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Briefing Paper: A Tipping Point for Service Delivery?

Administrative Complexity and Funding for SME Support Programs.

1. Key Issues.

- Small business startup and advisory services are a critical contributor to economic development and diversification in regional Australia.
- Program funding models, at New South Wales and federal levels, are creating and transferring administrative cost burdens to providers, creating gaps in service delivery, and failing to keep pace with the needs of evolving regional economies.
- Administrative issues are undermining the ability of regionally specialised service providers to meet local small business support needs. Urgent, practical reforms are required to enable effective providers to continue service delivery.
- Complex administrative burdens are increasing the concentration of services in large, non-specialised organisations, reducing access to quality services tailored to specific contexts.

2. Response Options.

- Immediately review departmental administration of small business support programs to remove unnecessary costs and complexity for service providers.
- Implement block funding models for NFP service providers with a strong track record and/or servicing particular needs, such as regional areas or areas undergoing structural change.
- Reinvest in public service capacity to end cost shifting of administrative burden to providers.
- Remove administrative constraints and narrow participant criteria that result in potential clients being unable to access programs.
- Ensure payment contracts cover the full cost of program administration and delivery.
- Incorporate contract mechanisms for contingency payments for unforeseen circumstances.
- Create durable, flexible funding pools for provider-submitted programs to meet specific local needs, with long term contracts.

3. On Ground Experience: Matching Funding Approaches with Reality.

Our research organisation, now based at the University of Newcastle, was formed almost 70 years ago to address the impacts of major economic disruption in the Hunter Region. Regular episodes of structural upheaval have continued to be a major feature – an experience shared by other regions.

As well as the Institute for Regional Futures, several other durable regional organisations have been developed to address local needs. The Business Centre was formed in the late 1980s, during a sustained period of disruption in the manufacturing sector, as a not-for-profit organisation dedicated to the establishment and support of small businesses. This locally driven initiative responded to the structural shift from large to smaller businesses as key economic actors.

Over the last 37 years, The Business Centre has delivered extremely effective services across our region, supporting business expansion and opportunity in growth periods, and providing both advisory support and alternative options during downturns. Activities have been funded through state and federal programs.

However, several trends in government approaches to program funding over the past two decades have persistently eroded the capacity of organisations like The Business Centre to meet community needs. We observe that providers have been consistently absorbing costs and inefficiencies created by program design. These include administrative cost shifting as public service capacity has declined, increased reporting complexity and paperwork, narrow program design that is not calibrated or responsive to real world implementation, and a lack of flexibility to adjust to varied contexts or changing circumstances.

Ultimately, not for profit providers will invariably prioritise ‘getting on with the job’ of meeting community needs, rather than expending scarce time and resources in lobbying to reform funding models that are increasingly problematic. However, inefficiencies are now reaching a crisis point, where long-running services of demonstrated value will be discontinued unless sensible administrative and program design reforms are implemented.

4. Issues with Current Funding Models.

Administrative Burdens and Cost Shifting. While the long run trend towards competitive tendering for government services has some efficiency and transparency benefits, approaches to program design, contracting and reporting are increasingly inefficient and counterproductive.

The trend towards extremely narrow prescription of service delivery, burdensome reporting requirements, and shifting of administrative tasks to those delivering contracts are impacting providers' ability to meet community needs, or in some case afford to deliver programs at all. Accountability and transparency are important for delivering taxpayer value, but with appropriate program design these should not conflict with ensuring basic program functionality.

This is not a new issue; for example, a comprehensive 2010¹ review noted that:

While the aim has been to drive improvements in service delivery, NFPs report being swamped by contractual regulation, a multiplicity of reporting requirements, micro management, restrictions on other activities and significantly greater compliance burdens...

One straightforward response to these issues is to review specific programs, such as the Self Employment Assistance Program, to identify approaches to streamline administration and reporting. As a recently relaunched program redesigned under the previous federal government, there is significant scope for program redesign. New South Wales Government programs such as the Business Connect Program have similar issues. As a small business support program recently subject to review in April of 2023, there is also an opportunity for program redesign.

A more significant reform would be to ensure sufficient investment in public service administrative capacity. Most administrative costs should be fairly attributed to government, as the investor in public goods (contracted services) that are deemed of importance to the community. Government has the requisite scale and capacity to much more efficiently deliver administration, as opposed to transferring these costs onto specialist providers that then need to replicate business and back-office services at hundreds of sites and entities across the state or country.

Failing this reinvestment and retooling, an alternative approach would be to ensure that contracts actually cover the cost of administration. Models that rely on partial payments for highly specialised services stretch organisations to breaking point.

¹ Productivity Commission (2010) *Contribution of the Not-for-Profit Sector*, Research Report, January 2010.

