DISASTER RECOVERY TOOLKIT

STEPS TO RECOVERY

BE HEARD.
BE RECOGNISED.

CPA AUSTRALIA

ACKNOWLEDGEMENT

Author

This updated version of the disaster recovery toolkit for business was prepared by Jan Barned CPA, principal of Financial Management Trainer, fmtrainer.com.au

Contributor

CPA Australia gratefully acknowledges the input of Mike Sewell FCPA, director of Market Gap Investments.

CPA Australia Ltd ('CPA Australia') is one of the world's largest accounting bodies representing more than 150,000 members of the financial, accounting and business profession in 121 countries.

ISBN: 978-1-921742-52-1

For information about CPA Australia, visit our website cpaaustralia.com.au

First published 2014
CPA Australia Ltd
ACN 008 392 452
Level 20, 28 Freshwater Place
Southbank Vic 3006
Australia

CONTENTS

DISASTER RECOVERY TOOLKIT FOR BUSINESS

Introduction 4

Immediately following a disaster 5

Steps to recovery 8

The recovery plan 15

Cost to reopen 19

Long-term disaster recovery 21

APPENDICES

Appendix one: First steps templates 25

Appendix two: Action list to restart the business 26

Appendix three: Analysing the financial health of your business through ratio analysis 27

Appendix four: Costs to reopen your business 29

INTRODUCTION

Any business may fall victim to a disaster that may disrupt their business. The disaster may be an event such as fire, flood or earthquake, or a creeping disaster such as drought or disease.

Ideally, businesses would have a continuity plan to guide them through the initial impact of a disaster and assist business recovery. Unfortunately, experience shows that many businesses do not have a continuity plan or, if they do, it is inadequate. This exacerbates the impact of a disaster, making business recovery much more difficult than it should be.

This publication provides guidance to businesses impacted by a disaster – whether they have a continuity plan or not.

Following a disaster, it is anything but business as usual for you, your employees, customers, possibly your suppliers and the broader community. This guide has been prepared to assist you, as a business owner or manager, to take a considered approach to the many elements of recovery following a disaster.

The information in this guide has been grouped as follows:

1. Immediately following the disaster – Aspects to consider in the first few weeks following a major disaster
2. Steps to recovery – the analysis and evaluation each business should consider within the first few months following a major disaster
3. The recovery plan – Guidance on developing a plan to restart your business
4. Long-term disaster recovery – Additional activities to be undertaken post-disaster to ensure that the business operates more effectively and efficiently

The guide provides checklists and templates to assist in the disaster recovery process for your business as well as further references that can be reviewed if required.

This guide focuses on the business issues CPA Australia believes those affected, directly and indirectly, by a disaster should consider. Where you have difficulties with such issues, we advise you to seek the support and assistance of your accountant, trusted advisers and businesses in your supply chain who have an interest in the success of your recovery.

This guide does not focus on the myriad non-business issues that you may face. For those issues, we encourage you to seek the support from appropriate professionals.

IMMEDIATELY FOLLOWING A DISASTER

FIRST STEPS

The following is the suggested initial steps you should consider taking immediately following a disaster like a fire, flood or earthquake. These steps are focused on business issues only.

1. Overall damage assessment – develop a list of destroyed or damaged items, and estimate replacement costs. Include photos of the damage if possible. Do not commence cleaning up until you have contacted your insurer.
2. Contact your insurance company and discuss your damage assessment, your level of cover, how quickly your claim can be processed, how much and in what form a claim will be paid and when an insurance assessor will visit.
3. Contact all staff and establish their position – have they been affected, will they be able to return to work, when will they be able to return to work?
4. Contact key customers and suppliers to advise that the business has been affected. Let them know that you will notify them when you are ready to trade again and advise them if orders cannot be completed. Work with your customers to devise a strategy to assist them in continuing to receive the goods or services you usually provide – if they are kept informed they are more likely to assist your business recovery.
5. Make a list of key equipment, stock and other activities of the business that need to be operational for the business to reopen. If any of these items have been salvaged during the clean-up, store them in a safe and secure place.
6. If required, look for alternative temporary business premises. When assessing this requirement, not only does the premises need to be safe but you need to consider whether your staff, customers and suppliers will be able to access the alternative premises.
7. Contact government agencies that may be providing assistance to affected businesses.
8. Review your business records – collect all business records that have been salvaged, or copies kept off site that are retrievable. Where there are gaps in records, consider alternative sources to help you reconstruct your financials. You may like to talk to your accountant at this stage for assistance.

INITIAL ASSESSMENT CHECKLIST

Initial damage assessment	Yes	No
• Are your premises operational?	☐	☐
• Can you recommence trading from your premise without significant repairs?	☐	☐
• Can you recover any of your stock, supplies and/or equipment?	☐	☐
• Have you created a list of your damaged and undamaged stock, equipment and other assets?	☐	☐
• Have you prioritised the list of equipment and assets you will need to get the business back up and running?	☐	☐
• Have you taken photographs of the damage including premises, equipment, stock etc.?	☐	☐
Contact your insurer		
• Have you given your insurer your preliminary damage assessment?	☐	☐
• Has your insurer been able to tell you what your insurance payout is likely to be, when the payout is likely to be made and whether it will be in the form of cash or asset replacement or a mix of both?	☐	☐
Contact key stakeholders		
• Have any of your staff been affected by the disaster?	☐	☐
• Are you keeping staff, key customers, suppliers and lenders informed of what you are doing in response to the disaster?	☐	☐
• Do you need to put off staff for the time being?	☐	☐
• Do you need to postpone purchasing supplies for the time being?	☐	☐
• Can you cancel orders that you have made?	☐	☐
• Have you informed customers where supply orders cannot be fulfilled at this time and assisted them to fill such orders from other suppliers until you will be able to supply them again?	☐	☐
• Have you collected your computer back-ups and other necessary information from storage?	☐	☐
Contact disaster support services		
• Have you contacted government support lines to determine if you qualify for assistance from the government?	☐	☐
• If you qualify for support, have you applied for it?	☐	☐
• Have you determined what support government agencies may be providing, including deferral of the lodgement of tax returns?	☐	☐

