

---

<b>Title:</b>	Small Business Advisory Service Options	<b>Date:</b>	5 March 2012
<b>Briefing by:</b>	Business & Economic Development Portfolio Group	<b>Contact:</b>	Skana Gallery
<b>Origin of Briefing:</b>	Cessation of SA Government Funding for BECs		

---

---

### **Description / Background**

With the removal of State funding for BECs in SA and the Federal funds coming to a close in June 2012 and the tenuous negotiation of any extension of funding, the ERA needs to consider the future of business advisory and support services going forward.

A number of models have been considered and are outlined in this paper in brief with other supporting information provided.

Most of the ERA councils are tied to the current EBEC with the exception of TTG who have their own BEC and Unley who are not currently tied to any BEC following a brief period with Inner Southern BEC.

The ERA Business & Economic Development Portfolio Group has identified that given the mixed resources available from the councils, taking the service in-house is not practical or efficient to deliver regional outcomes which are desired by the other tiers of government.

The following key areas of focus have been identified by the Portfolio group as common priorities in economic development for the eastern region councils and should form a part of any model:

- Business advice covering smaller operations and home based business
- Tourism / events and branding the east
- NBN roll out and opportunities
- Relationships with trader groups

Any small business advisory agency should also prioritise the following outputs:

- Comprehensive database of businesses
- Grow membership by fee-for-service / capture models
- Report on GRP for area and actual employment outcomes achieved

And with the overriding principle that any agency delivering services for ERA needs to be engaged through a competitive process.

Recent changes in State Government suggest a more project-based support for economic development that needs to be explored with them as they are keen to work with regions as opposed to councils and have a focus around:

- Targeted projects
- Sustainable fee for service model
- Increased use of online services for advice
- Measurable outcomes
- Collaboration / partnerships

With the current federal funding stream potentially coming to a close, a review of the direction is needed and approaches made to the Federal government for funding based on solid outcomes. It is timely to strike now as a new federal minister for small business has just been announced and the release of the budget in May is looming. Funding for small business support needs to be highlighted.

Given these aspects and funding changes to occur by June 2012, the following road map is proposed to assist in deciding a direction.

February	Develop Issues/ Discussion paper for CEOs to consider
March	Obtain direction from the CEOs and endorsement of councils and governance arrangements
April	Go to Expression of Interest
May	Decide on Provider
June	Appoint Provider
July	Provider commences

---

## Key Points

### Options

Over the last few months, the ERA B&ED Portfolio Group has explored a number of options for the ongoing provision of small business advisory services in the eastern region. By way of context and background, below is a summary of the options considered, leading to a rationale for the recommendation provided in this paper.

#### **OPTION 1 - Current BEC Model (EBEC approach with same funding)**

The existing model would be modified to reduce administrative overheads, increase visibility of the service through a (council) visitation program and a change of emphasis from reporting outputs (eg number of business contacts) to reporting outcomes (eg jobs created). EBEC's recent change to fee-for-service would be continued.

EBEC has recently provided a proposal to ERA Mayors and CEOs regarding some changes along these lines (*Attachment A*). This would require the maintenance of member Councils' funding and perhaps offer an opportunity for Unley to join the EBEC.

#### **OPTION 2 - Business SA Model**

Fee-for-service model and councils use their current EBEC funding for other economic development projects.

Whilst Business SA appears to offer a similar range of services to the BECs, the availability of these to certain segments of the business community seems to be limited. Many suburban businesses run at the micro level and can be sole-operators, which places them outside the criteria set by Business SA to access their services. For example, the cost of the Business SA mentoring program is \$990 and for businesses with turnover greater than \$300,000.

#### **OPTION 3 – ERA BEC**

This model proposes an expansion of EBEC services with EBEC reporting to the Business & Economic Development Portfolio Group and therefore the abolition of the current board. It also proposes establishing an ERA Business Leaders Group to advise on policy development, a special rate of .25% on all rateable commercial properties and three years seed funding from the Federal Government pitched as a pilot model for small business advisory services in SA.

Full details of this model prepared by Steve Harrison are contained in *Attachment B*.

#### OPTION 4 - ERA Business Advisory Service (Phill Hudson’s model)

A two to three year transition of the BECs to an ERA Business Advisory Service based on achieving more significant jobs and GRP outcomes for the community including:

- Working in partnership with government and other business support agencies to facilitate access to existing business support programs and government economic development initiatives
- Working in partnership with government to deliver hard and soft infrastructure that supports business and community development including, for example:
  - Promotion of the eastern region as a desirable location for business investment.
  - Alignment of urban development strategy with regional economic development strategy.
  - Development of business and community clusters and business parks in areas of regional competitive advantage.
  - Tourism development and promotion.

