

34 BUSINESS CRISIS HITS HOME

Government calls in PPB to salvage ABC Learning wreck

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Services

NO one should be surprised that forensic accounting specialist PPB has been retained by the Federal Government to advise it on the growing financial and political disaster that is ABC Learning.

It was PPB that worked with the Howard Government when Ansett finally collapsed following the 2001 terrorist attacks in New York.

The more you examine the \$1.3 billion failure of the aggressively ambitious Brisbane group ABC the more it starts to look and smell like Ansett.

Ostensibly a private company, and a listed one at that, ABC — like Ansett — lived and died on government subsidies.

In Ansett's case it was the two-airline policy, for ABC a growing bucket of subsidies set to hit \$300 million this year.

The collapse of both hurt more than just ordinary shareholders and staff and that politically critical group of stakeholders —

schools in a world where most families want one and many need one.

The public policy debate has been thrown open.

In late September, ABC's board let Kevin Rudd's Government know behind closed doors that the company, already injured by poor management and then fatally wounded by plunging stock prices, was close to the edge.

A handful of ministers led by Deputy Prime Minister and Education Minister Julia Gillard have been scratching around trying to come up with a plan.

Gillard's department even set up a taskforce on September 24 to develop a strategy.

As the final curtain came down on Thursday, however, the Government appeared once again, as it did with its hasty but flawed bank guarantee, a little wanting, on day one, only words. Cold comfort.

Yesterday, after some behind the scenes argy-bargy with the banks, came a donation of \$22 million in taxpayer funds. Gillard

appeared defensive. "The \$22 million represents the possible cost of supporting the continued operation of these centres for two months," Ms Gillard said.

"It will allow parents to have the certainty that child care will be provided as usual in that period and will also provide stability for employees of ABC Learning."

The local banks, having done their dough already to the tune of \$1 billion — Commonwealth yesterday admitted an exposure of \$450 million after having written off another \$100 million already — will have played hardball with the Government.

Like Ansett's demise, ABC has been a slow-motion train wreck, starting with some nasty margin calls on senior executives and directors (what on earth were they doing there in the first place) that pitched the stock into freefall.

Victim of the global credit crunch? Not really.

To paraphrase an already over-used line from legendary investor Warren Buffett: "It's only when

the tide goes out that you find out who has been swimming with no clothes."

ABC was hamstrung by poor management, and a weak and non-independent board until earlier this year.

Imagine, for instance, having your main stockbroker on the board — Ausstock's Bill Bessemer — and then in turn having your chief executive own shares in the stockbroker. But wait, there's more.

"Ausstock has an exposure in relation to our property group of businesses, which owns childcare centre properties leased on the basis of long-term agreements to ABC," Ausstock said yesterday.

Then there is the small matter of the building work for the company undertaken by Eddy Groves' one-time brother-in-law Frank Zullo and not publicly disclosed for years.

Most of this was known at budget time, when Rudd's Government decided to tip in tens millions of dollars each year in subsidies — ABC is due for about \$300 million this year — to a

company that accounts for 25 per cent of the national childcare market. It's not quite that the Government has no one to blame but itself, but it must take some of the heat.

What it didn't know was that the accounts were such a "dirty, stinking, rotten mess", as one banker said, that Ernst and Young has not been able to sign off on them in four months.

While ABC's centres remain open, at least for the next six weeks, already ABC staff, in an industry notorious for its low wages, have felt the ice-cold breath of receivership.

Only hours after a voluntary administrator and a receiver were appointed, staff received a letter freezing their leave entitlements.

The letter pointed the finger squarely back at Gillard's mega-department — this time the employment arm — for any hope of a change of heart.

"Should there be insufficient funds to meet all priority claims you may be able to claim against the Department of Employment, Education and Workplace Rela-

tions," the letter said. More shades of Ansett, which will only grow longer if the group cannot be propped up much beyond December without finding a buyer.

There are other similarities, too, for the Government in that other wide-ranging corporate collapse, HIH Insurance, in which a sharp rise in public liability insurance had repercussions across a range of community events.

There is more, much more, to come on ABC.

The banks, which have tipped in a few more million for now, are keen to cap any extra liability, and the Government should be careful what it does with taxpayer funds.

To use another tired but appropriate line: those that don't learn from history are doomed to repeat it. So it's worth remembering that Ansett and HIH are both ongoing wind-ups.

It's going to be a long, long trek for Gillard.



Disaster: Eddy Groves