REALITY CHECK

Before jumping right in to reopening or continuing your business after any disaster, you should do a "reality check". Such a "reality check" should be focused on whether you really want to restart or continue your business. While business owners may not be ready for such a "reality check", it should be undertaken at some point. You might need the help of a trusted adviser, such as your accountant to help you make these decisions.

If your passion for your business is no longer there or the business was not achieving your objectives before the disaster, one option is to exit your business. For information on what to do if you decide to not restart, or exit, your business, see the section on "Exiting your business".

REALITY CHECK CHECKLIST

Business and personal reality check	Yes	No
• Were you happy running your business before the disaster?	☐	☐
• Were you making the profit you wanted?	☐	☐
• Do you prefer being your own boss?	☐	☐
• Have you considered other opportunities?	☐	☐
• Are you prepared for the potential extra demands that recovering your business will place on you, both personally and financially?	☐	☐

STEPS TO RECOVERY

Once you have undertaken an initial assessment of your business following a disaster, you should take a closer look at your business before making any decisions. The following are our recommendations as to how you can review your business operations.

ASSESS THE STATE OF BUSINESS FINANCES

We suggest that you determine the financial position your business. This is important as:

- there may be substantial outgoings you have to pay before you can restart, therefore you will need to assess how to fund these outgoings and whether you can afford it
- there may be a significant period before you can restart trading and therefore you may have to rely on existing sources of cash until that time
- it can assist in determining insurance claims, such as business interruption insurance
- it will be a key factor in determining which direction you can take your business in the future

STATE OF BUSINESS FINANCES CHECKLIST

State of your business finances	Yes	No
• Do you have copies of your most recent financial statements, including profit and loss, cashflow, bank statements and tax returns?	☐	☐
• Was the business operating profitably before the disaster?	☐	☐
• Was there adequate cashflow in the business prior to the disaster?	☐	☐
• Do you have a record of the debts owed to the business prior to the disaster?	☐	☐
• Do you have a record of the debts the business owes and to whom?	☐	☐
• If you do not have financial records, do you have access to information to reconstruct the financial records of your business	☐	☐

RECONSTRUCT YOUR FINANCIAL RECORDS

To determine your initial financial position after a disaster, and to undertake a more detailed analysis of the financial health of your business, you may need to reconstruct your financial records if those records have been lost in full or in part.

If you have not been able to salvage your financial records, your first step in reconstructing such records is to seek evidence of past financial transactions.

Where such records no longer exist or are incomplete, the following list can help you identify potential sources of information to help you reconstruct your financial records.

LIST OF POTENTIAL SOURCES OF FINANCIAL HISTORY

Source	Potential Information
Surviving files /Back-up data	See if any files, including electronic files can be recovered, including any back-up data you may have.
Taxation Office, State revenue authorities	Prior income tax returns and other tax forms. In Australia, this includes Business Activity Statements, Fringe Benefit Tax returns, PAYG Annual Statements, Employer Declarations, Payroll Tax returns etc.
Accountant	Your accountant may have copies of financial statements and tax returns for your business.
Banks, credit unions and building societies	Past bank statements are a great resource for reconstructing your records. For example, a business may remember or take a good guess at what many of the transactions on a bank statement were for, even though the primary records of the transactions are gone. Banks can charge for replacement statements, however they may waive such fees following a disaster.
Off-site sources	Consider whether any files are kept off-site, for example, where activities are outsourced e.g. IT, payroll, etc. In such a situation, the service provider may have information on file. If you have cloud data you may be able to retrieve the data quickly.
Staff	Ask staff if they have records off-site, e.g. emails, documents on their computer, memory sticks and other electronic storage devices.
Lenders	If your business has borrowed money from a bank or another lending institution, they may have financial information on file, such as annual financial statements, forecasts and budgets and other information regarding the loans.
Customers and suppliers	Customers and suppliers may have invoices, remittance advices, purchase orders, receipts etc. that they may share.
Corporate regulator	Your financial statements may have been lodged with the corporate regulator. In Australia, the regulator is the Australian Securities and Investments Commission.
Auditors	If your financial statements are audited, your auditors may be able to provide copies of work papers and other records obtained during an audit as well as any policies or procedures they may have taken copies of and financial statements.
Insurer	Your insurer may have a list of the assets owned by the business.
Other government agencies	If the business has received government funding/grants, the awarding government agency may have records.
Accreditation, certification or licensing bodies	If your business is subject to any other form of certification, licensing or accreditation, those bodies may have records that could be used.

