

Briefing Note: Administration

Introduction

This guide is intended to provide an introduction to administration and should not be relied upon as legal advice. Please contact us for advice on your specific circumstances.

What does it mean if a company goes into administration?

- Administration is the procedure in which a company that is, or is likely to become insolvent, can be reorganised in an attempt to save the company, or have its assets sold for the benefit of its creditors.
- When a company goes into administration, an insolvency practitioner will be appointed. From that point they will take power away from the directors, and assume control over the company's affairs.
- The main aim of administration is to first and foremost rescue the company, so that it can continue trading as a going concern. However if this cannot be achieved a company may go into administration:
 - To achieve a better result for the company's creditors, in comparison to that if the company was put into liquidation.
 - To sell company property in order to make a distribution to the company's secured or preferential creditors.
- A secured creditor is, in general terms, entitled to be repaid from the proceeds of the assets secured. The most common example would be a mortgage or legal charge.
- Preferential creditors include, amongst others, certain employee claims and contributions to occupational pension schemes.
- In the majority of cases, the administration of a company results in the sale of its assets. Administration may achieve a better result for the company's creditors than immediate liquidation, because, for example, the company may be able to continue trading allowing greater value to be achieved for its assets as part of a sale on a going concern basis.
- In some cases a company may agree on the sale of the company's assets before it goes into administration, this is known as pre-pack administration. This allows for the sale to take place immediately after the company goes into administration, meaning a company may only be in administration for a few hours.
- The administrator's appointment automatically ceases to have effect 12 months from the day that the company entered administration, unless the creditors or the court agree to an extension. In practice, many companies remain in administration for more than one year and administrations can last several years.

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Summary:

This short guide explains the basic concepts and procedures behind a company being placed in administration.

For detailed advice on all Commercial Law matters please contact:

Mark Williams
Corporate Partner

mark.williams@gabyhardwicke.co.uk

or

Will Baker
Solicitor

william.baker@gabyhardwicke.co.uk

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- When the purposes of the administration have been achieved, the company may come out of administration and continue normal trading, although this is unusual in practice. More commonly, the net proceeds of the company's assets are distributed to the company's creditors, often by a subsequently appointed liquidator.
- When the net proceeds are distributed, an administrator will distribute the proceeds in order of preference. Creditors whose debts are not secured or preferential may receive a percentage of their debt by way of dividend. This may be as little as one or two pence in the pound, or can be nothing at all.

The administrator

- The administrator must be a qualified insolvency practitioner. In many cases more than one administrator is appointed to act jointly.
- While appointed the administrator acts as an agent of the company and an officer of the court, they therefore have a duty to act in good faith. They must also be, and be seen to be, independent and impartial in their management of the company and its property.
- Once appointed, the administrator must take all the company's property into their custody or control, thus taking away power from directors.
- As the company's agent, the administrator can cause the company to contract with third parties. Sums due under such contracts are paid in priority to the administrator's fees and expenses, and distributions to floating charge holders and unsecured creditors.
- Administrators have a duty to perform their functions as quickly and efficiently as possible and in the interests of the creditors as a whole.

What does administration mean for a creditor company?

- As soon as a company is placed in administration, creditors are prevented from bringing or pursuing legal proceedings against the company or its assets.
- It may be possible to ask the administrator's or the court's permission to bring proceedings against a company that is in administration. However, a creditor who has a monetary claim is unlikely to be granted permission as it is generally only claims that relate to the ownership of property that are allowed to continue.
- If your business is owed money by a company that has gone into administration, often the best option is to submit details of your claim to the administrator (known as your proof of debt) and wait for the administrator to assess it.
- As a creditor, your company may be able to join a creditors' committee to help the administrator fulfil their functions. Administrators have a duty to report to the company's creditors on their progress. Becoming a member of the creditors' committee may provide you with an opportunity to access more detailed information and comment on the way the administrators are conducting the administration.

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Limitation periods

- When a company is in administration creditors are blocked from bringing an action against the company. However, time will continue to run for the limitation period of your claim. The limitation period for a simple contract claim is six years, after which you lose the right to make a claim. Where time is running out, your company can protect its position by:
 - Obtaining the administrator's acknowledgement of the claim. Note that this restarts the applicable limitation period and does not stop time running.
 - Applying to the administrator or the court for permission to issue proceedings against the company.

What action can my company take if it is in dispute with the administrator?

If your company has any concerns with the conduct of the appointed administrator, you should initially raise any issues with the administrator directly or via any creditors' committee. If the matter is not resolved and the dispute continues there are a number of legal remedies that you can consider.

- You can apply for a court order:
 - On the basis that the administrator's conduct has unfairly harmed your interests or the interests of the creditors.
 - On that basis that the administrator is failing to perform their duties as quickly or efficiently as possible.
 - On the basis of any wrongful exercise of legal authority by the administrator.
 - To remove the administrator. However this should only be used in extreme circumstances.

The courts do not permit these remedies to be used by any one creditor to leapfrog claims of other creditors, nor to require the administrator to devote a disproportionate amount of time or resources to their particular claim.

If you would like to know more about this topic or our legal services, please contact Mark Williams or Will Baker on 01323 435955 or mark.williams@gabyhardwicke.co.uk william.baker@gabyhardwicke.co.uk

Gaby Hardwicke Solicitors
33 The Avenue
Eastbourne
East Sussex
BN21 3YD

Tel: 01323 435900
info@gabyhardwicke.co.uk
www.gabyhardwicke.co.uk