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COSBOA 2021-22 Pre-Budget submission

The Council of Small Business Organisations Australia (COSBOA) is the national peak body representing the interests of small business. Collectively, COSBOA's members represent an estimated 1.3 million of the 2.5 million small and family businesses that operate in Australia. COSBOA has been the big voice for small business since 1977. As a collaboration of industry associations, we promote small business with independent, tenacious advocacy to get a better deal for millions of small businesses people, thereby strengthening the Australian economy.

Background

During 2019-2020 COSBOA actively partnered with Government as a contributor to its efforts to assist small business through the COVID-19 pandemic.

Throughout the pandemic COSBOA has hosted online COVID roundtable meetings which brought together small business organisations and government representatives in constructive dialogue about critical issues.

The COVID pandemic has highlighted certain societal, business and economic issues which, COSBOA members believe, need to be addressed in the period following the suppression of the COVID-19 virus.

While most small businesses have suffered during the pandemic, many of the same businesses will be important contributors to the economic recovery.

On this basis COSBOA submits the following proposal for action:

Place-based initiatives and economic recovery

This submission proposes a partnership between government and local business communities to grow businesses and create jobs.

There are several key factors that should strongly motivate us to find new approaches to building economic strength and dynamism. These factors include:

- The re-shaping of the Australian economy as a result of the global COVID pandemic.
- International trade tensions negatively affecting Australian exports.
- Downward trends in population growth.
- Ongoing impacts of technological change on the global business operating environment.

Why are strong *local* economies vital to economic health?

COSBOA believes that an important element of any national economic growth strategy is the more effective mobilisation of the growth and innovation potential of small and medium sized enterprises (SMEs).

COSBOA argues that strategies to facilitate SME growth and innovation are best managed at the local level, *in the communities in which businesses operate*.

Many contributors to the recent National Farmers Federation *Regionalisation Paper* have observed that strong regional economies and empowered communities result in a stronger national economy (NFF, December 2020).

The Australian economy is not a single economy. Nor is it just comprised of six state economies. It is made up of hundreds of small economies that come together to form a national story.

These smaller economies, in Australian communities, are on the front line of dealing with change and charting a future for our regions.

What impact does centralised control of programs have on local business communities?

Experience shows us that governments will ultimately fail to address the specific economic opportunities and needs of communities if they persist in implementing regional policy and programs with a high degree of centralised control.

While macro-economic policy and strategy must be the domain of governments, regional communities play a vital role in generating economic activity.

The ability for Australia to create highly effective, place-based Local Economic Development strategies is an important factor in economic recovery.

The Australian Government has developed a suite of important policies and programs targeting, among other things, international trade, manufacturing industry revitalisation, digital transformation, employment creation and reforming vocational education and training.

However, there are few, if any, links between these policies and local business communities. The information flow and decision-making direction is almost entirely top-down.

The Australian Government has programs aimed at facilitating SME innovation and growth. However, these are centrally controlled and largely focused on targeted industry sectors, rather than on local economies.

An example of these is the Entrepreneurs Program which targets 'specified growth sectors': *advanced manufacturing, food and agribusiness, medical technologies and pharmaceuticals, mining equipment, technology and services, and oil, gas and energy resources.*

The decision to select these five industry sectors as targets for innovation and growth services was not made in consultation with local business communities. The government practice of picking industry winners ignores that fact that business innovation and growth occurs in *all* industries.

COSBOA strongly supports policies aimed at invigorating Australia's manufacturing industries. However, we argue that *local* manufacturing business communities must be genuinely included in decision-making processes about which segments of their industries offer the greatest prospects for growth. Owners of local manufacturing businesses will always know more about real-world opportunities for growth than any centralised policy team.

Compounding the problems caused by the centralised approach to economic development is the dominant place of big research institutions and big business in decisions made about the Australian innovation system. In the current circumstances Australia needs to engage the innovation potential of small business, and yet the innovation system continues to fail in this task.

It is very likely that local business communities would make quite different decisions about the targeting of innovation and growth strategies for their own economies.

Why are *place-based* approaches essential?

COSBOA argues that when business communities are empowered to take charge of the economic development and innovation process at a local level, economies can be transformed.

This is because, in economic development strategy, ***place matters***.

Every regional economy in Australia is different. To achieve the full potential of a regional economy, economic development strategy *must* focus on the unique features of particular places, building and innovating on existing assets and strengthen the unique set of businesses that make up the economy.

This important approach can never be properly implemented by centrally located government teams.

Since the mid-1990s the presence of the excellent Australian Public Service in regional communities has been progressively minimised. During this period most regional offices of Commonwealth Government have been closed, and most of the first-hand knowledge and skill relating to local economic development has been lost.

Regrettably, the direct involvement the Commonwealth Government once had in regional communities has largely faded away. It is possible that the Government's presence in regional communities can never be reinstated to the healthy level it once enjoyed.