Land registry	The government body responsible for holding titles to properties, such as the Titles Office, should have copies of titles to properties you own
Lawyers and finance companies	Lawyers and financing companies may have copies of contracts your business has entered into which could include hire purchase, leasing, rental agreements etc.
Landlord or landlord's agent	Your landlord or your landlord's agent should be able to provide you copies of your lease agreement.
Email correspondence	The business, the business's internet service provider or staff may have copies of emails and documents forwarded to clients, suppliers and other relevant parties. This will also have the additional benefit of assisting with the reconstruction of contact lists if not backed up. If a mobile phone was in use, data may be available from the carrier if the handset was lost.
Share registries	Where the business owns publicly traded securities, share registries may be able to help you determine what shares the business owns.

ANALYSE THE FINANCIAL HEALTH OF YOUR BUSINESS

Reviewing the financial health of your business should be part of the process you undertake before reopening after a disaster. This involves more than just preparing or reconstructing your financial statements. Financial statements allow you to undertake a detailed analysis of your business through financial ratio analysis. Such analysis will help you determine whether it is financially viable for you to reopen your business and assist in determining how you want your business to operate after you reopen.

Analysis will also enable you to spot any trends emerging in your business prior to the disaster and compare how your business performed against similar businesses in your industry. Such information will be useful in identifying areas of the business that were operating well and those areas that should be improved or shut altogether.

There are many financial ratios you can use to assess the financial health of your business. The main ratios (which are grouped into broad areas) are:

Liquidity ratios

Assess your business's ability to meet all payments as they fall due. In general it is better to have higher ratios in this category as it indicates an ability to withstand tight cash-flow periods (which is likely after a disaster).

Solvency ratios

These ratios indicate the extent to which the business is able to meet all debt obligations, including longer term commitments.

Profitability ratios

These ratios measure your business performance and ultimately indicate the level of success of your operations. You can use these ratios to assist in determining whether the pricing of your products and services before the disaster were adequate to achieve your desired profit, and how the profitability of your business compares with industry averages. These ratios can guide you in your pricing policy upon reopening.

Management ratios
Management ratios monitor how effectively you were managing your working capital before the disaster. For example, if the days you were taking to collect your debtors were longer than the days you were taking to pay your creditors, this indicates that you were paying money out before you were receiving money for that same good or service, which increases the risk of you experiencing cash-flow difficulties. If this is the case, then upon reopening your business, you should seek longer payment terms from creditors and try to reduce the length of time it takes to collect debts.

Balance sheet ratios
These ratios indicate how efficiently your business is using assets and equity to make a profit.

When undertaking this analysis of your finances, it is useful to compare the results to other businesses in your industry – this is referred to as "benchmarking". Benchmark data can be found from a number of commercial providers. Basic benchmarking data for some Australian industries can be found on the Australian Taxation Office website at www.ato.gov.au (search "benchmarks").

Appendix 3 has a template that you can use to help complete the following checklist.

FINANCIAL ANALYSIS CHECKLIST

Financial health check	Yes	No
• Do you have adequate cash (such as cash at bank, money owing from customers and stock) to cover debts due and payable in the next few months?	☐	☐
• Is your stock easily converted to cash, if needed, to pay debts?	☐	☐
• Does your business rely on debt to operate?	☐	☐
• Does the business have adequate assets to cover all commitments including long term debts?	☐	☐
• Do you know what your gross margin is?	☐	☐
• Do you know what your net margin is?	☐	☐
• Do you know what your break-even amount or volume is?	☐	☐
• Do your customers pay on time?	☐	☐
• Are your suppliers paid on time?	☐	☐
• Do you know how effective the assets of the business are in generating profits?	☐	☐
• Do you know what the return on investment for your business is?	☐	☐

TAX ISSUES ASSOCIATED WITH A DISASTER

A common issue that businesses face is what tax consequences are associated with a disaster, such as the tax treatment of insurance payments, including your insurer replacing old assets with new as well as tax lodgement and tax payment obligations.

You should be able to access information on the tax issues associated with a disaster from the Taxation Office and/or your accountant.

For example, the Australian Taxation Office website has a range of information on Australian taxation issues associated with a disaster, including lodgement of tax returns, payment of outstanding tax debt and their interpretation of the tax treatment of issues such as insurance payments. This information can be found by visiting the ATO website at www.ato.gov.au and searching for "natural disaster".

EVALUATE YOUR MARKET FOLLOWING A DISASTER

Following a disaster, particularly one that affects not just your own business but your customers, suppliers and the broader community, many things can change. For example, your main suppliers may have been impacted or, due to the delay in getting your business back up and running, some of your customers may have found new suppliers. Conversely, there may be new opportunities for your business as a result of the disaster. Such evaluation will help you determine what products or services you should be offering upon reopening, or whether your business model will be successful in the new environment after a disaster.

EVALUATING YOUR MARKET CHECKLIST*

Evaluating your market checklist	**Yes**	**No**
• Have you analysed the potential demand for your product or services post disaster? For instance, consider whether your products/services are discretionary or essential items that your clients are going to require, regardless of the disaster's impact?	☐	☐
• Have any of your key customers and/or suppliers been affected by the disaster and, if so, will this impact your business?	☐	☐
• Has the disaster led to other businesses in your area closing? If so, have you determined how this may impact your business?	☐	☐
• Have you considered factors that may be impacting your suppliers? Make sure you think along the whole supply chain for areas that may have been impacted.	☐	☐
• Are there new products and services that you can offer that are complimentary to your current offering that will help fill new needs following a disaster?	☐	☐
• Have you assessed whether relocation of the business could be a better option?	☐	☐
• Have you incorporated your analysis of the new market conditions post the disaster in your recovery plan?	☐	☐
• Is there an opportunity to consider "collaboration" with suppliers, other businesses in your area and clients?	☐	☐

* *Business Recovery Fact Sheet*, Chamber of Commerce and Industry Queensland Fact Sheet, January 2013

EVALUATE HOW YOUR BUSINESS WAS RUNNING BEFORE THE DISASTER

Before you reopen your business, you need to take time to evaluate how your business was running before the disaster. Evaluating both the financial position of your business and how it was operating prior to the disaster will give you great insight into what is needed to move forward.

