

18 February 2022



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Dear Alexandra

## Small Business Natural Disaster Preparedness and Resilience inquiry

CPA Australia represents the diverse interests of more than 168,000 members working in 100 countries and regions supported by 19 offices around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia and our members have been heavily involved in small business recovery from natural disasters over many decades. Our members play critical roles in advising on and developing disaster preparedness plans for business and shepherding them through the post-disaster environment.

Our submission is presented in two sections – Preparedness and Recovery.

### Preparedness

- Professional advisers are key to building business capability and preparedness for natural disasters. Governments should incentivise businesses in disaster-prone areas to engage their professional advisers to work with them to prepare disaster recovery and resilience plans and test their efficacy.
- Governments play a key role in knowledge sharing, lessons learned and building resilience – past approaches should be monitored and evaluated to ensure best practice and avoid past mistakes.
- Mitigating the impacts of natural disasters is critically dependent on a coherent climate change policy which addresses aspects of both adaptation and mitigation.

### Recovery

- Predetermined financial assistance frameworks should be developed to provide certainty, structure and reliability in the immediate response to a disaster. These frameworks should be scalable to the severity and impact of a disaster. A financial assistance framework approach would ensure that support can flow quickly to businesses in need.
- Governments and the private sector should prioritise locally-led recovery efforts that are based on the needs, ideas and relationships that exist in affected communities. It's critical for all stakeholders in disaster response and recovery to support local businesses first when seeking equipment, goods or services. This includes the delivery of business advisory services to impacted business through local professional advisers.
- Impacted businesses should be incentivised to remain engaged with their existing professional adviser over the long-term. Access to ongoing advice gives businesses, including the many that will never have a formal disaster recovery plan, the best opportunity for recovery, and for maximising their future options.

Further detail on a range of issues related to small business preparedness and resilience is below. If you have any questions about this submission, please contact Kimberley Ohayon, Manager Advocacy and Engagement – [Kimberley.ohayon@cpaaustralia.com.au](mailto:Kimberley.ohayon@cpaaustralia.com.au) or 0417 450 773.

Kind regards

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# PREPAREDNESS

## Issue

### Many businesses are not adequately prepared for natural disasters.

From our observations and feedback from members, many businesses are not adequately prepared for natural disasters, including businesses in disaster-prone areas. This is due to a combination of factors including them being time poor, prioritising other activities, not having the financial resources to pay for the preparation of such plans, complacency, expecting government support in the event of a disaster and not knowing how to prepare such plans.

A lack of preparedness impacts a business's ability to respond and recover from a disaster.

## Key Recommendations

Building prepared and resilient businesses requires them to better understand why this is important and how to do it. We therefore recommend:

- governments work with industry associations and local chambers of commerce to jointly promote why disaster preparedness is important to business and provide simple, clear and accessible resources
- governments incentivise businesses in disaster-prone areas to partner with their professional adviser to develop disaster recovery and resilience plans and to regularly test the effectiveness of those plans
- governments should invest in risk mitigation and adaption to address the economic, environmental and social costs of climate change
- local communities be funded to develop disaster recovery plans that include plans on sourcing support from local businesses.

## Building prepared and resilient businesses

The importance of preparedness and planning cannot be understated, and neither can the need to ensure that professional advice is sought and sought early. This should put businesses on their best footing in the event of a disaster.

Building prepared and resilient business requires businesses to better understand why this is important and how to do it.

Governments, working together with industry associations, professional advisers and local communities can develop messaging around why preparing for a disaster is important. This can include case studies of businesses that have gone through disasters. Industry associations, professional advisers and local communities are well placed to deliver that messaging and should be supported through the development of tools and resources.

To enhance the effectiveness of messaging on why disaster planning is important, time and resource-constrained businesses will need incentives to develop such plans and ensure they are effective. Businesses in disaster-prone areas should be incentivised to consult their trusted professional adviser to develop robust contingency plans that consider the many risks they may face. Such advisers typically have long-standing relationships with the business, and therefore have a deep understanding of the business, as well as the skills, to help them develop tailored plans.

## Capability and planning

The vast majority of businesses use an accountant to meet their tax compliance obligations (around 95 per cent of businesses use a tax agent to lodge their income tax return). However, professional accountants provide more than just tax or compliance services.

