

The Small Biz Connect Program

October 2014

This publication is part of a series summarising program evaluations to enhance the accountability and transparency of NSW Trade & Investment activities. This summary draws on the attached completed program evaluation template.

The Small Biz Connect Program

The Small Biz Connect Program funds a network of mobile business advisors to provide advice to local small businesses. The program provides face-to-face support to new and existing business owners as well as skills development workshops and an online toolkit of resources including business planning templates, educational videos and checklists.

Objective

The objective of the Small Biz Connect Program is to facilitate the provision of government information to small businesses as well as more general business advice. The overarching intent of the program is to create a small business sector within NSW that has reduced failure rates and is more resilient and sustainable. This is consistent with Goal 3 of NSW2021 to drive economic growth in regional NSW and Result 1 of the NSW Trade & Investment Strategic Plan to support and create jobs in urban and regional NSW.

In the case of small businesses, an information failure exists as there is insufficient or inadequate information in the market for small business operators to make completely informed decisions resulting in new small businesses taking longer to become established, existing small businesses being less sustainable and a high small business failure rate. The issue that the Program aims to address is that failure to obtain information crucial to making informed business decisions leads to poor resource allocation, including avoidable financial losses and unemployment.

Options

The alternative options for pursuing the objective that were considered in the evaluation of the Small Biz Connect Program included:

- the existing Program with an annual budget of approximately \$7.8 million;
- a Small Biz Connect Program delivered by private sector businesses including consultants, accountants, business coaches or training organisations. These services would be provided under a 'billable hours' service delivery model with an estimated annual cost of \$17.6 million;
- a Small Biz Connect Program delivered via vouchers to enable small business to seek advice or skills development from private sector professional service organisations to meet their individual needs. The number of vouchers would be capped, with an estimated annual cost of \$26.4 million; and
- a Small Biz Connect Program delivered via a comprehensive online resource and call centre designed to help small business owners find the information they require to start, run and grow their business. Based on similar programs in other jurisdictions, it is estimated to cost \$15 million to establish the online resource, with annual ongoing (mainly call centre) cost of \$3.0 million.

Assessment

NSW Trade & Investment program evaluations compare the efficiency and effectiveness of alternative options with that of the existing or proposed program. This involves an assessment of the costs and benefits of each option relative to the base case of 'no program' and, where these benefits and costs have been quantified, a comparison of the net benefit and benefit-cost ratio (BCR) of each option.

A qualitative assessment of alternative options to achieve the objective of facilitating the provision of government information to small businesses was undertaken. The preferred option was the existing Small

Biz Connect Program, which provides face-to-face support to new and existing business owners and was assessed as providing a net benefit. Alternative options to achieve the objective were more expensive, provided less assurance that the overarching intent would be achieved, and, in some cases, were assessed as providing an overall net cost.

Cost recovery

The evaluation assessed the existing program pricing arrangements relative to the cost recovery principles outlined by the Productivity Commission in its 2001 Inquiry Report on Cost Recovery by Government Agencies.

The evaluation found that it is efficient to recover a fee reflecting the 'avoidable cost' of providing the service. However, it is acknowledged that such a cost recovery model may adversely impact the program's ability to achieve its policy objective if fees represented a significant disincentive for small businesses to engage with the program.

Under the current service delivery model, there is no cost for the first hour of service provision to the small business operator. Partial cost recovery may then apply on a fee-for-service basis for ongoing advisory services and workshops. This pricing strategy has been developed to ensure appropriate resourcing whilst providing a message to users about the value of services.

Performance Measures

Key performance measures and indicators measure program performance and progress towards meeting government policy objectives. They demonstrate how effective a program is in producing the required outputs and achieving the desired outcomes.

A number of output and outcome performance measures are proposed for the Small Biz Connect Program. These measures are based on reducing the information failure experienced by businesses operators as well as the desired result of reducing the number of small business failures and strengthening the small business sector more broadly. Examples of Program output measures and indicators include:

- Total hours of face-to-face service delivery by small business advisors;
- Number of new business transitions;
- Small business survival rate; and
- Number of visits to online resources.

Future Evaluations

This is the first evaluation of the Small Biz Connect Program as part of the first group of Departmental evaluations in the inaugural year of the NSW Government Evaluation Framework. As such, the evaluation concentrated on the qualitative aspects of 'formative' evaluation to build the capacity of program management to monitor program's performance in the future – problem identification, program logic and performance measure design. Data collection will now commence to enable quantitative 'summative' evaluation of the Program when it is next scheduled for evaluation under the Framework.

More information

Further information on the Small Biz Connect Program can be obtained from:

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Disclaimer: The information contained in this publication is based on knowledge and understanding at the time of writing (October 2014). However, because of advances in knowledge, users are reminded of the need to ensure that information upon which they rely is up to date and to check currency of the information with the appropriate officer of the NSW Department of Trade and Investment, Regional Infrastructure and Services or the user's independent advisor.

Attachment: Program Evaluation Template

Division:	Office of the NSW Small Business Commissioner
Program (Current):	Small Biz Connect

Step 1 - Issue or Challenge and Objectives

- a. *Describe the issue or challenge that the program aims to address. That is, why should the department intervene? What would happen in the absence of the program?*

Good business decision making requires business managers to be in possession of the most relevant information. Obtaining the information necessary to comply with regulation imposed by all levels of government, as well as gathering information on business planning, the use of technology and other business management practices, is both costly and often complex, leaving business managers uncertain as to the most appropriate sources of information.