Although there will be many things that need to be done after a disaster, reviewing the way your business operated before the disaster and considering how you would like to operate the business into the future will give you a clear picture on where to start, something that is often a difficult task following a disaster.

Lessons learnt from the evaluation of your business before the disaster should be incorporated into your recovery plan. For instance, you should ask whether it would be better to adopt new technologies when you reopen your business rather than just replace equipment on "old for new" basis.

The analysis does not have to be a lengthy process at this stage, but it is important that you take time to assess where you want the operations of your business to go and how you will get there. This could be a simple SWOT (strengths, weaknesses, opportunities and threats) analysis. Areas that should be considered in the SWOT include operational procedures, marketing strategies, financial results, staffing, customers, potential markets and innovation.

EVALUATING YOUR BUSINESS CHECKLIST

Evaluating your business checklist	Yes	No
• Is your business in the right location?	☐	☐
• Did you have the right staff?	☐	☐
• Did you have the right level of staffing?	☐	☐
• Did you have the right mix of staffing e.g. permanent, part-time, and casual?	☐	☐
• Did your technology need updating?	☐	☐
• Were all your assets operating to maximum efficiency?	☐	☐
• Was the business holding excess or aged stock?	☐	☐
• Were customers paying on time?	☐	☐
• Was cashflow an issue?	☐	☐
• Did your business have adequate market share?	☐	☐
• Was your pricing, service etc. competitive?	☐	☐
• Are there other opportunities for your business?	☐	☐
• Do you know of any threats to the business (such as potential government regulation etc.)?	☐	☐
• Was there adequate promotion for your business?	☐	☐
• Was the business utilising social media?	☐	☐
• Were you adequately insured?	☐	☐

Now is the time to review your business strategy and create a strategic plan and business plan to check the viability of your assumptions and help redefine the business for the future – what does it need to look like to satisfy you as the business owner and your clients?

EXITING YOUR BUSINESS

Most businesses affected by a disaster will reopen their business in some form. Some businesses affected by a disaster, however, will close. This is a legitimate business decision that should be part of your considerations.

The reasons a business may be wound up are many – a natural disaster may just bring some of those reasons to the fore. Some of those reasons could include (and many of these reasons are linked):

- having insufficient funds to recommence operations or continue operating
- carrying too much debt and being unable to service that debt
- inadequate cashflow
- An insufficient range of products or services, or the wrong range of product and services following a disaster
- insufficient sales/poor location
- lack of planning for the reopening of the business and an inability to adapt to the new environment
- poor credit controls and inadequate debt collection
- ill health of owners and key employees
- no longer having the passion to run a business

There are risks if you continue your company while it is insolvent. For information on the consequences of insolvent trading in Australia, please visit the Australian Securities and Investments Commission website (www.asic.gov.au). Alternatively, your accountant or lawyer can explain the risks to you.

There are several ways a business owner can exit their business, including:

- selling the business
- closing down the business – selling assets and discontinuing trading
- passing the business on to a family member, partner, employee or other stakeholder
- merging the business with another business
- liquidating the business and selling off the assets
- forced closure – filing for bankruptcy or liquidation.

For further information please refer to cpaaustralia.com.au and search for "Guide on Exiting Your Business".

THE RECOVERY PLAN

In developing a plan to restart your business, make sure you have all the information you need to make considered decisions. Following the Steps to recovery section of the toolkit will give you much of the information you need to develop a recovery plan that will shape the future direction of your business. When using this information, be sure to consider as many alternatives for your business as necessary. These can include:

- Continuing to operate to the pre-disaster business model
- improving on existing business performance
- changing the business model (for example a bakery might decide to begin the business again as a cafe)
- exiting the business altogether

It is recommended that you seek professional advice in developing a recovery plan and implementing that plan. Such independent advice may be invaluable to avoiding mistakes and capitalising on opportunities.

As the authors of *"Are U Ready? Surviving Small Business Disaster"** state: "Remember, the decisions you make at this point concerning your business, if not thought through very carefully, could be detrimental to your future. Your decision could also have an impact on many other people, including the broader community, and could possibly affect others' livelihood as well."

DEVELOPING A PLAN

Once you have gone through the initial steps following a disaster, the business is better placed to reopen. The next step is to develop a recovery plan.

A recovery plan should state what the business needs to reopen, such as processes and equipment that are critical to reopening and your recovery objectives, including actions to achieve those objectives and who is responsible for those actions.

Such a plan, together with cash-flow forecasts and profit and loss budgets will help a business determine whether it is viable to reopen, what the business will look like after reopening and how the business is going to finance the reopening.

In developing a recovery plan, it may be very difficult to make assumptions in a post-disaster environment – past experiences may no longer be relevant and the market may have changed significantly, at least in the short term. The evaluation of the market following a disaster will help you with your assumptions.

Part of your plan should include a review of your business strategy. You should create or update your strategic plan and business plan to check the viability of your assumptions and help redefine the business for the future – what does it need to look like to satisfy you as the business owner and your clients?

