
**Revision of Statement of Practice 16 in light of changes to
pre pack administration
Insolvency Service
(Department for Business, Innovation and Skills)
RPC rating: **validated****

Description of proposal

The proposal will require all 'pre-pack' valuations of insolvent companies to be conducted by a valuer with professional indemnity insurance. This will be achieved through amending the 'Standard in practice 16' guidance. Pre-pack sales involve determining a price for the company and its assets, prior to the company entering administration. This allows the sale to be completed as soon as the administrator is appointed.

Impacts of proposal

The assessment states that the proposal will affect 1,328 appointment taking insolvency practitioners. Insolvency practitioners have estimated that familiarisation with the guidance required around one hour of each practitioner's time, with a total estimated cost of £0.5 million across all insolvency practitioners.

The assessment explains that valuers are already required to hold indemnity insurance in order to join most industry groups. It also explains that large insolvency practitioners normally already use a valuer that holds indemnity insurance. The ten largest insolvency practitioners are responsible for around half the total volume of pre-pack sales. The Department estimates that at least half, and probably significantly more, pre-pack sales will be unaffected by the proposal. Based on the number of pre-pack sales in 2014, the Department provides a range of costs from none to half of pre-pack sales (189 of 378) facing additional costs of purchasing insurance. Industry feedback suggests indemnity insurance costs around £1,000 a year, resulting in a range of ongoing costs from zero to £0.2 million each year, with a best estimate of £0.1 million each year.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.1 million. This will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

The Department has provided sufficient information to enable the validation of the estimated EANDCB.

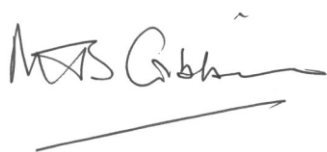
The RPC has commented previously on the use of charge out rates in the calculation of familiarisation costs. The Department recognises that the use of charge out rates is not ideal, and has committed to developing a more robust assessment of the hourly cost of insolvency practitioners' labour in future, and in particular to inform any assessments where it will have a material effect on the EANDCB. The use of charge out rates for familiarisation costs, in this case, is not sufficiently material to affect the validation. The draft of the assessment should be amended prior to publication to reflect that the approach taken will be improved in future.

Departmental assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANCB)	£0.1 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANCB – RPC validated ¹	£0.1 million
Business Impact Target (BIT) Score ¹	£0.5 million
Small and micro business assessment	Not required (fast track low-cost regulation)



Michael Gibbons CBE, Chairman

¹ For reporting purposes, the RPC validates EANCB and BIT score figures to the nearest £100,000.