Failure to obtain information crucial to making informed business decisions leads to poor resource allocation, including avoidable financial losses and unemployment. These problems are particularly relevant for small business, where obtaining information on government processes and business systems represents a disproportionate drain on the resources of small business relative to larger enterprises.

There is a market failure in the provision of business advisory services for small businesses. Due to lack of information on the quality of affordable advisory services, small businesses will have difficulty in identifying and assessing which services to use. In the absence of government support, this would lead to a sub-optimal under-provision of quality business advisory services.

Small business generates a considerable proportion of employment and economy activity in New South Wales. In the absence of government intervention to address the identified information failure, it is expected that the number small business starts would be reduced, new small businesses would take longer to become established, existing small businesses would be less sustainable and the small business failure rate would increase.

- b. *Identify the groups that would be affected by the issue or challenge without departmental involvement (individuals, industry or community).*

In the absence of the departmental involvement, the following groups would be affected:

1. New Small Business Operators would continue to have limited information about the viability of proposed small businesses.
2. Established Small Business Operators would continue to have difficulty accessing information to address operational challenges and regulatory requirements.
3. Exiting Small Business Operators would continue to have information failure with regard to succession planning, transitioning or exiting the market.

- c. *Quantify the impact of the issue in the absence of departmental involvement - the severity of the issue should be demonstrated with quantitative data where possible on the significance and consequences of the issue or challenge in the absence of departmental involvement. If no such 'cost' estimate exists, proxy information can be provided to give an indication of potential 'scale', such as industry value of production.*

Small businesses are a significant contributor to the NSW economy. In summary:

1. There were approximately 689,000 small businesses in NSW as at June 2013 (ABS Cat. No. 8165.0, published 10 April 2014).
2. Nationally, small businesses provided employment for almost 43% of the Australian workforce as at June 2012. This would be equivalent to approximately 1.50 million people in NSW contributing more than \$41.6 billion in NSW wages and salaries.
3. The private sector industry value added between small, medium and large business in NSW is \$438,956 million (ABS Cat No. 5220, published 28 November 2013). Small businesses contributed around 34% of private sector industry value in 2011-12, compared with 23% contributed by medium businesses and 43% by large businesses.

The Australian Bureau of Statistics estimates that in 2012-13 there were over 79,000 new small business starts and over 100,000 exits in NSW (ABS Cat. 8165.0, published 10 April 2014).

Operating at start of financial year	Entries	Exits	Operating at end of financial year	Change	Percentage change	Entry rate	Exit rate
710,692	79,162	101,080	688,774	-21,918	-3.1%	11.1%	14.2%

As shown in the table above, there was in a reduction of approximately 22,000 small businesses in NSW in 2012-13.

For the 2008 to 2012 period, NSW had a five year small business survival rate of 61.6% which was slightly higher than the national survival rate. In comparison, Victoria had a small business survival rate of 62.1%, South Australia had a survival rate of 64.0% and Queensland had survival rate of 58.9% for the same period (ABS Cat. 8165.0).

In comparison to larger businesses, during the 2008 to 2012 period, the NSW medium business survival rate was 76.5% and the large business survival rate was 74%. Whilst the small business average survival rate in NSW was 61.6%, the non-employing small businesses survival rate was 56.1%. Employing small businesses (up to 19 people) which had a survival rate of 70% illustrating that survival rates are positively correlated with business size.

The 2012 NSW Parliamentary Research Service e-brief, Small Business in NSW: Statistical snapshots and recent developments, noted that on average one third of all start-ups failed in the first year. Although failure rates declined for each subsequent year, the cumulative failure rates remain high – 62% after 3 years and 74% after five years. This is broadly consistent with the data reported by the ABS.

Small Biz Connect program providers are expected to deliver over 52,000 hours of face-to-face advisory services per annum. In 2013/14 advisory services were provided to approximately 8,000 small businesses, with 61% of services delivered in regional NSW. The online Small Business Toolkit receives 1,170,000 unique visitors per annum.

In the absence of the Small Biz Connect Program, it is expected that the small business failure rates in NSW would be higher than currently experienced.

- d. *Describe who or what created the issue or challenge. Examples include specific industry participants (such as producers or consumers) and environmental factors (such as the effect of climate change).*

The identified market failure is the result of a complex operating environment characterised by significant regulatory requirements and new entrants that have limited knowledge and access to information.

Each business must operate within, and comply with, complex Federal, State and local regulatory frameworks. For example a café owner must comply with safe food handling practises (NSW Food Authority), liquor licence (Office of Liquor, Racing and Gaming), tobacco laws, music broadcasting licence (Australasian Performing Right Association), trading laws (Office of Fair Trading), safe work practises (WorkCover legislation), business activity statements (ATO), noise pollution (EPA), paying correct wages (awards), complying development (local councils).

As a further illustration of this complex operating environment, a 2007 Productivity Commission report, Performance Benchmarking of Australian Business Regulation: Quantity and Quality' noted that NSW had almost twice the number of regulatory acts than the average of other Australian states and territories (1257 vs. 681) and introduced over four times the number of new regulatory instruments (570 vs. 135).

A NSW Better Regulation Office 2013 report, Cost to Business - Regulatory Burden Case Studies, found that small businesses face disproportionate regulatory costs compared to larger businesses with the ongoing cost of regulation to small businesses as high as 9.4% of expenses, with the average cost almost four times the average cost to medium businesses (5.1% of expenses vs. 1.3% of expenses).

e. List current programs or legal instruments (provided by industry or any level of government) which aim to address the issue or challenge. Could these be altered to address the issue or challenge?