If your planning shows that it will be difficult to finance your planned reopening, the plan may have to be modified or the business owner may have to consider exiting the business (see Guide to Exiting your Business).

Below are suggested steps to develop a recovery plan. Ideally, you should look to follow these steps in the first month after the disaster.

* *Are U Ready? Surviving Small Business Disaster*, Anthony Turner and Sandra Slatter, 2012, www.areuready.com.au

CHECKLIST TO ASSIST IN DEVELOPING A RECOVERY PLAN

Questions to consider in developing a recovery plan include	Yes	No
• Have you considered and written down your recovery objectives, actions and priorities?	☐	☐
• Have you established a recovery team, with clear responsibilities, to implement your recovery plan?	☐	☐
• Can you support staff working off-site?	☐	☐
• Are you aware of all the requirements to reopen your business? For example, do you need to arrange for the short-term lease of essential equipment until it can be replaced?	☐	☐
• Do you have adequate resources (staff, finances, etc.) to bring the business up to normal operating levels or to a level you want or the level that reflects current market conditions?	☐	☐
• Have you costed your recovery plan? If so, can you afford such a plan?	☐	☐
• Do you have a marketing strategy to promote that you are open for business?	☐	☐
• Have you incorporated the lessons learnt from running your business prior to the disaster into your recovery plan?	☐	☐
• Have you incorporated your analysis of the market conditions post- disaster in your recovery plan?	☐	☐
• Does the recovery plan reflect your financial goals (for example, the return on investment you want to achieve)?	☐	☐
• Have any of your key customers and/or suppliers been affected by the disaster and, if so, have you consider how this may impact your business and developed responses to minimise such an impact?	☐	☐
• Has the disaster led to other businesses in your area closing? If so, have you determined how this may impact your business?	☐	☐
• Has the disaster impacted key suppliers? If so have you considered how this may impact your business and developed responses to minimise such an impact?	☐	☐
Have you considered the following in your recovery plan?		
• Adding new product lines or removing existing product lines?	☐	☐
• Adding or reducing services?	☐	☐
• Reducing operating costs?	☐	☐
• Adopting new technologies and processes?	☐	☐

Location	Yes	No
• Given the potential changed market conditions, is your business in the right location?	☐	☐
• Are there any plans by government or others that may impact the viability of the location of your business, such as changes that may restrict access?	☐	☐
• Have other businesses reopened, or planning on reopening, in your area?	☐	☐
• Is the size of your premises to large or small given the future potential of your business?	☐	☐
Staffing		
• Are your existing staff still willing and able to work for you?	☐	☐
• Can the staff assist with the reopening of the business?	☐	☐
• Has the potential changed market conditions (possible falling demand) impacted on your ability to retain existing staff and on the hours they previously worked?	☐	☐
• Do you need to recruit new staff?	☐	☐
Major equipment		
• Do you still have the plant and equipment your business needs to restart? If not, will your insurer replace compromised equipment, or will you need to acquire it?	☐	☐
• If you have to acquire equipment, have you analysed whether it is better to pay for, lease or hire purchase the equipment?	☐	☐
• Is the acquisition of the equipment (including maintenance costs, other running costs and insurance) justified given the possible changed market conditions?	☐	☐
• Is the necessary expertise readily available to install and operate such equipment?	☐	☐
• Have you considered adopting new equipment and technologies that will help your business be more efficient or effective than it was prior to the disaster?	☐	☐
Inventory		
• If stock or supplies are to be replaced, have you reviewed historical information to see which stock is slow-moving and/or has a low profit margin? If it is, have you considered removing it from your product range?	☐	☐
• Have you made an assessment of whether the changed market conditions will impact the buying patterns of your customers?	☐	☐
Pricing		
• Have you undertaken a break-even analysis to determine whether the prices you charge are making the profit you want to achieve?	☐	☐
• Have you compared your pricing to your competitors?	☐	☐

Can you afford to reopen your business?	Yes	No
• Have you completed a cash flow forecast and a profit and loss budget?	☐	☐
• Have you used the forecasts detailed above to run "what if" scenarios to measure how your cash flows will be impacted by unexpected events?	☐	☐
• Do you intend to fund the reopening of your business from existing business sources, your own personal resources, other investors, banks and other lenders, or a mix?	☐	☐
• Do the forecasts and financial statements show whether the business can afford to use internal sources of finance to fund the reopening or will you have to seek external funding?	☐	☐
• If you cannot afford your recovery plan, have you considered adjusting your recovery plan to something that is affordable, or even exiting your business?	☐	☐
• Where the business has existing debt financing arrangements, have these been reviewed to ensure that the finance facility fits the new needs of the business?	☐	☐
Sources of finance		
• Even if you can fund the reopening of the business from internal sources, have you analysed whether it is better to use external sources of finance?	☐	☐
• If you are seeking debt finance, have you spoken to your bank about your recovery plan and your funding needs?	☐	☐
• What existing lines of credit does the business have access to and can these lines of credit be accessed to fund the reopening of your business?	☐	☐
• If you do seek debt finance, what security does the business now have available?	☐	☐
• If you are seeking debt finance, have you determined for what reason you are seeking the money (e.g. to fund stock purchases or the buy equipment), over what term you are borrowing for and how much?	☐	☐
• Have you considered financing the reopening of your business from your own personal resources or from other investors?	☐	☐
Marketing		
• Do you intend to advertise that your business has reopened?	☐	☐
• Is there any promotion of your local area by government and others?	☐	☐

COST TO REOPEN

It is essential that you prepare financials to support your recovery plan. This will help determine if your plan is affordable and generates the profit and cash flow you are seeking to achieve. If it does not, then you should consider adjusting your recovery plan.

