

Ecotech London Limited – In Administration

Joint Administrators' progress report

4 January 2017

Ernst & Young LLP



EY

Building a better
working world

Abbreviations

The following abbreviations are used in this report:

the Company/Ecotech London	Ecotech London Limited (In Administration)
Ecotech Corporation	Ecotech Corporation Limited
EY	Ernst & Young LLP
Hilton Baird	Hilton Baird Collection Services Limited
Hilco	Hilco Valuation Services Europe, a division of Hilco Global
NOI	Notice of Intention
Lombard	Lombard North Central plc
LWARB	London Waste Recycling Board
PET	Polyethylene Terephthalate
MRF	Materials Recovery Facility
Premises	Unit 4, Marsh Way, Fairview Industrial Park, Rainham, Essex
Proposals	Joint Administrators' Proposals dated 29 July 2016
RBSIF	Royal Bank of Scotland Invoice Finance
STF	STF Maschinen und Anlagenbau GmbH

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1. Introduction

I write, in accordance with Rule 2.47 of the Insolvency Rules 1986, to provide creditors with a report on the progress of the administration. This report covers the period from 6 June 2016 to 5 December 2016 and should be read in conjunction with the Joint Administrators' statement of proposals dated 29 July 2016

Ecotech London Limited entered administration on 6 June 2016 and Robert Hunter Kelly and Charles Graham John King of Ernst & Young LLP, 1 Bridgewater Place, Water Lane, Leeds, LS11 5QR were appointed to act as Administrators.

The appointment was made by the Company's Directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986. Under the terms of the appointment, any act required or authorised to be done by the Joint Administrators can be done by either of them.

Further statutory information in relation to the Company can be found at Appendix D.

2. Summary of progress since the statement of proposals dated 29 July 2016

2.1 Realisation of Assets

As previously reported, due to numerous challenges (in particular the inability to trade the business and the significant holding costs associated with the trading location) it was evident that a sale of business would not be achieved following appointment. Accordingly the Administration strategy focussed on winding down the Company's affairs and maximising realisations from the Company's asset base (which was fairly limited due to the majority of assets being subject to third party finance).

2.1.1 Stock

The Company ceased trading prior to the Joint Administrators' appointment and as such, its realisable stock levels were limited with the majority of stock relating to spare parts with negligible realisable value.

The Company continued to occupy the Premises for two weeks following appointment, during which time we generated stock realisations of £23,647 from finished goods stock. The residual finished goods stock was of poor quality and had no value.

2.1.2 Plant and machinery

As previously advised, the majority of the Company's chattel assets were subject to asset finance.

The small amount of owned plant and machinery was sold to STF for £55,000. STF had also supplied the main recycling line and were in discussions with Lombard who had exercised their rights under a buyback agreement (see 2.1.4). As negotiations between Lombard and STF regarding the buyback became protracted the invoice for the sale of the Company owned assets was not settled and the Company continued to incur storage and insurance charges as a result.

STF subsequently withdrew their offer for the Company owned plant and the only alternative disposal option for this equipment was an auction process. It was subsequently sold at auction generating gross realisations (before associated expenses) of £22,615.

Total recoveries from plant and machinery sales are £23,323.

2.1.3 Debtors

The debtor ledger was subject to an invoice discounting facility with RBSIF who had exposure of £707,181 at 25 May 2016. Once the Notice of Intention ("NOI") to appoint Administrators was filed, RBSIF ceased advancing funds to the Company and appointed an external debt collection agency, Hilton Baird, to collect the debts.

At 25 May 2016, the value of the debtor ledger was £976,079 (of which c.£70,000 was subject to disputes). A further £59,346 also became available for collection from subsequent sales made after the NOI had been filed.

RBSIF subsequently recovered their exposure in full and we retained Hilton Baird to realise the remainder of the debtor ledger. To date, a gross debtor surplus of c.£181,000 has been realised to the benefit of the Administration.

There is a remaining debtor balance outstanding (excluding the disputes referred to above) of £31,284 across three accounts, albeit the majority of this relates to one debtor with a balance

of £28,766 (before interest and fees). Attempts have been made to agree a repayment plan with this debtor, however we are yet to receive a proposal that is of an acceptable duration.