Other Programs	Able to be altered?
<p>Small Business Advisory Service (SBAS) – Commonwealth Government</p> <p>The SBAS program aims to maximise the growth potential, prosperity and sustainability of small businesses through enhanced access to information and advice on issues important to establishing, sustaining and/or growing a small business. The services provided vary across NSW, with no services provided in a number of NSW regions.</p>	<p>No - The NSW Government has no ability to alter this program.</p>
<p>Entrepreneurs’ Infrastructure Programme – Commonwealth Government</p> <p>This AusIndustry program offers advice and support to eligible Australian small and medium established businesses. Businesses must be in particular industry sectors, have been trading for over 3 years and have a minimum \$1 million turnover. The program includes business evaluations, grant assistance to engage consultants to implement the recommendations flowing from the review, and research pathways.</p>	<p>No - The NSW Government has no ability to alter this program. The Federal Government is phasing in the new programme from July 2014.</p>
<p>NSW Trade & Investment – Various Programs</p> <p>Innovation & Industry works to encourage economic growth by targeting industries, facilitating business, skilled and investor migration to NSW, supporting NSW exporters to expand</p>	<p>Yes - The NSW Government has the ability to change programs and priorities.</p>

<p>internationally and delivering services and programs that drive economic growth and job creation in regional NSW.</p>	
<p>WorkCover NSW – Various Programs</p> <p>WorkCover NSW administers and enforces compliance with the work health and safety, injury management and workers compensation legislation, and manages the workers compensation system. WorkCover provides a safety information program including advisory visits, workshops, mentoring, resources and a rebate program which provides up to \$500 to help small and medium business be safer.</p>	<p>Yes - The NSW Government has the ability to change programs and priorities.</p>
<p>Regional Development Australia (RDA)</p> <p>The RDA provides input to government about regional issues that impact on economic development, especially jobs, environmental solutions and social inclusion strategies.</p>	<p>Yes - The NSW Government has the ability to influence this body which is funded by the Commonwealth and NSW Governments. A review of the RDA is progressing.</p>
<p>TAFEs, Registered Training Organisations/ Community Colleges – Various training programs</p> <p>TAFE & Registered Training Organisations (RTOs) provide a range of training options such as Certificate IV in Small Business, Certificate IV in Human Resources.</p>	<p>No - Limited or no ability for NSW Government to alter the delivery of training and perception of small business operators. Research shows that small business owners do not value formal qualification, but rather require short practical skills development.</p>
<p>Industry Associations – Various Programs</p> <p>A range of Industry Associations provide a range of training, support and advocacy services to their members e.g. Master Builders Association, Australian Retailers Association.</p>	<p>No - ability for NSW Government to alter. Support services limited to members, generally caters to larger businesses with limited penetration to small businesses.</p>
<p>NSW Business Chamber and local chambers</p> <p>Range of support services to members including networking events, human resources advice, sales and marketing strategies.</p>	<p>No - ability for NSW Government to alter. Support services limited to members, generally caters to larger businesses with limited penetration to small businesses.</p>
<p>Private sector professional services</p> <p>Businesses such as accountants, lawyers, coaches provide technical services on a fee for service basis.</p>	<p>No - ability for NSW Government to alter. Small business operators do not see value in services.</p>
<p>f. <i>Identify who might benefit if action [such as the program being evaluated] is taken by the department.</i></p> <p><i>The primary beneficiaries of Departmental action are new, existing and exiting small business owners and operators across NSW.</i></p> <p><i>The smallest sized businesses are most affected by the identified market failure. As a result, non-employing businesses are expected to be the greatest beneficiaries of the program. As shown in the table below, non-employing small businesses currently comprise 93% of Small Biz Connect clients.</i></p>	

	Non employing	1 4 employees	5 19 employees	20+ employees
NSW Profile	60%	26%	11%	4%
Small Biz Connect client	93%	6%	1%	>1%

New small businesses represent 60% of Small Biz Connect clients receive 45% of the service delivery hours. In comparison, established businesses represent 39% of Small Biz Connect clients and receive 54% of client hours. This disparity is a result of the additional complexity of the issues faced by established businesses.

Small Biz Connect client	Intender	Start up	Established	Exiting
Number of clients	34%	26%	39%	1%
Hours of service delivery	23%	22%	54%	1%

Regional small businesses represent 70% of Small Biz Connect clients.

Number of clients (per annum)	2,160	5,040
Hours of service delivery(per annum)	18,000	27,000

The current service delivery profile of the Small Biz Connect Program is targeted to correlate with those businesses which experience the identified market failure and have lower survival rates.

The Small Biz Connect program complements other services delivered by the Office of the Small Business Commissioner including dispute resolution and advocacy services, the Small Business Friendly Councils initiative and regional activation projects.

- g. Statement of Objectives: Determine whether there might be a role for the department in addressing the perceived issue or challenge – i.e. what high-level objectives might a potential program achieve?*

Objective: to facilitate the provision of government information to small businesses as well as more general business advice to mitigate the impact of the identified information failure and implement appropriate actions. The overarching intent of the program is to create a small business sector within NSW that has reduced failure rates and is more resilient and sustainable.

Policy Alignment:

The establishment of the Office of the Small Business Commissioner was an election commitment and was identified with the '100 Day Action Plan'.

This program was announced by the then Deputy Premier of NSW, Andrew Stoner, and the Minister for Small Business, Katrina Hodgkinson, on 23 February 2012.

