

Small business doing it tough

Sam McKeith

The number of small businesses falling into bankruptcy is rising sharply as banks and the tax office increase pressure on indebted firms, while tighter lending criteria make it more difficult for businesses to borrow.

Receivers said banks and the tax office were enforcing debts against many small firms still struggling with liabilities after brokering repayment programs during last year's downturn.

Many are being tipped into administration as negotiated deals expire and asset prices recover.

This comes as a Senate inquiry will today hear claims from business groups that a lack of competition between lenders, high interest rates on business loans and tougher lending criteria from banks are stifling the ability of small firms to access finance.

Grant Thornton partner Said Jahani said many banks were calling in loans after supporting firms through the downturn. "The client who's been given multiple opportunities but hasn't been able to deliver is now under more pressure. The banks are saying, 'We're going to have to take action and take the reins ourselves,'" he said.

It is also easier now for banks to find buyers for distressed assets. The economic recovery has brought more liquidity and buyers into the market and banks are likely to get a better price for distressed assets, encouraging them to tip business into administration. "It's definitely a consideration from the banks' perspective," Mr Jahani said.

Last year, 9437 firms entered external administration, up 3 per cent from 2008, but liquidators said the increase would have been greater if banks and the tax office had not supported struggling small firms in the downturn. From January to February this year the number of companies entering administration jumped 42 per cent to 827, a 4 per cent rise from the same time last year.

RSM Bird Cameron partner Peter Marsden said small business insolvencies were "skyrocketing" at the moment as bank finance dried up.

He said many firms had depleted their working capital in the downturn but were now unable to access finance because banks had tightened their credit policies. Unlike listed companies, small firms could not go to the market to raise capital and stricter lending criteria were forcing more into liquidation.

"It's only starting to become apparent, we'll probably see it grow for the rest of this year and probably into next year as well," Mr Marsden said.

A tougher stance on debt from the Australian Taxation Office was adding to the difficulties for small firms, he said. The tax office had started to "flex their muscles" in an attempt to collect the huge amount of money owed by small businesses.

Small business went into 2010 owing the tax office \$7.7 billion, up 12 per cent from \$6.8 billion in 2008, according to the ATO.

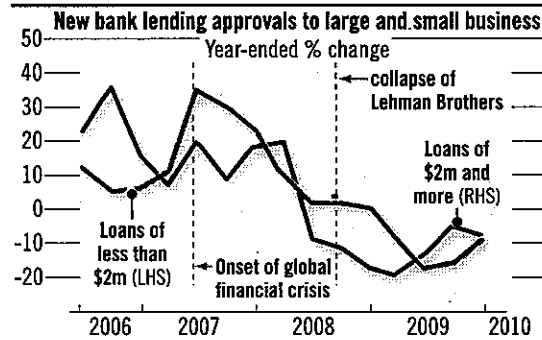
The ATO wound up 9908 businesses last year, from 8575 in 2008. A spokesman for the tax office would not say how many wind-ups had been initiated this year but said most would probably be in the small business sector.

"The tax office is probably the biggest funder of small business and it wants its money back," Mr Marsden said.

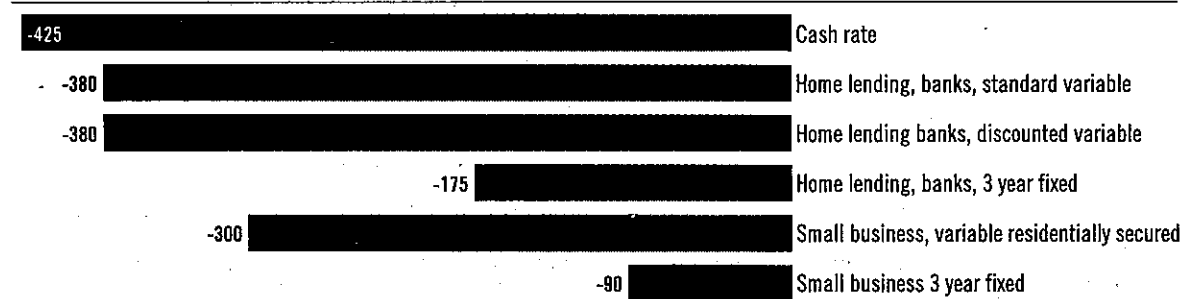
Finance brokers say the government's offer of tax breaks in the downturn had compounded the problem.

The ATO put in place a number of measures to assist small businesses last year, including 12-month interest-free payment arrangements and the opportunity to defer business activity

Hard to come by



Change in lending rates Aug 2008 to Sep 09



SOURCE: RBA

SENATE WEIGHS UP BANK COMPLAINTS

Industry complaints of tougher lending conditions for small business and calls for greater government intervention will be heard at a Senate inquiry, when major banks and industry groups respond to concerns about access to small business finance.

Commonwealth Bank of Australia, Westpac Banking Corp and the Australian Bankers' Association are expected to defend banks' lending practices at the inquiry in Sydney today in the face of criticism by small business groups that viable businesses are being pushed to the point of bankruptcy.

The National Association of Retail Grocers of Australia (NARGA) wrote in a submission to the Senate Standing Committee on Economics that employment in the small to medium-sized enterprise (SME) sector during the downturn remained steady, despite an uneven economic playing field.

"Even though all political parties express their support for small business, the importance of small business to the Australian economy tends to be underestimated and the political support so often expressed

statement payments. Small businesses have entered into more than 162,374 12-month general interest-free payment arrangements worth \$3.6 billion with the ATO and have deferred more than 3261 activity statement payments — a 400 per cent rise on 2008, according to ATO data. The rise in liquidations comes as conditions for

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small businesses rise to levels not seen since before the global financial crisis, according to figures from the Australian Chamber of Commerce and Industry.