In the meantime legal proceedings were commenced in respect of this debt and summary judgment has been obtained for the full balance due. We are considering our options with regard to recovering this debt.

The costs paid to date to Hilton Baird for assistance with debt collection including fees for issuing claims are £10,100.

2.1.4 Cash bond held by Lombard

At the date of appointment Lombard held a cash bond of £250,000 which we understand was a condition of providing finance for the main recycling line.

As previously reported Lombard was party to a buyback agreement with STF which stipulated that in the event the buyback agreement was invoked, STF would pay the remaining balance due under the finance agreement for the main recycling line and thus, take ownership of the plant.

The buyback agreement was invoked shortly after appointment and we attempted to grant STF a Licence to Occupy to assist with the transition of ownership of the plant. However, it was not possible to agree and formalise a licence in the required timescales and we were left with no alternative but to withdraw this option and vacate the site.

We have not been party to the ongoing discussions between Lombard and STF, however we understand that following a period of protracted negotiations a settlement has been reached under the buyback agreement. We have not received formal confirmation of this from Lombard nor have we been advised of the settlement figure. We have requested that Lombard provide us with details of the terms of the settlement.

If STF have fulfilled their obligation under the buyback agreement we expect that the cash bond will be released to the Company. However, if there has been a settlement below the value required under the buyback agreement, any shortfall may impact on the recovery of the bond.

A further update in relation to this matter will be provided in our next progress report.

2.1.5 Rent deposit

It will not be possible to generate any recoveries from the £135,000 cash deposit held by the Landlord as a result of clear up and remedial costs associated with the site and due to the period of non-occupation.

The lease to the property has subsequently been surrendered.

3. Receipts and Payments Account

We enclose a receipts and payments account for the Company in Appendix A, for the period 6 June 2016 to 5 December 2016.

Please note, these accounts do not reflect estimated future realisations or associated costs.

4. Outcome for Creditors

We provide below, for information, an indication of the current position with regard to creditors' claims. The figures have been compiled based on the Company's books and records and have not been subject to independent review.

These figures do not include any estimates for contingent claims. Predominantly we would expect these claims to occur from the Landlord, in respect of existing and future liabilities under the lease albeit this will be mitigated by the cash bond held.

4.1 Secured Creditors

4.1.1 Lombard

As previously discussed, Lombard provided funding for the majority of the Company's recycling line and had a balance due under the termination agreement of £1.1m.

It is anticipated Lombard will recover their exposure under the buyback agreement and through utilisation of the cash bond, however this is dependent on the terms of the settlement under the buyback agreement.

4.1.2 LWARB

LWARB have a second ranking debenture containing a fixed and floating charge with total lending of c.£2.8m.

Due to the limited floating charge assets available (which will first go to Lombard in the event Lombard suffers a shortfall), the level of forecast realisations are not expected to be significant. As such, LWARB will suffer a significant shortfall.

4.2 Preferential creditors

Preferential creditor claims totalling £18,024 have been paid in full.

4.3 Non-preferential creditors

The directors' Statement of Affairs estimates that non-preferential creditors will amount to c.£5.5m. These are broken down as follows:

- ▶ Trade creditors - £1.4m;
- ▶ HMRC - £39,341;
- ▶ Unsecured shareholder loans - c£4.0m; and
- ▶ Employees unsecured claims – c.£0.1m (we note these have not been scheduled in the Company's creditor section of the Statement of Affairs but have been included in the total value of non-preferential claims).

Creditor claims continue to be submitted and final claims in the Administration may be higher due to contingent claims and other non-preferential creditor amounts not included in the Statement of Affairs.

It is not anticipated that there will be sufficient realisations to enable a distribution to the non-preferential creditors other than by virtue of the Prescribed Part.

4.3.2 The Prescribed Part

Due to the anticipated shortfall to LWARB, the only distribution that will be available to unsecured creditors is the Prescribed Part. The Prescribed Part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Insolvency Act 1986. The Prescribed Part applies to floating charges created on or after 15 September 2003.