A professional accountant can work closely with their business clients to identify risks and opportunities in the business, conduct contingency planning and identify potential areas for growth or adaption in the business. A business that is regularly engaged with professional advisers (accountants, lawyers, technology advisers etc) are more likely to be prepared and resilient.

Disasters will affect different businesses in different ways and having a sound business plan, strong understanding of the businesses operations, as well as risks and mitigation strategies, will strengthen a business's capability to respond and recover from a natural disaster.

Governments should incentivise businesses to seek advice from their existing professional accountants (or other advisers) during non-crisis periods to help foster relationships, build business-owner knowledge and to develop strategies to deal with natural disasters.

### **Financial literacy**

To further foster preparedness for natural disasters, consideration should be given to the level of financial literacy in the community, particularly in relation to appropriate levels of insurance and making financial decisions during the recovery phase.

Underinsurance has been identified as a serious concern across many disasters, including the 2019-20 bushfire crisis. Past surveys have suggested more than 65 per cent of affected households were underinsured. Research conducted for the Victorian Government in 2016 found only 46 per cent of households were adequately insured against the potential impacts of emergencies, while 28 per cent were under-insured and 26 per cent had no insurance. There are several factors that can contribute to underinsurance or non-insurance, such as the cost of insurance, higher building costs to meet stricter building codes in disaster prone areas when rebuilding, and in some cases insurance payouts being required to pay off mortgages resulting in more funds being required for rebuilding.

Being underinsured is common but often unintentional. The Federal government has attempted to improve financial literacy with respect to preparing for natural disasters and ensuring against underinsurance through the Money Smart website. However, the levels of underinsurance and non-insurance identified suggests more could be done at a community level to educate households and businesses to ensure they are adequately prepared and covered if disaster strikes.

### **Digital capability**

Over the past 13 years, CPA Australia has surveyed over 35,000 small businesses across the Asia-Pacific. The results, presented in our annual [Asia-Pacific Small Business Survey report](#), show that the digital capability of Australian small businesses is typically well behind that of their counterparts in Asia.

We recommend that funding be significantly increased for programs that assist small businesses to improve their capability and capacity to digitally transform. This includes the use of cloud technology to protect their information assets, so they are accessible in the event of a disaster.

We also recommend an increase in technology training available to small business. Such training should include cybersecurity and data privacy. Cyber-attacks are another potential 'disaster' that businesses may face. By building their digital capability, businesses will be better able to fortify their systems against these risks.

### **Risk management, adaption and mitigation**

The science, politics and economics of climate change and sustainable development have long dealt with discussion about the merits and efficacy of adaptation versus mitigation policies. The consensus which has emerged over at least three decades of debate is that an integrated portfolio involving both trying to avoid greenhouse gas emissions (mitigation), whilst at the same time working towards coping with the impact of global warming (adaptation), is essential.

CPA Australia believes that governments should not miss the opportunity to address the complex and interdependent economic, environmental and social costs of climate change.

Mitigating the impacts of natural disasters is critically dependent on a coherent climate change policy which addresses aspects of both adaptation and mitigation.

This data and analysis emphasises Australia's persistently shifting climatic conditions, which compel the need to address bushfire and other national disaster responses in a coherent manner that ensures businesses are well-informed of climate risks and can take steps to adapt to and mitigate these risks.

## **Role of governments**

CPA Australia has developed considerable experience in small business disaster recovery since the Victorian Black Saturday bushfires of 2009. We continue to observe that all levels of government are poorly prepared to assist small businesses following a disaster. Not only is such support often slow to be delivered, it's also frequently complex.

When support and information is delivered to businesses, we often see duplication of effort and activity between governments and the private sector. We also often see the knowledge and expertise developed from previous disasters has been lost. This has a detrimental impact on the response to the next disaster that hits.

Better knowledge sharing, data sharing and capturing of lessons learned will help governments build resilient infrastructure and communities.

## **Building prepared and resilient communities**

Local communities in disaster-prone areas should develop and regularly review their own disaster recovery and resilience plans. Elements of these plans should consider what may be needed to support a community following a disaster, and how local businesses can help meet those needs.

The intent is to not only to ensure that the local community gets the support it needs but also that as much of that support as possible is sourced locally. Such planning would also identify gaps that local businesses can't meet. This would assist federal and state governments, and the private sector, to focus their efforts and avoid undercutting local businesses.

Governments could fund and assist local communities and their local chambers to develop such plans and develop white-labelled templates and tools to ensure key planning components are considered.