The first step is to evaluate the costs associated with reopening your business. You should make a list of the items needed to reopen your business and put a cost or indicative cost next to each of those items.

It is most likely that you will have at least two lists – one which details all the items that will be replaced by your insurer and one for other equipment and stock items not covered by insurance but required to reopen your business. See Appendix One for a template.

In the second list you should also include a list of alternative payment/finance methods, such as short-term hire, leasing or obtaining stock on consignment. A complete list that includes these alternatives, together with where each item or service can be sourced, in addition to contact details will provide a good checklist. A template to help prepare this information has been provided in Appendix Four.

Once you have this information you should prepare the financial plans for reopening. The two important financial plans for the future of any business is the profit and loss budget and the cash-flow forecast.

FUTURE PROFITABILITY – PROFIT AND LOSS BUDGET

It is important to estimate the profitability of your business upon its reopening. This can help you determine whether it is worthwhile to reopen your business and the form in which you want to reopen the business.

The best way to determine the future profitability of your business is to prepare a profit and loss budget. The budget should be consistent with your recovery plan.

When developing a profit and loss budget, you will need to make a list of all the assumptions that are included in your budget. Assumptions are those key items that you have included in the budget that, if not achieved, will make a substantial difference to the profit outcome. If you have not prepared a budget before, then you may like to seek assistance from your accountant.

CASH-FLOW MANAGEMENT

Cash-flow planning is also essential for business recovery after a disaster and more broadly for business success. A cash-flow forecast will be fundamental in determining whether your business has the cash to reopen in the way you want the business operate.

If the forecast shows that you do not have adequate cash flow to reopen the business under your recovery plan, then you will need to either seek additional finance to cover the shortfall, modify your plan or even consider not reopening. A cash-flow forecast may therefore highlight that exiting your business may be a preferable option to reopening.

Once the forecast is complete, you can run some "what if" scenarios to measure how reactive your cash flows will be to certain changes in events, such as decrease in sales or increase in recovery costs. This will show you how quickly you may run out of cash if any of these events occur.

The Small Business Victoria website has templates of a profit and loss budget and a cash-flow forecast. Refer www.business.vic.gov.au and search "profit and loss budget" or "cash-flow forecasts".

FINANCING THE REOPENING OF YOUR BUSINESS

A cash-flow forecast may show that you will need additional finance to fund the reopening of your business. There are a number of ways in which you can access funding to help you reopen your business and it is recommended that you review all of the options before you start to implement your recovery plan.

Improving business performance

Funding your business through improved cashflow is one of the best financing methods as there will be no compliance requirements, it does not increase your outgoings and this will eventually free up time for you to improve other areas of your business.

You can improve your cash flow in a number of ways including:

- collecting outstanding debts and implementing improved processes for quicker collection of customer payments
- skewing promotions to products and services that can be turned into cash quickly

- measuring and rewarding staff behaviour that improves cash flow
- making full use of your terms of trade
- not letting personal drawings from the business get out of hand
- reducing stock levels
- replacing slow-moving and obsolete stock with stock that has a faster turnover
- selling unnecessary assets
- selling damaged stock and assets from the disaster, for example via online selling sites

Grants and government subsidies

Often after a disaster, governments may offer grants, cheap loans and subsidies that will be available to businesses impacted by a disaster. These grants and subsidies often require completion of documentation and the grant may take some time to be paid to your business, so it's best you ensure you understand these processes and allow for realistic time frames to receive such assistance (if you are eligible).

Debt finance

Financing your business from a bank, credit union or other financial institution may be an option to assist in the reopening of your business. You may have an existing debt financing arrangement in place that you can use or you may consider approaching a financial institution to provide the additional funds required.

Where your business has existing debt financing arrangements you should review these to ensure the finance facility and structure fits the new needs of the business. If you have existing lines of credit you will need to discuss with your lender if these lines of credit can be accessed to fund the reopening of your business.

When looking for finance from your bank or other lender, you will need to be upfront with them on your needs and your recovery plan. It will be necessary to have written documentation to give to a potential lender detailing:

- the estimated costs required to reopen your business
- any insurance payments you are due and a copy of your insurance policies
- details of any government grants or subsidies you will be applying for or have been successful in applying for
- information on any security that can be offered to the lender
- your profit and loss budget
- your cash-flow forecast (including the loan amount and assumptions)
- historical financials (if available)
- detailed description of what the funds will be used for, how long you will need them for, and how much you need to borrow
- your business and/or recovery plan

Even if you can finance the reopening of the business through existing funds you should still analyse if debt funding may be the better option. You should seek the advice of your accountant or relationship manager with your bank to consider this.

Other finance – your own personal funds and other investors

You may consider utilising your own personal funds to assist funding the reopening of your business. If you are considering this option, you will need to carefully assess what funds are available if your personal assets have also been impacted by the disaster. It is important for the recovery process that funding (for both personal and business needs) does not add to the stresses of recovery.

The other option may be to consider seeking out one or more investors. This could be in the form of bringing in a partner or others to help run the business in return for them buying a stake in your business. In some circumstances, potential investors may choose not to be a part of the operations of the business but can provide business mentoring if needed.

If you are considering seeking funds from investors, you should discuss this with your accountant and/or lawyer. An important point to remember is that by bringing in investors, the control of your business will have to be shared.

