Small Business Restructure
Case Study: Hospitality

SMALL BUSINESS RESTRUCTURE
Powered by Rodgers Reidy

Our client operated as a hotel/pub with approximately 20 employees. The hotel is situated in a regional city in NSW that relies heavily on the local university students attending the venue, in particular, bookings for various dinners and hosting events at the hotel. However, the majority of university students studied remotely during the COVID-19 Pandemic, which meant the trading of the client was impacted even more heavily than a lot of other similar businesses in non-university based cities in regional NSW.

Debt

There was an outstanding debt of $7,154 due to iCare Workcover and an outstanding taxation debt of $425,381 with the ATO, together with a potential unfair preference claim of $110,994 against the ATO in a hypothetical liquidation scenario.

Background

The hotel/pub was purchased by the client in or around November 2018. However, the business was subject to an armed robbery in December 2019, which caused it financial impairment (just before the COVID-19 Pandemic). Subsequently, the business was heavily affected by the COVID-19 Pandemic. Given that it operated as a hotel, it was subject to several government lockdowns, together with the mandated capacity limit for the majority of the period during March 2020 to February 2022.

Further to the above, the client's former external accountants allegedly did not deliver the services for which they were engaged, which resulted in the late lodgements of the client's Activity Statements and Income Tax Returns. The former external accountants were apparently struggling to manage their extra COVID-19 business support workload, and accordingly, their work and advice to the client suffered. As a result, the client changed accountants who brought the books and records up to date and then proactively engaged Rodgers Reidy.

Proposal

The ATO and iCare Workcover were the only affected creditors with a total outstanding debt of $432,535 and the Restructuring Plan offered a total distribution of $76,190 to creditors, which resulted in a return of 17.62c/$. Both of the affected creditors voted to accept the Restructuring Plan, as the return under the Plan was better than an estimated return in a hypothetical liquidation scenario.

Outcome

Following the SBR Process, the employees have retained their jobs and the director has obtained a fresh start to carry on the business releasing it from the historical debts, all achieved without the significant costs of placing the business into Voluntary Administration.

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