Briefing Sheet

Administrative receivership

What is administrative receivership?

Administrative receivership occurs when a lender, often a bank, exercises its right to recover a debt: normally that right is enshrined in the agreement, called a debenture, between lender and company in the form of a floating charge over the company's assets. The receiver has a duty to recover the bank's debt only, acting as its agent, and is not generally concerned with other creditors. An administrative receiver is appointed over the whole, or substantially the whole, of the company's property. This type of appointment, which is now relevant only to charges created before 15 September 2003, should not be confused with administration which is a more inclusive insolvency process where the administrator has a duty to consider the interests of all creditors and not just the bank.

How does administrative receivership operate?

Most companies require finance for their activities and borrow from a bank or other lender: most lenders take security, normally in the form of a debenture with fixed and floating charges. If the agreement with the lender has been breached and the business is unable to meet its repayment obligations, the lender will wish to take action.

Initially the lender will look for further information on the state of the business and its prospects. It may then ask for a reduction in its exposure and/or increased security from the directors or shareholders. It may also suggest a course of action for the company, such as the introduction of factoring to ease cashflow.

If responses are not what the lender is seeking, or matters do not improve, the lender may ask for external accountants to look at the business. They will determine if the business is viable and the company solvent. The lender will want to know if the business has a long term future if the present difficulties can be overcome and – most importantly - if the lender's exposure is sufficiently covered in the event of a failure. If it seems that the company is in serious risk of failure, and that the lender may lose money, a recommendation may be made to the lender that a receiver is appointed to take control of the company's business and sell its assets to repay the bank.

A receiver will make a judgement on the prospects for business. A decision will be made on whether to sell some or all of the assets, the business as a whole, or to continue to trade in the hope of finding a better offer for the business. The receiver has the power to remove directors and employees and there is an obligation to report on the conduct of directors. He is not required to maintain the goodwill of the company and he can refuse to adopt onerous or non-profitable contracts with customers. A more vigorous approach to realising book debts is likely as his primary concern is to maximise realisations for the benefit of the secured creditor who has appointed him (the Appointor).

Executive summary

Administrative receivership – which differs significantly from administration – is usually initiated by a bank or other lender worried about loss of investment. The capacity for the lender to appoint a receiver to secure repayment of funds is usually found in the security documentation set up prior to the company borrowing money.

Administrative Receivership rarely offers a positive outcome for businesses or their management but may be the best way for secured creditors to take control of a situation which risks their capital. Once appointed, an administrative receiver has the authority to take far-reaching decisions about the business, its assets and its staff: the management of the company may be part of this process or may be omitted from it.

Have a question?

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Advantages/disadvantages of administrative receivership

The advantages from a business perspective are few, except in cases where the receiver taking control allows the business to be returned to profitable operation. Directors may see an advantage in that the receiver's control relieves them of a burden and can also help prevent risk of wrongful trading. One area where administrative receivership is still useful is where a capital gain may arise following sale of an asset. In a receivership the gain remains an unsecured claim against the company whilst in Administration it is an expense payable before distributions to creditors. This is particularly important in situations where directors have given guarantees to a bank to cover any shortfall.

Overall, however, businesses are rarely saved, assets are usually sold for lower values, and jobs and economic activity are lost. Directors will lose both employment and – usually – investment whilst unsecured creditors will not be paid unless a receivership surplus is passed over to a liquidator. Even the lender initiating the action – the main beneficiary as the aim is to recover the lender's funds – has to cover the receiver's costs.

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