The Small Biz Connect Program directly meets the:

- NSW 2021: Goal 3 - Drive economic growth in regional NSW.

The Small Biz Connect Program has a strong regional focus with two-thirds of all business advisors located in regional areas. Regional Action Plans detail how the Small Biz Connect program provides support to small businesses in each region as a priority action to support regional economic growth.

Small Biz Connect assists in driving economic growth in regional NSW through the Skilled Regional Relocation Incentive. To relocate and establish or purchase a small business, a new business operator must access the Small Biz Connect program to get the information and skills to successfully establish their regional business.

- NSW Trade & Investment Strategic Plan: Result 1 – Jobs are supported and created in urban and regional NSW.

A key part of the Small Business Strategy, the Small Biz Connect program supports new businesses to establish and existing small businesses to grow and maintain jobs in urban and regional NSW.

The program outcomes will contribute to business investment and job growth and growth in regional NSW key performance indicators.

Market Failure:

Markets are considered to suffer from a failure where there is some impediment which results in a misallocation of resources. Information failures occur where there is insufficient or inadequate information for economic agents such as firms, investors and consumers to make informed decisions¹. Where economic agents do not have sufficient or adequate information, there will be a misallocation of resources.

As noted in the 2001 Productivity Commission Report, Cost Recovery by Government Agencies, although markets may be able to address the information failure through the provision of advisory services, there may be a role for government where the issues are highly technical or no suitable market for information services exist.

Although all businesses incur the identified information failure, larger businesses have the resources available to overcome information failure.

In the case of small businesses, an information failure exists as there is insufficient or inadequate information in the market for small business operators to make completely informed decisions: new small businesses would take longer to become established, existing small businesses would be less sustainable and the small business failure rate would increase.

The proposed program addresses the market failure by providing information to business on their regulatory and government obligations as well as providing a mechanism to access small business advisory services.

¹ An information failure exists when there is less than 'freely available perfect information'. The presence of information failure will result in a suboptimal allocation of resources. Asymmetric information occurs where this information failure is experienced disproportionately by one party to a transaction. Asymmetric information can be considered a specific type of an information failure

Step 2 – Program Options & Design	
<p><i>Identify all potential options for achieving the objective, including those that least impede business activity (refer to Step 2 of the Framework).</i></p>	
<p>Option 1.</p> <p>face to face advisory program delivered by regional not for profit organisations</p>	<p>Description:</p> <p>The Small Biz Connect program funds a network of mobile business advisors to provide advice to local small businesses. The program provides face-to-face support to new and existing business owners as well as skills development workshops and an online toolkit of resources including business planning templates, educational videos and checklists.</p> <p>The program is delivered across NSW by contracted regional service providers through a competitive expression of interest and request for tender process. Based on a value for money proposition, the regional procurement process has been restricted to not for profit organisations and local governments. Providers are contracted to provide 52,000 hours of face-to-face advisory services per annum.</p> <p>Business advisors are employees of the respective regional not for profit organisation.</p> <hr/> <p>Resourcing requirements:</p> <p>In 2014/15, the NSW Government has committed \$7,800,000 to Small Biz Connect. This funding consists of:</p> <ul style="list-style-type: none"> • \$1.4 million – 8 FTE departmental staff to manage the program and associated resources such as the diagnostic and reporting system, the small business online toolkit and two Small Biz Bus vehicles • \$6.4 million – 57 FTE English speaking advisors across NSW, 2 FTE multilingual advisors in western Sydney and 2 FTE Small Biz Bus Hosts. Includes vehicles, phones, laptops, data and training for advisors. Providers provide in-kind support for the program, including management, office meeting space and management of enquiries. <hr/> <p>Governance arrangements:</p> <p>The <i>Small Business Commissioner Act 2013</i> established the NSW Small Business Commissioner as an independent statutory officer. The Office of the NSW Small Business Commissioner is aligned with NSW Trade & Investment.</p> <p>A dedicated Small Biz Connect unit has been created within the Office of the NSW Small Business Commissioner. The Small Biz Connect Unit manages the Small Biz Connect program. Small Biz Connect providers are engaged by the Small Biz Connect Unit under 3 year contracts.</p> <p>Providers appointed for 18 of 19 regions across NSW are not-for-profit organisations. The program is delivered by the University of Western Sydney in the Greater Sydney–West region as part of a pilot program. The majority of providers are members of Business Enterprise Centres Australia.</p>

Consultation strategy:

The Office of the NSW Small Business Commissioner consults with key stakeholder groups including NSW and Australian government agencies, Councils, the NSW Business Chamber, local business chambers, industry associations such as the Australian Retailers Association and CPA Australia and individual small business owners.

The development of the Small Biz Connect Program was informed by two listening tours conducted by the NSW Small Business Commissioner. The Commissioner spoke directly to small business owners and key stakeholders such as local business chambers to ascertain their needs and experiences. The Expression of Interest conducted as part of the two stage procurement process further informed the delivery model which is flexible to meet local needs.

Each Small Biz Connect provider is required to establish relationships with business service organisations, including but not limited to, government agencies, Councils, banks, accountants, legal professionals, psychologists and chambers of commerce. Advisors refer small businesses clients to other local service providers on merit.

Existing or proposed program pricing strategy:

Under the current service delivery model, there is no cost for the first hour of service provision to the small business operator. Partial cost recovery may then apply on a fee-for-service basis for ongoing advisory services and workshops. This pricing strategy has been developed to ensure appropriate resourcing whilst providing a message to users about the value of services.