## **Continuous improvement – monitoring and evaluate**

There should be a continuous improvement approach to preparedness that regularly reassesses what is working and what is not. Government should seek to adapt and innovate where there are opportunities to support resilience and preparedness in communities. Data sharing, insights and experiences from across industries and locations will also contribute to more robust and considered decision making.

# RECOVERY

## Issue

### Many businesses will remain unprepared or inadequately prepared for natural disasters and may need external support following a disaster.

Despite the best endeavours of governments, professionals, industry associations and local chambers, many businesses will remain unprepared or inadequately prepared for natural disasters. Some businesses will find their plans are inadequate in the face of a large-scale disaster. Such businesses are likely to need some support following a disaster.

## Key Recommendations

To assist with small business recovery, we recommend:

- governments fund the development of an “off the shelf” scalable disaster support policy for businesses. The level of support should reflect the nature and magnitude of a disaster
- emergency support from governments and the private sector be directed to acquiring goods and services from local businesses first before considering bringing in outside assistance
- business advisory support should be primarily provided by local professional advisers
- businesses should be incentivised to partner their existing professional advisers during their long-term recovery efforts.

## Recovery and response

Although bushfires and other natural disasters are a regular and known occurrence each year, there does not seem to be a scalable response framework in place for small business impacted by disasters. This delays the time it takes governments to get business support out and impacts businesses’ ability to recover.

Once a government declares a natural disaster, predetermined assistance frameworks or models should become immediately available to impacted businesses. As the scale of a disaster changes (e.g., becomes more severe), the government could re-categorise support needed, allowing more assistance to flow immediately to business. We believe this will provide greater certainty to small business, advisers (who will assist their clients to access financial support), and policymakers (who can focus more on other matters than trying to design/redesign new support packages).

CPA Australia recommends that governments establish a ‘break glass in case of emergency’ model for business assistance following a natural disaster. That is, after a natural disaster is declared, there are standard forms of business assistance that can be deployed quickly. This will help to deliver the certainty many need following a disaster.

CPA Australia has observed different approaches to the delivery of business assistance between the states. This creates confusion and potentially places some businesses at a competitive disadvantage based on where they are located. The ‘break in case of emergency’ model would work best if there is one single national administration or enhanced coordination and cooperation between the states. The states may wish to add their own support in addition to the above, although multiple programs create uncertainty and confusion.

Such a model allows for the quicker implementation of predetermined policy measures to assist business – policy measures that have been subject to critical analysis and regular review to increase their effectiveness.

## Loan processing times

Loan processing times should have a mandated service-level so businesses know quickly whether their application will be successful. Businesses should have clarity about the loan assessment requirements so they have the best chance of submitting successful applications. There needs to be a consistent national approach to the delivery of assistance to businesses impacted by disaster – similar to the disaster assistance (including loans) delivered by the US Small Business Administration and the Federal Emergency Management Agency.

## **Small business role in locally led recovery efforts**

Significant opportunities exist to promote a locally-led recovery based on the needs, ideas and relationships that exist in affected communities. It's important to leverage local businesses first when seeking equipment, goods or services to aid recovery efforts – this avoids undercutting such businesses. Recovery authorities should also consider travel challenges for small or remote communities when choosing the location of recovery hubs and support services.

For example, for the Corryong and surrounding fires, there are only two roads in, and they were closed for approximately three weeks after the fires. This delayed support getting to these areas. The small towns in these areas were difficult to access and people in these communities tend not to travel far distances. The location of the initial recovery hub in Tallangatta meant that many people were required to travel long distances for support or that support services had to travel to the communities to provide assistance, as the recovery hubs did not effectively reach all those affected.

A further example of governments not supporting local businesses and communities in the recovery also occurred in Corryong. A generator provider who had a fire affected business in Corryong was not selected as the authorised generator provider for Corryong (by recovery authorities). People had to go to Albury (two hours away) to get the equipment and support they needed.

The generosity of the Australian community, business sector and governments following a disaster is exceptional. However, we find that government and the private sector can inadvertently undercut local businesses in their disaster response and recovery efforts. For example, they can reduce sales at local businesses that are trading if they bring in supplies and service providers from outside of the disaster area.