The level of forecast recoveries currently remains uncertain and will depend on the success of the asset realisation process, principally recovery of the cash bond held by Lombard.

Assuming the cash bond is fully recovered, our latest estimates indicate that:

- ▶ The value of the Company's net property will amount to c.£255,000; and
- ▶ This is estimated to result in the value of the prescribed part being c.£54,000 (before the costs of dealing with the prescribed part).

Until the position is confirmed with regard to the buyback agreement, the above estimates will be subject to change.

If the cash bond is not recovered at all, the value of the Company's net property is expected to be less than £10,000 in which case it will not be economical to distribute the prescribed part.

The Joint Administrators do not currently intend to make an application to the Court under section 176A(5) of the Insolvency Act 1986 for an order not to distribute the prescribed part. However, should the bond not be recovered the value of net property is likely to be immaterial (less than £10,000) in which case the Joint Administrators will elect not to distribute the prescribed part due to the associated costs that would be incurred.

Due to the quantum of amounts owed to unsecured creditors, we estimate that the dividend to non-preferential creditors under the prescribed part in the Administration will not exceed 1p in the pound in any event.

5. Administrators remuneration and disbursements and payments to other professionals

5.1 Administrators' remuneration

The Proposals stated that In the event a creditors' meeting is not requisitioned and a creditors' committee is not formed, the Joint Administrators would seek to have their remuneration fixed by the secured and preferential creditors, in accordance with Rule 2.106(5A) of the Rules. The Joint Administrators will ask for their remuneration to be fixed on the basis of time properly given by them and their staff in dealing with matters arising in the Administration.

We have recently written to the secured and preferential creditors of the Company to fix the basis of the Joint Administrators' remuneration.

To date the Joint Administrators have incurred time costs in respect of the Company of £168,598.

An analysis of the time spent is attached at Appendix B for each grade of staff for the various areas of work carried out to 5 December 2016, as required by the Association of Business Recovery Professionals' Statement of Insolvency Practice No. 9.

Attached at Appendix C is a statement of the Joint Administrators charging policy for remuneration.

5.2 Administrators' disbursements

To date, the Joint Administrators have incurred Category 1 disbursements totalling £3,895.64, which can be summarised as follows:

Expense type	Incurred (£)	Paid (£)	Outstanding (£)
Travel	1,350.54	-	1,350.54
Accommodation	929.91	-	929.91
Meals/Subsistence	235.21	-	235.21
Postage/Courier	621.91	-	621.91
Bonding	210.00	-	210.00
Total	3,347.57	-	3,347.57

The secured and preferential creditors' approval has also been sought for drawing Category 2 disbursements. Category 2 disbursements totalling £550.80 have been incurred and can be summarised as follows:

Expense type	Incurred (£)	Paid (£)	Outstanding (£)
Mileage	550.80	-	550.80
Printing and photocopying	548.07	-	548.07
Total	1,098.87	-	1,098.87

Appendix C provides a statement of the Joint Administrators' policy for charging disbursements. An analysis of any Category 2 disbursements (i.e. those paid to the Joint Administrators Firm) is also included at Appendix C.

In certain circumstances creditors are entitled to request further information regarding the Administrators' remuneration or expenses, or to apply to court on the grounds that the costs are considered to be excessive. (Rules 2.48A and 2.109 of the Insolvency Rules 1986). Further information is provided in Appendix E.

5.3 Payment to other professionals

The Joint Administrators have engaged the following other professionals to assist them. They were chosen on the basis of their experience in similar assignments

Name of firm	Nature of service	How contracted to be paid
Hilco	Asset advice, including valuation and sale of chattel assets.	Time cost basis and percentage of realisations achieved
Addleshaw Goddard LLP	Legal advice	Time cost basis
Hilton Baird	Debt collection	Percentage of realisations achieved

The fees paid to each of these professionals to date are included in the receipts and payments account at Appendix A and are as follows by firm:

Name of firm	£
Addleshaw Goddard LLP	15,646
Hilton Baird	9,949

5.4 Pre-administration costs

As previously advised, no unpaid pre-administration costs will be recovered.