Pricing is not uniform and varies to suit local needs. Regions may offer up to three further one-on-one sessions at no cost, then the subsidised fee may be \$50 or \$75 per hour (including GST). The price for business skills training does not exceed \$75 (including GST) per client per workshop, unless a higher fee has been agreed with DTIRIS in writing. Providers may waive fees in hardship circumstances.

There is no cost to access online toolkit resources.

Fees are retained by local providers to offset unfunded costs such as program management and overheads such as office rent and utilities.

Application of the Productivity Commission's cost recovery principles to the present program suggests that the cost of providing small business advisory services should be recovered on a fee for service model, with the fee reflecting the 'avoidable cost' of providing the service. The pathway through the cost recovery decision framework (Appendix A) is represented as 1, 2d, 3, 4, 9a, 10a, 11, 13a, 14, 16, recommending provision with cost recovery at avoidable cost.

However, it is acknowledged that such a cost recovery model may adversely impact the program's ability to achieve its policy objective if fees represented a significant disincentive for small businesses to engage with the program.

Key performance measures:

A number of output and outcome key performance measures are proposed for the current program. These measures are based on reducing the information failure experienced by business operators as well as the desired result of reducing the number of small business failures and strengthening the small business sector more broadly. The proposed measures are:

- Total hours of face-to-face service delivery by small business advisors: the measure is intended as a proxy for the amount of information that is provided by the small business advisors. A higher number implies that a greater amount of information is being provided and that the market failure is being addressed.
- Hours of face-to-face service by region, industry and other business demographics: this measure is intended as a proxy for the breadth of information failure that is being addressed. It is intended that the program would target regions, industry sectors, business stage or multicultural background according to measures such as new start failures. Higher penetration in identified industries or demographics would be considered as addressing the target need.
- Business sustainability: the measure of small business confidence in their business prospects is intended as a proxy for sustainability. Confidence in business prospects is highly correlated with improvements in identified business issues and development of business skills. The confidence of small businesses participating in the program in their business prospects will be compared to the broader NSW and national small business confidence.
- Number of new business transitions: this measure is intended to quantify the transition from 'intender' to 'start-up' to 'established'. The 'intender' to 'start-up' key performance indicator will be measured as the number of intenders that obtain an ABN and commence trading. The first invoice or sale will be used to identify that the business is in the start-up phase. The transition from start-up' to 'established' varies across industry sectors and will be self-identified by businesses when they have moved into a mature stage of operation. A higher rate of successful transition when compared to the benchmark would be considered evidence that the program is having the desired impact.
- Small business survival rate: this measure is intended to quantify the impact of the program on survival rates. The small business survival rate for business that participate in the program will be compared to the broader NSW and national small business survival rates. A 'program' survival rate over the period which is higher than the NSW and national average would be considered evidence that the program is having the desired impact.
- Client experience: this measure is a proxy for the effectiveness of the service in strengthening business. The proportion of small businesses seeking advice on an issue having their needs met, the perceived relevance and usefulness of the information and advice to the small business and the likelihood that the small business owner would recommend the Small Biz Connect program to other small businesses would be considered as indicators that improvements have been made to address the business issue.
- Number of visits (unique and repeat) to online resources: this measure is intended as a proxy for the degree that the information failure is being addressed. A higher number implies that information dissemination is greater.

<p>Option 2 face to face advisory program delivered by NSW government officers</p>	<p>Description:</p> <p>The NSW Government delivers services through the direct employment of business advisors. Business advisors would be employees of the OSBC or similar.</p>
	<p>Resourcing requirements:</p> <p>To overcome the identified market failure, it is estimate that the following ongoing resources would be required:</p> <ul style="list-style-type: none"> • \$9.4 million – 59 small business advisors would be employed in Clerk Grade 9/10 positions at an average cost of \$129,000 per FTE (including on-costs). Operating costs include vehicles, regional accommodation, laptops, mobile phones and training are estimated at \$31,000 per FTE. • 16 FTE departmental staff - \$2.5 million. This includes including 4 FTE supervisory staff, 8 FTE program management staff and 4 FTE call centre staff. <p>Based on this resourcing, a funding allocation of \$11.9 million per annum would be required. This would be offset by the collection of approximately \$1 million in review from fees. This would result in a total cost of \$10.9 million.</p>
	<p>Governance arrangements:</p> <p>The proposed 59 Business Advisor positions would form part of the Small Biz Connect unit. The 59 Business Advisors would report to 4 supervisory staff with 8 program management staff. Including call centre staff, the Small Biz Connect Unit would increase their current staffing by 75 direct employees.</p> <p>The unit could have some reporting to the Office of Regional Development. This governance arrangement is analogous to export advisory services delivered by Investment and Export Services.</p>
	<p>Consultation strategy:</p> <p>The Office of the NSW Small Business Commissioner would consult with key stakeholder groups including NSW and Australian government agencies, Councils, the NSW Business Chamber, local business chambers, industry associations such as the Australian Retailers Association and CPA Australia and individual small business owners. A dedicated consultation strategy would be developed and implemented to communicate the change in delivery model.</p> <p>A key message of the consultation strategy is that service delivery will not be reduced and that by directly employing Business Advisors, government is able to be more responsive to the needs of small business.</p>

Proposed program pricing strategy:

According to the Government Cost Recovery Decision Framework (see Appendix A), the cost of providing small business advisory services through the proposed program should be recovered on a fee for service model. In this case, the fee for service should reflect the 'avoidable cost' of providing the service. However, it is acknowledged that policy objective exists which may make this cost recovery mechanism untenable. Therefore the following pricing strategy has been proposed.

