

## Summary: Intervention & Options

Department /Agency:  
**INSOLVENCY SERVICE**

Title:  
**Impact Assessment of Encouraging Company Rescue - a consultation**

Stage: Consultation

Version: 1

Date: 15 June 2009

Related Publications: Consultation document - "Encouraging Company Rescue"

Available to view or download at:

<http://www.insolvency.gov.uk>

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What is the problem under consideration? Why is government intervention necessary?

The problem is the failure of companies which but for an inability to secure 'new' funding at a vital stage might survive. Such company failures precipitate a systemic risk of 'knock on' failures whereby their creditors fail as a consequence of bad or part paid debts, or reduce their operations: shareholders face a similar risk. The economic cost of systemic risk encompasses reduced economic performance & tax revenues, increased job losses & personal debt, and damage to future economic development potential of the market.

Government intervention is necessary to effect legislative change

What are the policy objectives and the intended effects?

Strategic objectives - in summary to enhance the rescue culture, save jobs and produce greater returns for creditors and shareholders.

What policy options have been considered? Please justify any preferred option.

- i) Making no change.
- ii) Considering whether a non-legislative approach would deliver the desired effects.
- iii) Giving those who lend companies post-administration, or post-CVA funds priority over existing creditors for the return of monies.
- iv) Extending the option of a moratorium to large and medium sized companies giving them a "breathing space" in which they can reach legally binding agreements with their creditors thus increasing the likelihood of rescue.

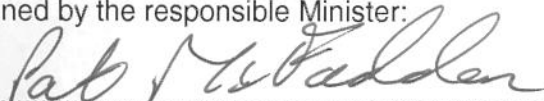
When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

Three years after the implementation of any changes

**Ministerial Sign-off** For consultation stage Impact Assessments:

*I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.*

Signed by the responsible Minister:



Date: 11/06/09

## Summary: Analysis & Evidence

**Policy Option:**

**Description:**

<b>COSTS</b>	<b>ANNUAL COSTS</b>		Description and scale of <b>key monetised costs</b> by 'main affected groups' companies may incur some costs including court fees. Costs are difficult to quantify and consultees views are welcomed on the treatment of costs and benefits.
	<b>One-off</b> (Transition)	<b>Yrs</b>	
	£ 0		
	<b>Average Annual Cost</b> (excluding one-off)		
	£ 125K - 1.25M		<b>Total Cost (PV)</b> £ 125K - 1.25M
Other <b>key non-monetised costs</b> by 'main affected groups' Please let us know if you consider there would be costs that cannot be quantified in monetary terms.			

<b>BENEFITS</b>	<b>ANNUAL BENEFITS</b>		Description and scale of <b>key monetised benefits</b> by 'main affected groups' enhance the rescue culture, safeguarding and securing jobs for employees of companies saved from failure having had the benefit of rescue finance, greater returns for creditors and shareholders. Direct benefits of a shift from administrations to CVAs are estimated as £5M - £86M. Further benefits described in next box.
	<b>One-off</b>	<b>Yrs</b>	
	£ 0		
	<b>Average Annual Benefit</b> (excluding one-off)		
	£ 5M - 86M		<b>Total Benefit (PV)</b> £ 5M - 86M
Other <b>key non-monetised benefits</b> by 'main affected groups' Something in the region of £450M to £8500M might be preserved for the economy by more companies being rescued with positive 'knock on benefits' arising as a consequence of more companies being rescued. Please tell us if you can think of other non-monetised benefits.			

Key Assumptions/Sensitivities/Risks In seeking to establish costs & benefits we have assumed 'starting points' for the quantum of companies that might take advantage of, or be otherwise affected by the proposals . We invite views from consultees on the starting points we have provided.

Price Base Year 2005	Time Period Years 10	<b>Net Benefit Range</b> (NPV) £ ~ 5M - 85M	<b>NET BENEFIT</b> (NPV Best estimate) £ ~ 40M
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What is the geographic coverage of the policy/option?		UK		
On what date will the policy be implemented?		not yet known		
Which organisation(s) will enforce the policy?		enforcement not req.		
What is the total annual cost of enforcement for these organisations?		£ N/A		
Does enforcement comply with Hampton principles?		Yes		
Will implementation go beyond minimum EU requirements?		N/A		
What is the value of the proposed offsetting measure per year?		£ N/A		
What is the value of changes in greenhouse gas emissions?		£ N/A		
Will the proposal have a significant impact on competition?		No		
Annual cost (£-£) per organisation (excluding one-off)	Micro	Small	Medium	Large
Are any of these organisations exempt?	No	No	N/A	N/A

<b>Impact on Admin Burdens Baseline</b> (2005 Prices)				(Increase - Decrease)
Increase of	£ N/A	Decrease of	£ N/A	<b>Net Impact</b> £ N/A

Key: Annual costs and benefits: Constant Prices (Net) Present Value