Full details of this model prepared by Phill Hudson are contained in *Attachment C*.

#### OPTION 5 – ERA Business Advisory Service

##### What

The current combined contribution of the ERA councils to EBEC for the provision of small business advisory services is \$132,000.

##### **Existing Council BEC Funding (2011–2012)**

Tea Tree Gully	\$42,000
Norwood Payneham & St Peters	\$27,000
Burnside	\$20,000
Unley	\$20,450
Campbelltown	\$13,000
Prospect	\$7,000
Walkerville	\$2,500
<b>TOTAL</b>	<b>\$131,950</b>

Picking up on the outcomes desired in the overview and developing a model using this funding plus councils allocating additional funding in the first year to establish the new model.

ERA to meet with Federal Government regarding the continuation of funding the new model and work with the state on projects that meet their needs and ours.

Make the model more virtual and make the service self-generating in funding to grow services and less reliant on handouts.

Target those not picked up by other advisory services or who can afford to pay (ie. less than \$300,000 turnover / home based business).

Most ERA Councils have a differential rate for businesses, but this is not applied to home based businesses. Home based businesses and start-ups are amongst the primary beneficiaries of BECs. Established businesses may be aggrieved that they are subsidising business start-ups and potential competitors.

A stable income stream is essential in at least the early funding of a new BEC. It enables the Centre to plan with certainty a range of products that benefit all business.

There is value in all businesses feeling they are a part of the BEC community. The participation of businesses broadly provides networking opportunities and local connections across businesses. This potentially increases local employment opportunities and in turn, community vitality.

To foster a sense of connectedness and commitment to the BEC community, it is proposed that those businesses contributing a differential rate should receive a voucher for two training/information sessions run by the BEC. The voucher can be provided on payment of the rates.

Whilst the voucher will go to the ratepayer, it is hoped that the voucher will be passed on to a leasing tenant rather than just the property owner. The value of the voucher is the message of a prepaid opportunity that a business may as well take advantage of. It is not intended to be a membership; that should remain separate and be promoted upon broader benefit. The purpose of the voucher is to get business attendance and foster connection.

The perceived value of the voucher and propensity to attend will depend on the relevance of the training seminar topics. The topics should therefore be planned in advance, to be identified in the voucher and relevant to a broad range of businesses. Topics may include changes to taxation law, employment legislation, economic forecasting etc.

Notwithstanding the presence of the voucher, it is imperative that the BEC strives for sponsorship of training sessions and seminars and that it also strives to promote and build membership.

How

Establish the budget for the service using the current aggregate contributions as a baseline (\$131,950) on a five year contract and develop a model that seeks to reduce funding by a quarter each year to incentivise the operator to generate alternative funds to run the service.

These savings will then be channelled to developing regional projects that grow the economic base without additional burdens to existing council budgets. For example:

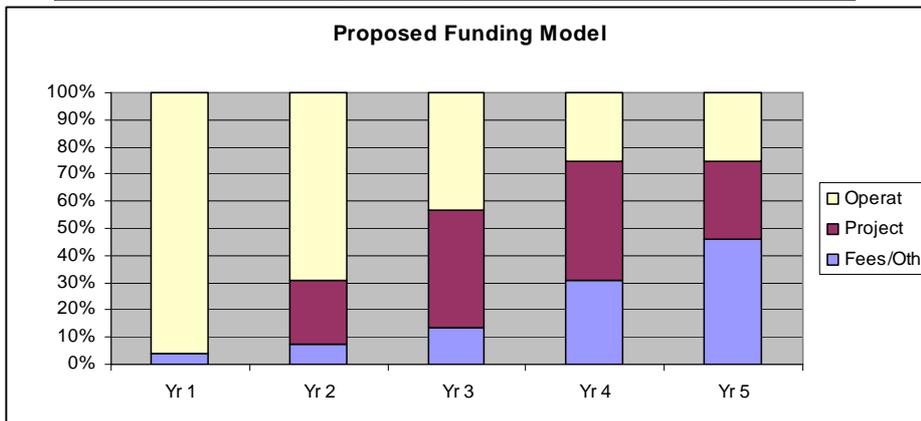
Yr 1 \$130k operation budget	\$0 project budget
Yr 2 \$97.5k operation budget +income	\$32.5k project budget + grants
Yr 3 \$65k operation budget + income	\$65k project budget + grants