There would be no charge for the first two hours of business advisory service provision. A partial cost recovery would then apply on a fee-for-service basis for ongoing advisory services and workshops. This is to support appropriate resourcing levels and provide a message to users about the value of services. Fees would be retained by NSW Trade & Investment to offset program costs.

The fee for further one-on-one sessions would be \$50 per hour (including GST). Advisors would be empowered to waive fees in hardship circumstances. The fee for business skills training would not exceed \$75 (including GST) and would be determined on a sliding scale depending on resources and overheads such as venue hire. There would be no cost to access online toolkit resources.

Based on an average of 4 hours of one-on-one sessions and one in three clients completing a workshop, approximately \$1.0 million revenue would be generated.

Key performance measures:

Output and outcome key performance measures as proposed for the current program (option 1).

<p>Option 3 face to face advisory program delivered by regional private sector businesses</p>	<p>Description:</p> <p>The Small Biz Connect program would fund private professional sector service organisations to provide business advice and skills development workshops to meet the individual needs of local small businesses. Private sector services may be consultants, accountants, business coaches or training organisations. These services would be provided under a 'billable hours' service delivery model.</p> <p>The program would be delivered across NSW by contracted service provider for each region. A competitive tender process would be undertaken to select suppliers. The Department would provide an online toolkit of resources including business planning templates, educational videos and checklists.</p>																																							
	<p>Resourcing requirements:</p> <p>To overcome the identified market failure, it is estimate that the following ongoing resources would be required if delivered by the private for-profit sector:</p> <ul style="list-style-type: none"> • \$1.4 million – 8 FTE departmental staff. Departmental staff would manage the program and associated resources such as the diagnostic and reporting system, the small business online toolkit and two Small Biz Bus vehicles. • \$16.0 million – 52,000 billable hours. Under this model each hour of face-to-face advisory services delivered is funded at a set rate. Each provider would be required to have the capacity to provide services across a business service area comprising up to 16 local government areas. • It is estimated that 52,000 billable hours would be required to provide the required level of service, with 16,000 clients receiving two hours of advice fully subsidised, and 10,000 clients receiving two further hours at a 50% subsidised rate and 3,300 clients attending a 3 hour workshop, based on an average of 8 participants per workshop. 40% of services would be delivered in metropolitan areas and 60% in regional NSW. • Costs of private sector consultants vary widely between metropolitan and regional NSW. A July 2014 Request for Tender process to deliver advisory services identified a cost of \$530 per hour for the provision of metropolitan advisory services. A cost of \$500 per hour for metropolitan areas and \$300 per hour for regional service delivery is assumed. For each hour of face-to-face services, other associated tasks would need to be performed, such as administrative tasks, reporting, research, marketing, communications and travel. <table border="1" data-bbox="422 1480 1422 1951"> <thead> <tr> <th>Session</th> <th>Clients</th> <th>Billable hours</th> <th>Cost per hour</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>100% funded</td> <td>6,200</td> <td>12,400</td> <td>\$500 (metro)</td> <td>\$6,200,000</td> </tr> <tr> <td>100% funded</td> <td>9,300</td> <td>18,600</td> <td>\$300 (regional)</td> <td>\$5,580,000</td> </tr> <tr> <td>50% funded</td> <td>4,000</td> <td>8,000</td> <td>\$250 (metro)</td> <td>\$2,000,000</td> </tr> <tr> <td>50% funded</td> <td>6,000</td> <td>12,000</td> <td>\$150 (regional)</td> <td>\$1,800,000</td> </tr> <tr> <td>Workshop</td> <td>800</td> <td>300</td> <td>\$500 (metro)</td> <td>\$150,000</td> </tr> <tr> <td>Workshop</td> <td>2000</td> <td>750</td> <td>\$300 (regional)</td> <td>\$225,000</td> </tr> <tr> <td>Total</td> <td></td> <td>52,050</td> <td></td> <td>15,955,000</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • \$0.2 million - to deliver Small Biz Bus hosting services. 	Session	Clients	Billable hours	Cost per hour	Total	100% funded	6,200	12,400	\$500 (metro)	\$6,200,000	100% funded	9,300	18,600	\$300 (regional)	\$5,580,000	50% funded	4,000	8,000	\$250 (metro)	\$2,000,000	50% funded	6,000	12,000	\$150 (regional)	\$1,800,000	Workshop	800	300	\$500 (metro)	\$150,000	Workshop	2000	750	\$300 (regional)	\$225,000	Total		52,050	
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The estimated cost to address the identified market failure is \$17,600,000.

Governance arrangements:

The administration of the scheme would be managed by the Small Biz Connect unit

Small Biz Connect providers would be engaged by the Small Biz Connect Unit under fixed term contracts which would be open to a competitive tender process.

Consultation strategy:

The Office of the NSW Small Business Commissioner would consult with key stakeholder groups including NSW and Australian government agencies, Councils, the NSW Business Chamber, local business chambers, industry associations such as the Australian Retailers Association and CPA Australia and individual small business owners.

A dedicated consultation strategy would be developed and implemented to communicate the change in delivery model. The focus of this consultation strategy would be the rules and requirements governing the access and use of the 'billable hours' available.

Proposed program pricing strategy:

According to the Government Cost Recovery Decision Framework (Appendix A), the cost of providing small business advisory services through the proposed program should be recovered on a fee for service model. In this case, the fee for service should reflect the 'avoidable cost' of providing the service. However, it is acknowledged that policy objective exists which may make this cost recovery mechanism untenable. Therefore the following pricing strategy has been proposed.

