilities (including the Inland Revenue and H M Customs & Excise), by entering into a binding agreement with its

creditors detailing how its debts and liabilities will be dealt with. The basis of a CVA is to repay what the company can afford - which can result in either a part or a full payment to creditors - over a fairly long period of time, usually 2 - 4 years. Typically, once the company's liability has been restructured, any monies generated or owed to the company (e.g. book debts and work in progress) can be used as working capital rather than to pay its old debts.

A company with cashflow problems will be juggling every cheque it receives in an effort to stay within its overdraft limit, pay its creditors, maintain supply, and on top of all this pay overheads and salaries. In a CVA, however, current income and debtors' payments can be used to take the company forward, whilst maintaining monthly repayments of old liabilities. This type of arrangement can provide a large injection of free and available new working capital. Companies will also feel that the "air of gloom has been lifted from the entire workplace".

The key advantage of a CVA is that the directors are free to continue to run their business, the employees keep their jobs, and creditors will be in a better position than if the company had gone into liquidation. **550**