LONG-TERM DISASTER RECOVERY

Once you have prepared your recovery plan and reopened your business, it is time to reflect on lessons learnt from your recovery to ensure that your business is in the best possible trading position.

To start off on this recovery step, you should consider the following:

CHECKLIST OF LONG-TERM DISASTER RECOVERY ISSUES

Lessons learnt	Yes	No
• Have you documented lessons learnt from your business recovery?	☐	☐
• Have you considered putting in place a business continuity plan to help you in case you go through another disaster?	☐	☐
• Have your reviewed your insurance policies to see whether they are adequate and whether there are any gaps in your insurance coverage?	☐	☐
Business licences and documentation		
• If you lost copies of your business registration certificates, licences and other official documents necessary to operate your business, have you approached the relevant agencies to get them replaced?	☐	☐
Record-keeping		
• Have you considered what accounting system you are going to use or continue to use to keep your financial records up to date?	☐	☐
• Are there any improvements you can make to your record-keeping system, such as keeping backups of your financial system offsite, or considered using cloud based services?	☐	☐
Meeting statutory obligations		
• Have you considered what statutory obligations you have to meet, such as lodging a tax return?	☐	☐
• Have the requirements to lodge and pay such tax and other obligations been delayed?	☐	☐
• Has your reconstructed financial records given you the necessary information and evidence to be able to complete such returns?	☐	☐
Thanking everyone		
• Have you thanked everyone involved in assisting you?	☐	☐

LESSONS LEARNT

Following a disaster, there will be many lessons learnt from the event that can be used to ensure that your business is in a good position to prosper. Although recovery may be a drawn out process, it is recommended that you review how your business was run before the disaster to find areas to improve post-disaster, particularly while these lessons are still fresh in your mind.

Importantly, you may need to implement processes and practices that you may not have had pre-disaster.

ASSESSING POTENTIAL BUSINESS RISKS

Every business is subject to possible losses from unmanaged risks. Sound risk management should reduce the chance that a particular event will take place and, if it does take place, good risk management practices should reduce the impact. Risk management starts by identifying possible threats, considering the likelihood of those potential risks, considering your risk appetite and implementing processes to minimise or negate them.

Sound risk management can produce the following benefits:

- lower insurance premiums
- reduce the chance that the business may be the target of legal action
- reduce losses of cash or stock
- reduce business down time

Some businesses may respond to a disaster by over-managing risk. Being in business is a risk and not all risk can be managed away. The more you try to manage away risk, the less focus you have on your business, which will eventually negatively impact your business. In short, focusing too much on reducing risk is a risk itself.

For more information on managing risks in your business visit cpaaustralia.com.au and search "Risk Management Guide for Small and Medium Size Business".

IMPROVING BUSINESS PERFORMANCE

As you take the path to recovery, you may make many observations on how your business was operating prior to the event. You will have hopefully noted how the market has changed, and you will most likely have identified a number of areas of your business that could be improved.

One of the most important things to do when your business is recovering from a disaster is to look for improvements and to build a continuous improvement process. Implementing a continual improvement program in your business will ensure that all key business resources are being utilised efficiently and effectively at all times. It will also help ensure that your business not only responds to changing business conditions, but prospers in such conditions.

There are many activities that can be reviewed and undertaken to improve the overall performance of your business.

For more detailed information on how to improve the performance of your business, visit cpaaustralia.com.au and search "Improving business performance".

PREPARING BUSINESS CONTINUITY PLANS

Unplanned events happen in business. The importance of having a plan in place that will allow you to return your business to some level of normal operations quickly so you can restore your income, your employees' jobs and the goods and services you supply to your customers cannot be understated. Continuity planning and disaster recovery is about setting out in writing how you, your staff and your business will react when faced with a crisis that potentially stops or interrupts your business operations.

You can use the following table to help start developing a continuity plan for your business*.

Plan	Details
Understand what needs to be done to keep your business running	Briefly describe the critical processes in your business.
Understand your insurance	Make a list of all your insurance policies and ensure that each provides adequate cover for the business risks.
Create key lists	Create contact lists of key staff, clients and suppliers. Tell others where these lists are kept in the event you are incapacitated. It may also be worth including details of service-providers such as locksmiths, plumbers, electricians and IT specialists.
Separate tasks into groups	Prioritise each task that needs to be undertaken after a crisis or disaster. This can be completed in a checklist form that includes who is responsible for managing and completing each task.
Assign responsibilities	Each staff member should be given a role or responsibility to undertake following a crisis. Everyone should be well informed on who is doing what and who needs to work with whom.
Regularly test the plan	To ensure your plan will work and is up to date with your current business operations, you will need to test the plan.
Gather documents	Your plan and important documents should be kept safe and secure. You could have a fire-proof safe or keep them at a separate location. Document where backups and papers are stored (for example at a bank or in the "cloud") and ensure that key staff or business partners are informed of the location of these documents.

For a business continuity plan template, please see www.business.gov.au and search "business continuity plan".

* *Better Business Practices Guide*, Small Business Victoria.

APPENDICES

APPENDIX ONE
FIRST STEPS TEMPLATES

The following templates are a guide for the initial steps you should consider taking immediately following a disaster like a fire, flood or earthquake. The templates are focused on business issues only.

DAMAGE ASSESSMENT

Overall damage assessment – include a list of destroyed or damaged items, estimated replacement costs and include photos if possible. Do not commence cleaning up until you have contacted your insurer.