There would be no charge for the first two hours of business advisory service provision. A partial cost recovery would then apply on a fee-for-service basis for ongoing advisory services and workshops. This is to support appropriate resourcing levels and provide a message to users about the value of services.

Further one-on-one advisory services would be funded at a 50% subsidised rate, for example if the set rate was \$300 per hour, the client would pay \$150 per hour. This would be capped at four hours of additional services. A process would be developed for further subsidies in hardship circumstances.

The fee for business skills training would not exceed \$75 (including GST) and would be determined on a sliding scale. For example clients would pay \$30 for a 3 hour basic workshop, or \$75 for specialist or a full day workshop.

There would be no cost to access online toolkit resources.

Key performance measures:

Output and outcome key performance measures as proposed for the current program (option 1).

<p>Option 4 face to face advisory program delivered by private sector businesses through a voucher system</p>	<p>Description:</p> <p>The Small Biz Connect program funds a voucher system to enable small business to seek advice or skills development from private sector professional service organisations to meet their individual needs.</p> <p>An online and call centre registration system would be established, where small businesses provide some basic contact details and are emailed or posted a voucher with a value of up to \$1,000 in metropolitan areas and \$600 in regional areas. This could be used to provide 2 hours of advisory support or a short training course, depending on the hourly rate for the chosen suppliers. A provision could be made for a small business owner to receive an additional voucher(s) in particular hardship or crisis situations. The number of vouchers would be capped at 26,000 per annum.</p> <p>Suppliers may include accountants, advisors, business coaches, consultants, marketing firms, solicitors and training organisations.</p> <p>The Department would provide an online toolkit of resources including business planning templates, educational videos and checklists.</p>
	<p>Resourcing requirements:</p> <p>Under this option for the following ongoing resources would be required.</p> <ul style="list-style-type: none"> • 30 FTE departmental staff - \$5.6 million. Departmental staff would manage an extensive number of suppliers, develop a system to capture and report quality data from a large and disparate number of suppliers and manage payments. A call centre would also be required to manage individual business enquiries. • Voucher Cost - \$19.8 million. To achieve the desired level of service, it is estimated that 52,000 hours of face-to-face contact would be required. This equates to 26,000 vouchers which each voucher providing 2 hours of contact. A cost of \$1,000 per metropolitan voucher (10,400) and \$600 per regional voucher (15,600) is assumed. • Advertising and marketing - \$1 million. Given the nature of the voucher system, a significant education and information campaign would be required. <p>Significant interest in the prequalification scheme is expected from potential suppliers such as accountants, solicitors, business advisors, coaches, training organisations and marketing and social media businesses. Up to 50,000 businesses may register to deliver services.</p> <p>Following an initial wave of registrations, the scheme would remain open for additional suppliers on an ongoing basis. This will require departmental staff to manage enquiries, support small businesses to apply, review proposals, ensure suppliers meet quality and governance requirements and negotiate terms and conditions.</p> <p>It is estimated that the total costs of this option would cost in the order of \$26.4 million.</p> <p>It is expected that demand would significantly outstrip supply. If the scheme were extended to a cap of 52,000 vouchers, this would cost an additional \$19.8 million.</p>
	<p>Governance arrangements:</p>

The Small Biz Connect unit would manage the voucher scheme. This would include education about the prequalification scheme, support to register and communication to small business about the operation of the scheme.

A prequalification scheme would be used to pre-approve suppliers to undertake work for the NSW Government. Guidelines and rules would be established to manage the respective risks. Suppliers would first be required to register their business on the NSW Government's eTenders website, then complete the assessment criteria and upload required certification and pre-agree the standard terms and conditions. Once accepted onto the scheme, a formal scope of works and price would be agreed.

Consultation strategy:

The Office of the NSW Small Business Commissioner consults with key stakeholder groups including NSW and Australian government agencies, Councils, the NSW Business Chamber, local business chambers, industry associations such as the Australian Retailers Association and CPA Australia and individual small business owners.

Given the nature of the proposed scheme, a dedicated consultation strategy would be developed and implemented. This strategy would focus on the requirement for service providers to qualify for the scheme as well as how the scheme can be accessed by small businesses.

The consultation strategy would need to focus on the flexibility that this option offers to small businesses. This option is likely to be perceived as offering low value for money. This perception would need to be managed.

Proposed program pricing strategy:

According to the Government Cost Recovery Decision Framework (Appendix A), the cost of providing small business advisory services through the proposed program should be recovered on a fee for service model. In this case, the fee for service should reflect the 'avoidable cost' of providing the service. However, it is acknowledged that policy objective exists which may make this cost recovery mechanism untenable. Therefore the following pricing strategy has been proposed.

Each voucher would have a face value of \$500. There would be no cost recovery for the voucher provided to small business operator. A small business owner could access further services on a full fee for service arrangement.

There would be no cost to access online toolkit resources.

Key performance measures:

Output and outcome key performance measures as proposed for the current program (option 1).