6. Other Matters

6.1 Future Conduct of the Administrators

The Joint Administrators will continue to act in accordance with the Proposals. This work will include, inter alia:

- ▶ Finalising the position with regard to the cash bond;
- ▶ Pursuing the remaining book debts;
- ▶ Dealing with tax and VAT matters;
- ▶ Distributing any surplus recoveries to the creditors of the Company; and
- ▶ Dealing with all statutory reporting compliance requirements.

6.2 Future Reports

We will report to all creditors again in six months' time or at the conclusion of the Administration, whichever is sooner.

Should you have any queries please do not hesitate to contact my colleague, Tom Harvey, on 0113 298 2355.

Yours faithfully
for the Company



C G J King
Joint Administrator

C G J King is licensed in the United Kingdom to act as an insolvency practitioner by The Association of Chartered Certified Accountants and R H Kelly is licensed in the United Kingdom to act as an insolvency practitioner by The Institute of Chartered Accountants of Scotland.

The affairs, business and property of the Company are being managed by the Joint Administrators, C G J King and R H Kelly, who act as agents of the Company only and without personal liability.

We may collect, use, transfer, store or otherwise process (collectively, "Process") information that can be linked to specific individuals ("Personal Data"). We may Process Personal Data in various jurisdictions in accordance with applicable law and professional regulations including (without limitation) the Data Protection Act 1998.

Appendix A Receipts and Payments account from 6 June 2016 to 5 December 2016

Statement of Affairs Amount £	From 06/06/2016 to 29/07/2016 £	From 29/07/2016 to 05/12/2016 £	Total £
Receipts			
3,000 Sale of stock	23,647	-	23,647
210,949 Book debt surplus	-	180,833	180,833
50,000 Plant and machinery	-	23,323	23,323
- Property recharges	500	-	500
- Rates refund	-	1,925	1,925
11,319 Cash at appointment	59	6,020	6,079
- Bank interest	-	3	3
	<u>24,206</u>	<u>212,104</u>	<u>236,310</u>
Payments			
Legal fees	-	(15,646)	(15,646)
Agents fees and disbursements	-	(4,850)	(4,850)
Debt collection expenses	-	(9,949)	(9,949)
Contractor costs	(1,637)	-	(1,637)
Utilities	-	(1,698)	(1,698)
Insurance	-	(1,759)	(1,759)
Service charge	(490)	-	(490)
Public Notices	(85)	-	(85)
Property charges	(640)	-	(640)
Preferential creditors	-	(18,024)	(18,024)
VAT held in relation to EU sales	-	(3,806)	(3,806)
Other	-	(116)	(116)
	<u>(2,851)</u>	<u>(55,848)</u>	<u>(58,699)</u>
Cash on hand	<u>21,354</u>	<u>156,256</u>	<u>177,611</u>
Made up as follows:			
Cash at bank	25,941	154,827	180,768
VAT payable	(4,829)	(4,665)	(9,494)
VAT receivable	243	6,095	6,338
	<u>21,354</u>	<u>156,257</u>	<u>177,611</u>

Appendix B Summary of Joint Administrators' Time Costs from 6 June 2016 to 5 December 2016