Items destroyed	Est' replacement cost	Insured?	Photo ref #
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	

Items damaged	Est' repair cost	Insured?	Photo ref #
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	
	$	☐Y ☐N	

APPENDIX TWO

ACTION LIST TO RESTART THE BUSINESS

Make a list of key equipment, stock and other activities of the business that need to be operational for the business to reopen. If any of these items have been salvaged during the clean-up, store in a safe and secure place.

What items, actions or other activities do we need to re-start the business?

Equipment or operational procedures	Action needed	Action completed

APPENDIX THREE

ANALYSING THE FINANCIAL HEALTH OF YOUR BUSINESS THROUGH RATIO ANALYSIS

Business issue	Ratio title	Description	Ratio calculation	Your business ratio calculation
Liquidity ratios assess your business's ability to meet its obligations as they are due. In general it is better to have higher ratios in this category as an indication of an ability to withstand tight-cash flow periods (which is likely after a disaster)	Current	The current ratio measures whether the business has enough current assets (cash at bank, debtors, inventory and other assets that can be turned into cash quickly) to meet its debts (debts that are due in the next 12 months). A generally acceptable current ratio is 2 to 1, however this will depend on the nature of the business.	$\text{Current ratio} = \dfrac{\text{Total current assets}}{\text{Total current liabilities}}$	
	Quick	The quick ratio helps answer a fundamental question for businesses affected by a disaster – "If the business does not have any sales income, could the business meet its current obligations (without having to sell inventory at knock down prices)?"	$\text{Quick ratio} = \dfrac{\text{Total current assets – Inventory}}{\text{Total current liabilities}}$	
Solvency ratios indicate the extent to which the business is able to meet all debt obligations from sources other than cash flow	Leverage	The leverage (or gearing) ratio indicates the extent to which the business is reliant on debt financing versus owner's equity (the owner's financial contribution to the business). Generally speaking, the higher the ratio, the more difficult it will be to obtain further debt.	$\text{Leverage ratio} = \dfrac{\text{Total liabilities}}{\text{Total equity}}$	
	Debt to asset	This ratio measures the percentage of assets being financed by liabilities. Generally speaking, this ratio should be less than 1, indicating that there are enough total assets to meet all debt obligations.	$\text{Debt to assets} = \dfrac{\text{Total liabilities}}{\text{Total assets}}$	
Profitability ratios measure your business performance and ultimately indicate the level of success of your operations. You can use these ratios to assist in determining whether the pricing of your products and services before the disaster were adequate to achieve a profit, that the profit you wanted to achieve was being met, and how it compares with industry averages. These ratios can guide you in your pricing policy upon reopening.	Gross margin	The gross margin ratio measures the percentage of sales dollars available to pay the overhead expenses of the business, after the cost of purchasing or manufacturing the businesses product.	$\text{Gross margin ratio} = \dfrac{\text{Gross profit}}{\text{Net sales}}$	
	Net margin	The net margin ratio measures the percentage of sales dollars left after all expenses (including stock), except income taxes. This ratio will provide an opportunity to compare your business's "return on sales" with the performance of other businesses in your industry.	$\text{Net margin ratio} = \dfrac{\text{Net profit}}{\text{Net sales}}$	

Business issue	Ratio title	Description	Ratio calculation	Your business ratio calculation
Management ratios monitor how effectively you were managing your working capital. For example, if the days you were taking to collect your debtors were longer than the days you were taking to pay your creditors, this indicates that you were paying money out before you were receiving money for that same good or service. If this is the case, then upon reopening your business, you should seek longer terms of trade from creditors and try to reduce the length of time it takes to collect debts	Days debtors	This ratio indicates how well the cash from customers is being collected - referred to as accounts receivable. If accounts receivables are excessively slow in being converted to cash, the liquidity of your business will be severely affected (accounts receivable is the total outstanding amount owed to you by your customers).	$\text{Days debtors} = \frac{\text{Debtors}}{\text{Net sales}} \times 365$	
	Days creditors	This ratio indicates how well accounts payable are being managed. If payables are being paid on average before agreed payment terms and/or before debts are being collected, cash flow will be impacted. If payments to suppliers are excessively slow, there is a possibility that the supplier relationships will be damaged.	$\text{Days creditors} = \frac{\text{Creditors}}{\text{Cost of goods sold}} \times 365$	
Balance sheet ratios indicate how efficiently your business is using assets and equity to make a profit	Return on assets	This ratio measures how efficiently profits are being generated from the assets employed in the business. This ratio will only have meaning when compared to similar businesses. A low ratio in comparison with industry averages indicates an inefficient use of business assets and something to be watched upon reopening of your business.	$\text{Return on assets} = \frac{\text{Net profit before tax}}{\text{Total assets}} \times 100$	
	Return on investment (ROI)	The ROI is perhaps the most important ratio of all as it tells the owner whether or not all the effort put into the business has been worthwhile. If the ROI is less than the rate of return on an alternative, such as a low risk investment like a bank savings account, the owner may consider that option rather than funding the reopening of the business.	$\text{Return on investment} = \frac{\text{Net profit before tax}}{\text{Total equity}} \times 100$	

APPENDIX FOUR
COSTS TO REOPEN YOUR BUSINESS

You might like to refer to the lists you made in Appendix One to help complete this template.

CHECKLIST OF ITEMS REQUIRED TO REOPEN YOUR BUSINESS

Item required	Covered by insurance	Purchase price	Hire/leasing available	Provider company	Provider contact details
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		
	☐Y ☐N	$	☐Y ☐N		

CPAH0797.02.14