The ongoing entrenchment of complex and onerous program approaches is becoming a crisis for many providers, where the costs of service provision are simply not affordable. This is exacerbated by the prevalence of partial and often short-term funding models, and by the cost shifting of administration and reporting onto providers. Providers are thus forced to subsidise services from other revenue sources. For not-for-profit providers providing specialised services, this is not sustainable.

In the absence of review and streamlining of program contracting models, redesign and reinvestment in public service capacity to administer contracts, and/or the implementation of contracts that fully account for costs, providers delivering well regarded and effective services, such as those of The Business Centre in the Hunter Region, will continue to face mounting operational challenges.

Playing Field Tilted Against Specialist, Locally Responsive Providers. An additional consequence of the administrative burdens described above is that these contracting arrangements invariably favour large organisations with the ability to subsidise costs from larger revenue streams. This has resulted in ongoing sectoral concentration of government funded services in the employment services and small business support sectors.

This poses direct challenges to smaller, regionally responsive specialist providers that are highly attuned to local needs. The Business Centre, for example, runs mobile outreach programs that provide training and advice suited to specific local contexts, for example, those seeking to establish small businesses in parts of the Hunter seeking to diversify from coal mining. These operational contexts require economic, industry, and place-based knowledge, as well as understanding of the mechanics of small business training and establishment. This is not easily replicated by large organisations seeking to apply boilerplate programs.

In addition to the aforementioned improvements to administrative arrangements, specific programs to block fund organisations meeting particular small business needs, such as in regional areas, or with diverse communities, should be considered to ensure the maintenance of specialised services.

Our analysis suggests block funding models are likely to have significant economic benefits for local economies, in addition to improving the financial sustainability of implementation for providers. Utilising inputs based on The Business Centre's programs – specifically medium-term business

survival rates, median client turnover, delivery hours per client, and hourly delivery costs, we estimated the direct impacts of annual block funding to support 120 places in the NSW Business Connect program. For an annual investment of \$928,800, we estimate contributions to the Hunter Region economy of around \$21 million per annum.

Inflexible Program Design. A further issue is that the increasingly diverse economic needs of New South Wales and Australia's regions are not conducive to narrow, one-size-fits-all program design. The establishment of a small business by a young entrepreneur in an emerging urban agglomeration economy such as Newcastle is different from that of a mother re-entering the workforce with a small business idea in a large regional city, or a mid-career power station worker seeking to turn their trade skills to their own business opportunity.

Program implementation constraints can often impact the ability of programs to meet their objectives. For example, small business education and training programs delivered under the NSW Smart and Skilled program are inflexible in that they allow only a specific set of units to be delivered. Local experience suggests that these specified units often do not meet potential clients' needs, for example transitioning power station workers with limited time and capacity to undertake training outside of work hours, and that introducing some flexibility would greatly assist uptake.

Similarly, the 'set-and-forget' nature of program design suggests limited capacity to vary programs and program contracts in response to unforeseen events, for example natural disasters, or economic downturns. In the local context, for example, challenges to service delivery during the pandemic and a lack of flexibility around program milestones severely challenged the financial viability of local providers. In relation to program contracts, it is advisable that mechanisms for varying contracts in response to unforeseen events are incorporated.

More broadly, it is recommended that both state and federal governments consider specific funding pools for small business advisory, establishment, and diversification programs that solicit proposals from providers for specific needs. Importantly, these would need to provide multiyear (three to four year) funding, rather than single year pilot-type funding. Such a program would incentivise innovative, place and cohort specific programs that are more tailored to on-ground needs.

5. Key Actions: A Window of Opportunity for Reform.

There are considerable opportunities at both state and federal levels to improve the effectiveness, quality, and sustainability of arrangements for contracting specialist small business service providers. **Key actions** include:

- Block funding of SME advisory services for providers with strong track records and/or servicing specialist sectors, such as regional or transition-affected areas.
- Review and reform of current programs to streamline administration and reporting, and to ensure program design and participant criteria do not restrict program accessibility.
- Incorporate contract mechanisms for contingency payments for unforeseen circumstances.
- Ensure payment contracts cover the full cost of program administration and delivery.
- Create durable, flexible funding pools for provider-submitted programs to meet specific local needs, with long term contracts.

In observing challenges for service providers in regional areas, and examples in our home region such as The Business Centre, we would suggest that all options should be on the table. Small business start-up and advisory supports are a critical investment in supporting economic diversification, economic activity, and options for individuals and households.

Currently, however, service delivery is challenged by long recognised and increasingly acute problems in program design and implementation. Adjusting and reforming how these programs are administered offers a high value opportunity for improving government-funded services, to meet the needs of locals who are seeking to contribute to their regional economies.

About the Institute for Regional Futures: The Institute for Regional Futures is one of the University of Newcastle's flagship research institutes. For decades, the Institute has partnered with governments, industries and communities providing evidence and strategy to support them to make the best decisions for their future and the future of their regions. The Institute specialises in social, economic, land use planning, and spatial analysis for regional Australia.

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