Summary of Joint Administrators' time costs from 6 June 2016 to 5 December 2016								
Hours	Partner	Executive Director	Assistant Director	Senior Executive	Executive	Analyst	Support	Total
Accounting and Administration	-	-	-	12.5	-	28.8	75.8	117.1
Bank & Statutory Reporting	4.0	11.0	-	2.0	-	-	-	17.0
Creditors (Mandatory)	2.0	1.0	7.5	5.0	-	19.8	-	35.3
Debtors	-	2.5	-	13.0	-	-	-	15.5
Employee Matters	-	-	7.0	-	20.5	1.5	-	29.0
General	-	1.5	-	-	-	-	-	1.5
Immediate Tasks	-	3.0	-	7.5	-	22.5	-	33.0
Investigations	-	1.0	-	3.0	-	-	-	-
Job Acceptance & Strategy	-	1.0	-	-	-	-	-	1.0
Legal issues	-	1.5	-	-	-	-	-	-
Other Assets (Mandatory)	-	13.5	-	25.5	-	1.0	-	40.0
Other Matters	-	-	-	-	-	0.5	-	0.5
Out of scope	-	-	-	-	-	-	-	-
Property	-	5.0	-	34.0	-	-	-	39.0
Public Relations Issues	-	1.0	-	-	-	-	-	1.0
Retention of Title	-	-	-	3.5	-	14.0	-	17.5
Statutory Duties	-	2.0	-	53.5	-	43.5	-	99.0
STF Licence and Plant	-	6.0	-	14.5	-	-	-	20.5
Trading (Mandatory)	-	-	-	1.0	-	-	-	1.0
VAT & Taxation	-	-	13.3	4.6	-	17.3	-	35.2
	-	-	-	-	-	-	-	-
Total Hours	6.0	50.0	27.8	179.6	20.5	148.9	75.8	503.1
Time Costs (£)	3,960	31,920	16,214	67,950	6,144	21,471	20,939	168,598
Average Hourly Rate (£)	660	638	583	378	300	144	276	335

Appendix C Statement of Administrators Charging Policy for Remuneration and Disbursements Pursuant to Statement of Insolvency Practice No.9

The secured and preferential creditors have determined that the Joint Administrators' remuneration should be fixed on the basis of time properly spent by the Administrators and their staff in attending to matters arising in the Administration.

The Administrators have engaged a manager and other staff to work on the cases. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by accounting and treasury executives dealing with the company's bank accounts and statutory compliance diaries. Work carried out by all staff is subject to the overall supervision of the Administrators.

All time spent by staff working directly on case-related matters is charged to a separate time code established for each case. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown in Appendix B, and the current hourly rates are detailed below. The current hourly rates may be higher than the average rates, if hourly rates have increased over the period covered by this report

It is our firm's policy to review the charge out rates annually on 1 July. The current hourly rates are:

Department	Grade	Current hourly rate effective July 2014	Current hourly rate effective July 2015	Current hourly rate effective July 2016
Restructuring	Partner	630	660	710
	Executive Director	600	630	660
	Director	500	540	565
	Senior Manager	450	475	500
	Manager	350	370	390
	Executive	250	265	280
	Analyst	140 - 205	145 - 215	150 - 225
	Support/Intern	95 - 125	110	115
Tax	Partner	1070	1125	1180
	Senior Manager	625 - 695	655 - 730	700 - 815
	Manager	525	550	580
	Executive	420	440	460
	Analyst	95 - 250	100 - 265	108 - 208

A copy of the R3 (Association of Business Recovery Professionals) creditors' guide to Administrators' fees may be obtained by contacting Tom Harvey at the above address, or at www.r3.org.uk/media/documents/publications/professional/Guide_to_Administrators_Fees_Nov2011.pdf

Statement of Insolvency Practice No. 9 (“SIP 9”) published by R3 (The Association of Business Recovery Professionals) divides disbursements into two categories.

Category 1 disbursements comprise payments made by the office holders’ firm, which comprise specific expenditure relating to the administration of the insolvent’s affairs and referable to payment to an independent third party. These disbursements can be paid from the insolvent’s assets without approval from the Committee. In line with SIP 9, it is our policy to disclose such disbursements drawn but not to seek approval for their payment.

To date, the Joint Administrators have incurred Category 1 disbursements as follows:

Expense type	Incurred (£)	Paid (£)	Outstanding (£)
Travel	1,350.54	-	1,350.54
Accommodation	929.91	-	929.91
Meals/Subsistence	235.21	-	235.21
Postage/Courier	621.91	-	621.91
Bonding	210.00	-	210.00
Total	3,347.57	-	3,347.57

Category 2 disbursements comprise payments made by the office holders’ firm which include elements of shared or overhead costs. Such disbursements are subject to approval from the secured and preferential creditors as if they were remuneration. It is our policy, in line with SIP 9, to seek approval for this category of disbursement before they are drawn. The Administrators are currently in the process of seeking the approval of the secured creditors for the Category 2 disbursements.

