Published based on Manage Business Debts With A CVA (Company Voluntary Arrangement)

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In the past, if a business was insolvent and didn't have enough money or assets to pay its debts, there was little alternative to the company going into receivership, or liquidating the business to repay the creditors. However, these days, the government and the banks are keen to try and help companies in trouble, and a Company Voluntary Arrangement may provide a better solution to debt problems, and help more businesses to survive.

A Company Voluntary Arrangement is a formal arrangement between a business and it's creditors. It sets out how the debts are to be repaid, whether in part or in full, and over how long the repayment will take place. Once agreed, there are a number of benefits to a company of having a CVA in place, as long as they stick to the terms of the arrangement.

A Company Voluntary Arrangement allows the company to keep trading, while it is protected from any further action by its creditors to recover the money they are owed. This is the case for as long as the business keeps to the terms of an agreed CVA. CVAs are less expensive, and make debt-repayment easier for a business to manage, than if the company went into Administration or Receivership. Creditors also prefer Company Voluntary Arrangement to possible Liquidation, as they are likely to get more of their money back, even though the business may actually be able to reduce the debt it owes by agreeing a CVA.

A Company Voluntary Arrangement can't come into force, unless it's been agreed by at least 75% of the people who are owed money. Anything less than this means a company in debt will still be under threat of action from creditors in the future. Once three quarters of creditors agree to the arrangement, it binds all creditors to the debt repayment proposal in the CVA. Businesses need to ensure their repayment proposal is as fair as possible, to give the CVA the best chance of being accepted, as well as providing their business with the best chance of making a financial recovery.

As an alternative to Receivership and Liquidation, Company Voluntary Arrangements are preferred by many creditors, who are likely to get more of their money back, as well as businesses in debt, because it gives them the protection and opportunity to trade out of their debt problems. If your business is affected by insolvency and you feel a CVA may be your best option, make sure you get advice from a professional as soon as possible. They will do everything they can to advise you on CVAs and the best way to make sure your business survives.