Governments and the private sector should take a local-first approach. This includes acquiring goods and services locally, and only bringing in outside supplies and service providers where there are gaps. This should be done in consultation with locals. Governments should work through local professional advisers to deliver business advisory and other business support services rather than establish their own services. The government should, however, be working to fill gaps in support they identify in partnership with local advisers.

This issue can be partially addressed through local community disaster recovery plans that identify where external help is not needed as local businesses can meet demand, and where it is most needed as local businesses cannot meet demand.

## **Seeking the right advice following a disaster**

Most businesses have existing relationships with a professional adviser such as an accountant, financial planner, lawyer etc. However, it's our experience that instead of leveraging these existing relationships to get information, support and advice to impacted businesses, governments create new advisory channels (or expand their existing channels) following a disaster.

The risk with this approach is the interactions are often short-term or transactional in nature (i.e., help with a grant form, or loan) and undermine the existing adviser's business and their relationships, knowledge and long-term understanding of their client and the community.

We believe governments should do more to leverage local professional advisers (e.g., accountants, lawyers, etc.) to provide business advice to small businesses following a disaster. This allows advice to be delivered quickly and by locals in impacted areas – locals who would already have a deep knowledge of their clients. This would be more effective than ramping up support or maintaining government-run small business support services at a level required to manage a surge.

Businesses will recover at different rates and need support at different times in the cycle post-emergency. Therefore, it is critical that local advisers be an integral source of business support. Government can work with and through local advisers to achieve recovery outcomes.

An impacted business' existing accountant is best placed to assist business owners make decisions during times of crisis, as well as preparing documentation required for concessional loans and other assistance.

Vouchers that impacted businesses can use with their existing professional adviser for advice would recognise that many of the professional skills required to assist business recovery are already on the ground in impacted areas. This encourages local solutions and keeps money in impacted areas.

## Small business and financial counsellors

With the 2019/2020 bushfires, we observed the establishment of a new Small Business Bushfire Recovery Support Line with a finite life span. Services like this should be recognised as a core capability for addressing future disasters and should be maintained with a base level capability, that could be scaled up and down in line with demand. Such a service would act as a secondary support service for business or backup for local advisers.

## Financial decision making in times of distress

During the initial recovery phase after a natural disaster, cash flow may be compromised. People or businesses may turn to short-term borrowing while waiting for payment of insurance claims or emergency grants. This may have longer-term ramifications when needing to repay debt later in the recovery phase. Conversely, large financial windfalls may be received due to insurance payouts, government grants, or charitable assistance.

Unfortunately, significant events such as natural disasters also attract those seeking to benefit from others' misfortune. There have been numerous examples of scammers in disaster affected areas taking advantage of people's goodwill or benefiting from those in need.

Financial literacy has long been a problem in Australian society. In a financial literacy survey conducted as part of the annual Household, Income and Labour Dynamics in Australia (HILDA) survey in 2018<sup>1</sup>, less than half those surveyed could answer five basic financial literacy questions correctly. In times of distress after a disaster, making sound financial decisions may be difficult when people are at their most vulnerable. However, at these times it is important to ensure people in affected communities are aware of the issues mentioned above, the risks involved and the decisions that need to be made.

Relevant, quality information needs to be made available in a timely manner. Fact sheets and public warnings, plus other resources, are already available and should be promoted especially following a disaster. Regular advice from professional sources in non-disaster times will also help improve financial literacy for small business.

## Tools and resources

There are a range of existing tools that can meet the needs of small business in preparing, building resilience and helping business recover from disaster. These resources have often been developed and refined over decades in response to best practice and field experience following a disaster.

We believe that if governments promote these existing tools and resources, it would be a better use of taxpayer resources than duplicating them. Where gaps or improvements are identified, those issues should be raised with the original authors by government agencies.

After the Black Saturday bushfires, we discovered there was a large need for information and guidance to assist businesses following a disaster. We developed a [small business disaster recovery toolkit](#) that takes businesses through a step-by-step approach to managing their business after a disaster. We make this toolkit available to government agencies, charities, small businesses and community groups following natural disasters both in Australia and overseas. We have adapted the toolkit to reflect our learnings from each of those disasters. Governments could share and build on this resource to amplify its reach.

CPA Australia's resources are regularly reviewed with real-world input and experience from our members who live in, work in and support disaster affected communities. We welcome any feedback on these resources from government agencies.

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<sup>1</sup> Chapter 9, the [13th Annual Statistical Report of the HILDA Survey](#), 2018