In the absence of a direct presence and involvement in local economies, the Commonwealth government can still play a vital role by empowering communities. Empowering local communities can be a challenge for centralised decision makers who believe they have access to all the information and knowledge necessary to design and develop regional programs. COSBOA believes an adaptation strategy will need to be designed and implemented to assist centralised agencies work with empowered communities.

COSBOA proposes that the future structure of economic development in Australia's regions must be place-based and involve the direct empowerment of local business communities in setting the direction for local economic development.

No initiative to strengthen the economy can be fully effective without engaging small businesses directly in local economic development.

Jobs Growth

Job creation is critical to economic recovery in *all* communities

COSBOA affirms the view that Australia will return to full prosperity only if we can create the jobs most people need. As unemployment reaches levels not seen since the early 90s recession we must, as a nation, make every effort to prevent the long-lasting damage caused by persistent high unemployment. History shows us that communities left behind in the effort to create jobs will suffer the worst of the scarring effects of long-term unemployment.

In any Australian community a significant percentage of real jobs will be generated by SMEs. Local business communities all around Australia are a vital link in the job creation effort, *yet they play no role in decision-making about jobs growth strategies in their own economies.*

Australian Government programs and strategies to address unemployment, such as *jobactive* employment services and Work for the Dole, are centrally designed and controlled. The proposed 'Next Generation' of employment services will be managed in the same way, with no decision-making input from the communities in which the services operate.

This lack of local decision-making input contributes to the remarkably low level of employer engagement with the employment service network. It is COSBOA's view that the proposed

'Next Generation' licencing and digital model for employment services will do nothing to address this problem unless there is a meaningful element of community ownership and decision-making.

Similarly, the Work for the Dole (WfD) program is no longer contributing effectively to the return of long-term unemployed people to the workforce. A significant proportion of community organisations do not participate in WfD because of its ineffective design (and because of the negative implications of the program name).

COSBOA argues that local business communities and community organisations must be involved in the design of job creation initiatives in their communities.

Rapid responses and early intervention

The bushfire crisis and the COVID pandemic have vividly demonstrated that Government must have mechanisms to enable rapid responses and early intervention at a community level. Delayed responses inevitably have compounding negative impacts.

Recent experience with bushfire recovery has shown the enormous value of directly engaging local business communities to plan and deliver economic reconstruction and jobs growth initiatives.

In relation to COVID recovery, COSBOA argues that the existing regional structures are not adequately addressing business growth needs and opportunities at a community level.

The role of Regional Development Australia (RDA) in recovery

The Australian Government has recently renewed its funding agreements with RDA committees. While the RDA charter describes a high-level regional economic development role for the committees, it is widely recognised that the RDA network is *not* equipped to comprehensively engage with business communities in economic recovery efforts.

There are 537 local government areas in Australia and only 52 RDA committees.

The Independent Review of the Regional Development Australia Programme (2016) identified several key concerns about the effectiveness of the RDA network.

One of the major issues is that RDAs belong neither fully to the communities in which they are based or to governments which fund them.

The Independent Review of RDA noted that:

“some RDA Committee members report that they are both independent community voices and an artifice of the Australian Government, which is not possible. In the broader community the programme is seen as a bureaucratic mechanism of the Australian Government without legislative responsibility or the necessary resources to take forward development in regions.”

The Review reported that people in regional communities *“feel forgotten by governments.....despite record Commonwealth investment—particularly in regional infrastructure, transport and communications”*.

The Review also made the important point that Government “*must focus initiatives on strengthening the pillars of growth to reboot the economies of our true regions, enabling the private sector to harness opportunity*”.

It is apparent that many RDAs have not been able to deliver persuasive place-based strategies to harness private sector opportunity and to grow jobs.

While RDA committees are able to promote Government regional grants programs, they are not directly included in the formal decision-making processes for these programs. This lack of influence on funding outcomes has undermined the credibility of RDAs in many local communities. They are perceived as not have a substantive role.

COSBOA argues strongly that, while RDAs will continue as a vehicle for regional coordination and promotion of Australian Government policies and programs, there must be an opportunity in place for local business communities to drive economic development at the grass roots level.

PROPOSAL

COSBOA proposes a new, place-based approach which empowers local business communities to coordinate a collaborative effort and motivate a groundswell of renewed economic activity. This place-based approach would aim to:

- 1. Foster business growth and innovation, and**
- 2. Reduce unemployment caused by the COVID-19 pandemic.**

This approach would be based on the establishment of a network of ***local business and jobs growth taskforces*** which would oversee the simultaneous implementation of:

- Strategies that are tailored to identify and foster unique opportunities for innovation and growth among local SMEs, and
- Develop local economic growth initiatives designed to generate real job opportunities in local business, to help prevent job seekers becoming long-term unemployed.

Local business and jobs growth taskforces

(to be known as ***Business and Jobs Taskforces***)

The new network of ***local business and jobs growth taskforces*** would provide specific guidance to government about the needs and opportunities that are specific to each local economy and have direct input into decision-making at a local level.