Its February survey showed the small business conditions index rose to 54.0 points, its highest point since late 2007. The expectations index reached its highest level since the survey began in 1996.

Commonwealth Bank tipped 79 small businesses into administration in 2009, up 13 per cent from 2008. ANZ and NAB would not say how many small firms they had forced into administration in the past two years. Symon Brewis-Weston, CBA's executive general manager of local business banking, did not anticipate a pick-up

rarely translates to concrete action," NARGA said. "Whilst access to funds is a problem, the cost of funds is another disadvantage borne by SMEs."

The Australian Industry Group said in its submission that interest rates for business in the downturn reflected the relatively higher rates for personal finance rather than the significant falls seen in home loan interest rates.

"This has placed additional pressure on small business during a difficult operating period," Ai Group said. "There has been little incentive for businesses to improve their risk profile via better management, with the view that the banks only look at asset backing to determine the interest rate."

Westpac said SME customers made up about 5 per cent of its loan portfolio and 12 per cent of St George Bank's, and growth in this sector was a "strategic priority".

Westpac said some views about access to finance "are overstated or have contributed to a misunderstanding about banks' appetite for SME lending". There were no "major changes to key SME credit policies" regarding debt service and interest cover and loan-to-

value ratios (excluding commercial property) in the past 18 months, it said.

"In pricing banking services for our SME customers, Westpac Group has taken into account a range of factors including the expected increase in losses and provisioning and pricing for risk as a result of the business cycle, as well as higher capital charges and increases in the cost of wholesale funds," Westpac said.

But the NSW Business Chamber said an increase in market share of the major banks during the downturn was partly responsible for higher interest margins. "Spreads on small business loans have blown out from around 200 basis points to more than 400 basis points, and remain at this high despite the improvement in outlook over the last six months," it said.

Anecdotal evidence from small businesses showed banks had tightened lending criteria and undermined "the viability of otherwise profitable small businesses", the chamber said.

Alex Boxsell

ber 2008 loans to small business were just 2.70 per cent above the cash rate.

"Unfortunately we haven't seen the level of easing-up of the credit and finance markets for small businesses that we would have liked," COSBOA chief executive Jaye Radisich said. "There are still tight restrictions in place and in our view inordinately high charges that apply."

There are 1,233,200 small businesses in Australia, employing about half of the private-sector workforce, according to recent ABS data.

Griffith University economics professor Tony Makin said banks were more risk averse since the global financial crisis and had scaled back lending to small businesses accordingly. He said it was also smart politics for lenders to keep interest rates on business loans high but drop them on mortgages while liquidity was scarce. "If there's a shortage of funds, it's easier for banks to ration them out to small business rather than to home owners because of political pressures."

ACCI's director of economics and industry policy, Greg Evans, said more competition between lenders was needed to help SMEs.

"Since the global financial crisis there's less foreign bank participation and less non-bank lenders in the marketplace, there's less competition and less opportunity for SMEs to secure finance," he said.

Public to learn from ABC board

Marsha Jacobs

Board members of the failed childcare operator ABC Learning, including founders Eddy Groves and his former wife Le Neve, will face public examination as administrators target allegations of possible insolvent trading and breaches of director's duties.

Administrators from today will focus their questioning on claims of insolvent trading, breaches of director's duties, breaches by the former auditors and questionable bank transactions that might, if proven, allow unsecured creditors to challenge the banks' position on the collapsed childcare group.

ABC collapsed in November 2008 owing more than \$1 billion. Unsecured creditors are unlikely to recover any money unless the administrator succeeds in legal actions arising from the examinations.

Two weeks have been set aside for questioning of board members and banking syndicate representatives in Sydney.

First to take the stand today should be former chief finance officer John Gadsby. Ms Groves is expected to give evidence tomorrow.

Ms Groves is suing her former husband and two margin lenders for \$64.2 million, covering the loss of shares allegedly lodged as security for her former husband's margin loans.

Former chairwoman Sallyanne Atkinson will also give evidence tomorrow. Mr Groves is scheduled to give two full days of evidence — on Wednesday and Friday.

The company's former head of Australian operations, Martin Kemp, will give evidence next Tuesday, while banking representatives will be examined for two days next week.

A key focus of the examinations will be the validity of a charge taken out by a Commonwealth Bank of Australia-led syndicate over assets of ABC Learning five months before its collapse.

The examinations will assess whether ABC Learning was insolvent when it granted the charge, and whether the banks knew, or had reason to expect, it was insolvent.

If so, the law allows the charge to be set aside, so the repaid funds could be returned to all unsecured creditors who are otherwise unlikely to see a return.

Litigation funder IMF Australia is funding the examinations.

The examinations in Sydney follow an earlier round of examinations in Brisbane, where executives were questioned over ABC's demise.

Mr Groves' brother-in-law Frank Zullo was questioned over his private businesses ties with ABC.

In July, The Australian Securities and Investments Commission secured an order to freeze Mr Groves' assets and seize the property controlled by his wife, Viryan Collins-Rubie, preventing the pair from distributing their assets until June.

These orders were varied to allow Mr Groves to sell a property in Chantilly, France, co-owned with Ms Collins-Rubie, if he kept ASIC informed of the sale, provided a valuation certificate and did not draw on the proceeds.

Last month, the Federal Court granted approval for Mr Groves' luxury yacht and helicopter to be sold.