Yr 4 \$32.5k operation budget + income

\$97.5k project budget + grants

Yr 5 Year 4 ongoing and model for next contract that has a greater project budget that can leverage more funding and a sustainable operations budget driven by income

	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Fees/Other</b>	5	10	20	40	60
<b>Project</b>	0	33	65	57	37
<b>Operating</b>	130	97	65	33	33
	135	140	150	130	130



Services should be taken to councils and space provided in each Council’s library/town hall for advisory services that captures people looking for advice with a free first call then paid ongoing service through referral to professionals. A membership model can be developed to capture the database of home based businesses.

Generally, the current EBEC model falls short of satisfying the expectations of contributing councils. However, the report finds that there is a need for such business services to be delivered at a local level. Consequently a number of alternate delivery models have been explored.

There is a strong consensus that any future BEC model should be based around fee-for-service and diminishing reliance on un-tied contributions from member Councils, coupled with greater accountability in delivering measurable outcomes.

Option 5 recommends that a competitive tender be called for the provision of small business advisory services for \$300,000 for the ERA region with reduced funding over three years and that the ERA Business & Economic Development Portfolio Group be authorised to appoint and manage a suitable service provider and that the ERA Business & Economic Development Portfolio Chair and the ERA Chair meet with the new federal Minister for Small Business to seek funding for the proposed model.

In essence, Option 5 is recommending the establishment of a new ERA BEC, which achieves a number of the ERA Councils' objectives:

- Ongoing provision of small business advisory services
- No increase in budget for small business advisory services
- Outcome-based KPIs based on GRP and job creation
- Maintenance of business databases
- Captures home based businesses
- Greater alignment with ERA economic development strategies
- Opportunity for funding for regional business and economic development projects
- Encourages greater use of the small business advisory service
- More visible service and service provider (ie. ERA councils)

#### Next Steps under Option 5

1. Seek individual Council endorsement.
2. Prepare and publish tender document.

To date, Option 5 was the Group's preferred option, however we are contending with an uncertain environment where the latest advice is that federal funding of BECs may continue. For example, the SA Government is the only state government that has ceased funding the BECs. As such, federal funding may continue across the board, especially with recent communications coming out of Canberra in support of small business, including the elevation of the Minister for Small Business to Cabinet and the appointment of a federal Small Business Commissioner. The Prime Minister herself has recently commented on the importance of small business to the Australian economy.

Further, ERA has a very short timeframe to make any significant changes to the current EBEC with councils required to make funding decisions within the next two to three months. As such, an Option 6 is presented for consideration, proposing a transitional process.

With the possibility of a continuation of federal funding, it may be unwise to establish a new BEC because the EBEC would undoubtedly apply for, and probably receive, any ongoing federal funding. A second, new entity in the same region is unlikely to receive federal funding (for example, ERA representatives would be required to visit Canberra to make a case for an ERA BEC in a very short timeframe). The last thing we want is two entities, one funded with council dollars and one with federal dollars.

## OPTION 6 – Transitional Model

The ERA Business & Economic Development Portfolio Group members become the new EBEC board members (in place of current Elected Members), including Unley. Discussions to be held with TTG – consider combining the TTG BEC with EBEC, which would also combine the RTO business. The concept is to ‘reform from within’.

The current EBEC Constitution designates that *the Board of Directors shall be comprised of no more than eight (8) persons elected from the general membership of the Association and no more than six (6) persons nominated by a local government body at the invitation of the Board.*

With close to a majority, ERA can begin to influence the direction and move to the new ERA BEC model (described in Option 5), including reviewing staffing and staff appointments as they fall due, putting in our outcome-based KPIs, seeking governance reform and establishing a more regional focus.

This transitional approach enables the continuation of the provision of small business advisory services in the eastern region through the retention of EBEC which, over a 12 month period, can be transitioned to the ERA EBEC, retaining eligibility for (and best chance of) federal funding.

Ongoing Council funding to EBEC for 2012-2013 could be made contingent upon:

- Improved KPIs (which EBEC itself has flagged in their attached report)
- Six or seven ERA staff members on the board in place of Elected Members
- Governance reform

### Next Steps

1. ERA CEO endorsement
2. Elected Member endorsement