COSBOA proposes that:

- The Business and Jobs Taskforces would have close working relationships with the RDA committees in the regions.

- Ultimately each RDA region would have several Business and Jobs Taskforces, with most local government areas having a Taskforce in place.
- The RDA committees would not control the Taskforces but would include the Taskforce strategies in their Regional Plans and would provide independent reports to government on Taskforce activities.
- Taskforces would operate under a set of guiding principles, designed by Government, that would apply to all the Taskforces. However, the Taskforces would have the freedom to design and develop initiatives that are tailored to the economic conditions, needs and opportunities that are best known to local business communities.
- A flexible funding pool would be created to enable local business and jobs growth projects to be established. Each Taskforce would be able to apply for pool funding to deliver local projects. The funding would comply with the Commonwealth Grants Rules and Guidelines 2017 (CGRGs).
- Each Taskforce would receive a small amount of base funding to enable the employment of a local coordinator.

It is COSBOA's understanding that for Taskforces to receive funds from the Commonwealth Government they would need to focus on two areas of responsibility that equate to the Commonwealth's constitutional powers (Section 51(xx) and Section 51(xxiiiA) of the Constitution): *business* and *employment*.

Taskforce Pilots / Criteria

COSBOA recommends Taskforce pilots be initiated in a range of locations in order to demonstrate this grass roots approach to economic development. **Criteria** for the locations for these Taskforce pilots could be based on a selection of communities with different types of economic bases, e.g:

- Regional manufacturing
- Agriculture / Food and Fibre / value adding
- Regional technology / ICT
- Mining and mining technology
- Tourism

The pilot locations would also target communities in areas with higher-than-average unemployment levels. These communities would be able to identify growth potential in local industries and demonstrate business commitment to innovation and growth.

As a starting point, the strategy should aim to initiate Taskforce pilots primarily in small regional cities and rural/regional towns with multi-faceted local economies. Examples of these would include Dubbo, Wagga Wagga, Batemans Bay, Bega, Sale, Wangaratta, Echuca, Moe, Warwick, Rockhampton, Roma, Albany, Margaret River, Geraldton, Mount Gambier, Murray Bridge, Port Augusta, Burnie, Ulverstone, Alice Springs and Katherine.

COSBOA recommends **eight Taskforce pilots** during 2021-22, with at least one project corresponding to each state and territory. In the case of the ACT, COSBOA recommends the project be located in the region of NSW which surrounds the ACT (e.g. Queanbeyan-Palerang LGA or Goulburn-Mulwaree LGA).

Cost of each Taskforce pilot

COSBOA estimates the operational cost of each Taskforce pilot project would be in the range of \$225,000 to \$240,000 for 12 months.

This would include:

- Coordinator wage and on-costs
- Vehicle costs
- Rent (casual office/meeting space)
- IT and communications
- Taskforce meeting costs.

Cost of the flexible funding pool

The flexible funding pool would be a national pool of funds that would enable each Taskforce to apply for grants to undertake local economic development and jobs growth projects. The funding agreement for each Taskforce would be set out an expectation for the Taskforce to initiate a minimum of two projects in the first 12 months.

COSBOA recommends the national pool of funds during the 12 month pilot period would total \$1.6 million This would nominally enable each of the eight local Taskforces to apply for \$200,000 in funding for projects in their communities. By the end of the third quarter of the first 12 month funding period, Taskforces would be able to apply for funding over and above the nominal \$200,000 if there are unused funds in the funding pool.

Total maximum cost of Taskforce operations including the funding pool, during the pilot period would be in the range of **\$3.4 million** and **\$3.52 million**.

Each pilot project would be evaluated at the end of the funding period, based on its success in developing and implementing projects and its level of constructive engagement with the local business community.

COSBOA anticipates that funding would be managed by the Department of Infrastructure, Transport, Regional Development and Communications, or the Department of Employment, Skills, Small and Family Business. At a regional level, the relevant RDA committees would assist in setting up the pilot Taskforces and would provide guidance to Taskforce members in the process of applying for funding.

Types of Taskforce Projects

The types of projects recommended by COSBOA would focus strongly on assisting and enabling local SMEs to achieve their plans for success, growth and innovation. Projects would be designed and developed by the Taskforces specifically to meet local needs and opportunities, with advice and assistance for subject experts. This place-based approach would likely include such projects as:

- Workforce skills audit and skills development plans
- Local business innovation strategies (e.g. Economic Gardening program)
- Local business incubator / accelerators
- Business Retention and Expansion programs
- Manufacturing capability and technology audits
- Manufacturing technology adoption plans
- Regional export innovation strategies
- Digital marketing and trading strategies
- Skilled workforce recruitment strategies – to fill critical skills gaps.

In the aftermath of COVID-19, Australia will need all business communities to rise to the challenge of driving economic growth. In the post-pandemic environment, there is a real risk that many communities will be left behind as sections of the economy re-structure. A strategic approach to the empowerment of local business communities, to actively participate in this challenge, is a means of helping to ensure widespread economic growth.

Peter Strong

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