<p>Option 5 “one stop” website</p>	<p>Description: Comprehensive online resource designed to help small business owners find the information they require to start, run and grow their business.</p>
	<p>Resourcing requirements: Based on consultation with Business Victoria, it is estimated to establish the proposed online resource would cost in the order of \$15 million in the first year. The ongoing cost of this option is estimated as \$3.0 million per annum.</p> <ul style="list-style-type: none"> • \$2.1 million – 12 FTE Departmental staff would manage the on-line interface. Staffing estimates are based on the Victorian Government model. • \$0.9 million – 6 FTE Departmental staff to manage a call centre for all small business enquiries.
	<p>Governance arrangements: The website and call centre will be managed by the Small Biz Connect unit. The development of the website will put to competitive tender and managed by Small Biz Connect unit.</p>
	<p>Consultation strategy: The Office of the NSW Small Business Commissioner consults with key stakeholder groups in accordance with the responsibilities of the NSW Small Business Commissioner. Focus groups with small businesses and user testing would inform the development of resources.</p>
	<p>Proposed program pricing strategy: According to the Government Cost Recovery Decision Framework (Appendix A), the cost of providing small business advisory services through the proposed program, a dedicated on-line resource, should be not recovered as it would likely be inefficient and not cost effective. Given the nature of the interface, there would be no cost recovery mechanism in place.</p>
	<p>Key performance measures: The output and outcome key performance measures of:</p> <ul style="list-style-type: none"> • <u>Number of visits (unique and repeat) to online resources</u>: this measure is intended as a proxy for the degree that the information failure is being addressed. A higher number implies that information dissemination is greater. • <u>Small business survival rate</u>: this measure is intended to quantify the impact of the program on survival rates. The small business survival rate for business that participate in the program will be compared to the broader NSW and national small business survival rates. A ‘program’ survival rate over the period which is higher than the NSW and national average would be considered evidence that the program is having the desired impact.

Step 3 – Options Assessment			
<i>Shortlist options by qualitatively listing below the benefits and costs of each option relative to the base case of 'no program'. If the program contains sub-components, it may be easier to consider the benefits and costs of each subcomponent.</i>			
	Benefits	Costs	Qualitative assessment of net impact
<p>Option 1. Face to face advisory program delivered by regional not for profit organisations</p>	<p>Reduction of information failure experienced by small businesses.</p> <p>Decreasing failure rate of small businesses.</p> <p>One-on-one business advice which is the most efficient and effective tool for ensuring small business sustainability and growth.</p> <p>Focus on regional delivery with service delivery alignment with those groups most likely to experience the identified market failure.</p> <p>Delivered by credible independent small business experts with strong networks in local communities.</p>	<p>\$7,800,000 per annum</p>	<p>Benefits greatly outweigh costs.</p> <p>Ranking 1</p>
<p>Option 2. Face to face advisory program delivered by NSW government officers</p>	<p>Reduction of information failure experienced by small businesses.</p> <p>Decreasing failure rate of small businesses.</p> <p>One-on-one business advice which is the most efficient and effective tool for ensuring small business sustainability and growth.</p> <p>Ability of government to be more responsive to the needs of small business as service delivery model is direct employees.</p> <p>Focus on regional delivery with service delivery alignment with those groups most likely to experience the identified market failure.</p>	<p>\$10,900,000 per annum</p> <p>Reluctance of small business operators to trust and speak to government employees.</p> <p>Likely to be seen as an inefficient delivery model by public/small businesses.</p>	<p>Benefits outweigh costs.</p> <p>Ranking 2</p>

<p>Option 3. Face to face advisory program delivered by regional private sector businesses</p>	<p>Reduction of information failure experienced by small businesses.</p> <p>Decreasing failure rate of small businesses.</p> <p>One-on-one business advice to support small business sustainability and growth.</p>	<p>\$17,600,000 per annum</p> <p>Likely to be seen as an inefficient delivery model by public/small businesses.</p> <p>Risk that providers use scheme for unfair competitive advantage.</p> <p>Risk that providers restrict access to the small businesses most likely to experience identified market failure as they select clients with the greatest potential for becoming an ongoing commercial client, as found by previous ACT government outsourcing to Deloitte.</p>	<p>Benefits outweigh costs.</p> <p>Ranking 3</p>
<p>Option 4. Face to face advisory program delivered by private sector businesses through a voucher system</p>	<p>Reduction of information failure experienced by small businesses.</p> <p>Decreasing failure rate of small businesses.</p> <p>One-on-one business advice to support small business sustainability and growth.</p>	<p>\$26,400,000 per annum</p> <p>Limited ability to focus on regional delivery and alignment with those groups most likely to experience the identified market failure.</p> <p>An individual specialist will not be able to address the multi-disciplinary challenges faced by small businesses.</p> <p>Limited ability to manage quality of providers and ensure that vouchers are used for intended purpose, for example not used to visit accountant for tax compliance.</p> <p>Likely that suppliers would have unrealistic expectations of the volume of work and that the supply of vouchers would not meet demand.</p>	<p>Benefits outweigh costs.</p> <p>Ranking 4</p>
<p>Option 5. “one stop” website</p>	<p>Can be accessed by stakeholders at any point.</p> <p>No limit on number of ‘contacts’ with website.</p> <p>Flexible and updated easily to remain current.</p> <p>Once established minimal ongoing cost.</p>	<p>\$15,000,000 establishment plus \$3,000,000 per annum.</p> <p>Limited ability to focus on regional small businesses and alignment with those groups most likely to experience the identified market failure.</p> <p>Many small business owners suffer from information overload, often don’t know what they need to know and may have limited computer literacy skills.</p> <p>One-on-one business advice is the most efficient and effective tool for ensuring small business sustainability and growth.</p>	<p>Costs outweigh benefits.</p> <p>Ranking 5</p>

Appendix A: Cost Recovery Decision Framework