To date, the Joint Administrators have incurred Category 2 disbursements as follows:

Expense type	Incurred (£)	Paid (£)	Outstanding (£)
Mileage	550.80	-	550.80
Printing and photocopying	548.07	-	548.07
Total	1,098.87	-	1,098.87

Appendix D Summary of Statutory Information

Company Information

Company Name:	Ecotech London Limited (In Administration)
Registered Office Address:	c/o Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
Registered Number:	08573291
Trading Name(s):	Ecotech London Limited
Trading Address(es):	Unit 4 Marsh Way Fairview Industrial Park Rainham Essex RM13 8UH

Details of the Administrators and of their appointment

Administrators:	CGJ King and RH Kelly
Date of Appointment:	6 June 2016
By Whom Appointed:	The appointment was made by the Company Directors
Court Reference:	High Court of Justice, Chancery Division, Leeds District Registry – 478 of 2016.

Any of the functions to be performed or powers exercisable by the administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting jointly.

Statement concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does apply to this administration and the proceedings are main proceedings. This means that this Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Union Member State.

Share capital

Class	Authorised		Issued and fully paid	
	Number	£	Number	£
Ordinary	1,301,386	1,301,386	1,301,386	1,301,386

Directors and secretary and their shareholdings

Name	Director or Secretary	Date appointed	Current shareholding
Javed Mawji	Director	18 June 2013	-
Lorna Mary Leonard	Director	18 November 2014	-
James Alexander Lanman	Director	1 March 2014	-
Fatehali Jaffer Mawji	Director	13 December 2013	-
David George Sargent	Director	13 December 2013	-
Ian Frederick Goodfellow	Director	13 December 2013	-
Markus Ingepass	Director	28 January 2014	-

Appendix E Creditors Request for Further Information Regarding an Administrators' Remuneration or expenses – Rule 2.48A, Insolvency Rules 1986

1) If-

(a) within 21 days of receipt of a progress report under Rule 2.47-

(i) a secured creditor, or

(ii) an unsecured creditor with the concurrence of at least 5% in value of the unsecured creditors (including the creditor in question), or

(b) with the permission of the court upon an application made within that period of 21 days, any unsecured creditor,

makes a request in writing to the administrator for further information about remuneration or expenses (other than pre-administration costs) set out in a statement required by Rule 2.47(1)(db) or (dc), the administrator must, within 14 days of receipt of the request, comply with paragraph (2).

(2) The administrator complies with this paragraph by either-

(a) providing all of the information asked for, or

(b) so far as the administrator considers that-

(i) the time or cost of preparation of the information would be excessive, or

(ii) disclosure of the information would be prejudicial to the conduct of the administration or might reasonably be expected to lead to violence against any person, or

(iii) the administrator is subject to an obligation of confidentiality in respect of the information,

giving reasons for not providing all of the information.

(3) Any creditor, who need not be the same as the creditor who requested further information under paragraph (1), may apply to the court within 21 days of-

(a) the giving by the administrator of reasons for not providing all of the information asked for, or

(b) the expiry of the 14 days provided for in paragraph (1),

and the court may make such order as it thinks just.

(4) Without prejudice to the generality of paragraph (3), the order of the court under that paragraph may extend the period of 8 weeks provided for in Rule 2.109(1B) by such further period as the court thinks just."

Creditors' claim that remuneration is excessive – extract from Rule 2.109 of the Insolvency Rules 1986

“(1) Any secured creditor, or any unsecured creditor with either the concurrence of at least 10% in value of the unsecured creditors (including that creditor) or the permission of the court, may apply to the court for one or more of the orders in paragraph (4).

(1A) Application may be made on the grounds that—

- (a) the remuneration charged by the administrator,
- (b) the basis fixed for the administrator's remuneration under Rule 2.106, or
- (c) expenses incurred by the administrator,

is or are, in all the circumstances, excessive or, in the case of an application under subparagraph (b), inappropriate.

(1B) The application must, subject to any order of the court under Rule 2.48A(4), be made no later than 8 weeks after receipt by the applicant of the progress report which first reports the charging of the remuneration or the incurring of the expenses in question (“the relevant report”).”