Rodgers Reidy

Insolvency • Forensic • Reconstruction

Small Business Restructure
Case Study: Hospitality

SBR
SMALL BUSINESS RESTRUCTURE
Powered by Rodgers Reidy

Our client was a cafe operating in regional Victoria with 22 employees. It suffered financially from the Victorian State Government lockdowns during the COVID Pandemic with a significant reduction in sales with little or no reduction in fixed costs.

The Government's patron capacity limits also impacted the business's viability. An inability to accurately manage stock purchases and other variable costs due to the uncertainty of lockdown lengths and other restrictions made budgeting complex, resulting in stock losses.

Debt

There was an outstanding tax debt of $260,228 to the ATO and a $114,000 unfair preference claim against the ATO. In addition, there was a $320,000 director's loan where the director used business funds for personal use and didn't have the capacity to pay it back.

Background

The cafe was a profitable business before lockdowns and has since returned to trading priofitably, but the debt incurred during the COVID Pandemic threatened the business.

Covid restrictions meant a significant reduction in sales, and with a requirement to maintain its fixed cost expensed – such as its lease – it was forced to stand down employees along with other cost-saving steps. In addition, COVID-19 testing and quarantine requirements also resulted in employees being unable to work for substantial periods even after a return to semi-normal trading.

Proposal

The ATO was the only creditor with $260,228, and the Restructuring Plan offered $48,250, a return of $ 18.54c/$. As the only creditor, the ATO voted to accept the restructuring proposal.

Outcome

Following the process, the director could carry on the business without the significant debt levels and without the cost or burden of the business being placed into Voluntary Administration to reach the same outcome.

Brent Morgan

Director

(03) 9670 8700

bmorgan@rodgersreidy.com.au