

Connaught Administration - what does it mean for you?

The administration process

Administration is an insolvency process designed to give an insolvency practitioner, the administrator, time to review the companies' financial position with a view to maximising the position for all creditors.

The administrator is charged with acting in the interests of the creditors as a whole and with achieving one of the following objectives:

- rescuing the company as a going concern, or
- achieving a better realisation for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration), or
- realising the property/assets in order to make a distribution to one or more secured or preferential creditors.

Objective 1 means retaining the existing corporate vehicle and restoring it to solvency under the control of existing or new directors. This is a complex process and rarely achieved.

Objective 2 may involve the sale of all or part of the business to a third party and a distribution of the proceeds in a prescribed order of priorities.

Objective 3 occurs if a sale of the business is not achieved and the assets do not realise sufficient funds to cover the secured and preferential creditors in full.

What does it mean for you

The impact of the administration on you will depend on your trading relationship with the Connaught companies and the strategy adopted by the administrators. The administrators options fall broadly into 3 categories

- an immediate sale of all or part of the business
- continue to trade whilst marketing the business for sale
- cease to trade and closure of the business

The implications of these options for you might be:

Immediate sale

If the administrators have identified an immediate buyer for all or part of the business, known as a pre-pack, this might involve

- the novation of any contract you have with Connaught to a new provider
- a demand for payment of outstanding amounts before further services are provided
- your contract being abandoned as not profitable

Continue to trade the business

If the administrator decides to trade the business whilst a buyer is sought, you may be faced with the following

- request for payment of outstanding debtor balances
- confirmation that set off will not apply to sums due to the administrator
- advance payments to cover the cost of providing your service
- increase in price to be paid for the service
- the novation of any contract you have with Connaught to a new provider when the business is sold
- third parties looking to recover goods from your sites

Closure of the business

If the administrator decides to cease to trade the consequences for you might be

- immediate loss of service
- loss of access to subcontractors providing your service
- removal of proprietary equipment or software from site
- possible increased costs arising from engaging alternate suppliers.

Potential risks to your business

As a result of this administration you should review all your relationships with Connaught to identify any risks that might increase your liabilities as a result of the administration. These risks might include

- assuming responsibility for liabilities of Connaught arising from joint venture or other similar arrangements resulting in your

relationship changing from that of a debtor to a creditor

- an adverse impact on cash resources following an increase in your maintenance costs
- demand for payment from suppliers of Connaught to retain warranties, service contracts or continued supply
- TUPE liability for staff if you engage former Connaught staff on a temporary basis to continue services.

Contact with the administration

As you can imagine the administration team will be taking calls from many stakeholders following their appointment. The administrator's strategy for contacting third parties will depend on their relative importance to the administration process and strategy. It is likely that the order of priority of contracting third parties will be:

- customers that will receive continued service - these may be asked to agree to revised terms, in particular accelerated payments
- customers whose contracts are being abandoned - may receive a short letter or telephone call advising them of this
- trade creditors - will receive a letter from the administrators as soon as practicable advising them of the administration and what it means for them
- creditors with whom the administrators wish to trade - will be contacted to agree terms of trade
- debtors - will be contacted requesting payment of the amounts outstanding.

If you are concerned about how the administrators are going to deal with your organisation then you might consider contacting them as soon as possible. However, before you make contact you should review your business and contracts with Connaught. You might also contact your usual account manager at Connaught to establish what they have been told by the administrators, in particular their proposed strategy. This will enable you to understand your exposure to it and will assist in your negotiations with the administrators who may not have all the facts available to them due to the upheaval that will be going on within Connaught.

How Grant Thornton can help

The insolvency of Connaught may have a significant impact on your business and may consume a

significant amount of management time until the uncertainty is resolved.

We have a team of restructuring professionals who have experience in this sector who can provide you with the advice you need to deal with the consequences of the administration.

Who should I contact for assistance?

If you would like any further assistance, please contact your local office or:

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