

AUSTRALIAN INSTITUTE FOR SOCIAL RESEARCH

Serious Business: Why is Business Assistance Important for the Economic Development of a City?

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1 INTRODUCTION

This report by the Australian Institute for Social Research (AISR) at the University of Adelaide was commissioned by the Adelaide City Council (ACC) to undertake background research to inform its *Economic Development Program – 2010-2011 Action Plans*, in particular Action 2.1.2 which is to “Build a total service proposition for investment attraction across all businesses – small, medium and large businesses”.

Specifically the report addresses the following questions posed by ACC. Answers to these questions can help inform decisions about future business assistance provision by ACC:

- Why does it make good “economic development sense” for a City Council to have ‘client need packages’ for different business segments – eg start-ups, expansions, companies seeking to relocate to the City etc?
- Why is it important for Council to attract and assist these business segments (such as start-ups etc)? and
- How does supporting small businesses (etc) facilitate economic development?

2 BACKGROUND

Through its business assistance arm - Enterprise Adelaide – Adelaide City Council provides a number of business assistance and advisory services, predominantly focused on start-up, early stage and small enterprises that are currently trading in or seeking to establish in the City of Adelaide. Enterprise Adelaide has been a major component in Council’s strategy to achieve its workforce growth targets for the City of Adelaide.

Since 2004, Enterprise Adelaide has been jointly-funded by Council and the state government as one of nine Business Enterprise Centres (BECs) in metropolitan and outer metropolitan Adelaide. The state government has announced – as part of its budget savings measures - that it will no longer contribute to the funding of BECs after 30 June 2011.

This development, along with the recent election of a new Lord Mayor and councillors for the City of Adelaide necessitates a review the provision of business assistance services by Council. This report is designed to help inform this review.

3 METHODOLOGY

The preparation of this report has involved the identification of the role that local government has and continues to play in the provision of business assistance. A review of relevant documentation produced by local government has been supplemented by interviews with key informants with experience and knowledge of the role of local government in the provision of business assistance¹. The focus of the literature review has been on the specific role of local government in business development and possible future directions in light of changed funding arrangements. Consultations have been undertaken with current and past employees of Enterprise Adelaide and Adelaide City

¹ The report’s authors are grateful to the people who agreed to be interviewed as part of the project

Council, other councils and the State Government, and local councils interstate with strong economic development foci.

4 THE ROLE OF GOVERNMENT IN ECONOMIC DEVELOPMENT

4.1 RATIONALES FOR GOVERNMENT PROVISION OF BUSINESS ASSISTANCE

Governments around the world undertake a range of activities designed to assist the growth and development of businesses. Various types of business assistance programs provide generic business advice, assistance with market intelligence and specific advice on particular topics such as marketing, intellectual property protection and exporting.

In Australia, at the national level, the entry point for people seeking information about business assistance in Australia is www.business.gov.au. The AISR understands that the www.business.gov.au website gets 1.8 million 'hits' per month. A link on the website takes the user to "Grants and Assistance Finder". This information can be tailored by state or by type of assistance or grant sought. In total, across all states, there are 612 different advisory or grant programs available. Each has different geographical reach, type of 'offer', eligibility criteria, etc. The sheer volume of assistance and grant programs operating suggests a strong perceived need for these programs by policy-makers and governments at all levels. Similarly, the large number of entry point website enquiries suggests a strong level of initial demand for some kind of business assistance services.

Business advisory services are also provided by the private sector. Start-ups and small businesses can and often do access business advisory services from banks, accountants, relevant industry associations and other providers. Government funded business assistance programs often refer enquiries to these sources and work collaboratively with them to meet a range of business support needs. It is clear from interviews with BEC staff that micro and start-up companies in particular find the cost of accessing 'external' business advisory services as a major impediment and therefore have a preference to accessing the 'subsidised' service provided by BECs like Enterprise Adelaide.

In Australia and other countries, many business programs for small business are targeted at particular problems identified by policy makers. The Productivity Commission (Lattimore *et al* 1998) in its report *Design Principles for Small Business Programs and Regulations* groups business programs according to the nature of the problem or market failure being addressed, including:

- the use of business advice;
- management, business and general training programs;
- finance;
- networking
- government procurement programs;
- regulation review and simplification; and
- understanding the nature of small businesses (1998: 26-27).

The Productivity Commission notes that governments at all levels do not leave all economic outcomes to be decided entirely by market forces. They devote significant resources to various programs of industry development or support. The main economic rationales for such government interventions are considered to be:

- when there is market failure — when markets do not work to allocate resources in a way that produces the most economically efficient outcome;
- by undertaking reform of the fundamental institutions around which the economy is organised (including labour market arrangements, the taxation system, regulation and legal institutions and systems). These institutions are an important element of the business environment facing firms; or
- where economic agents systematically make mis judgments (1998:48).

The business assistance support provided by the Commonwealth government in Australia ranges from the web-based information services provided via www.business.gov.au to a number of AusIndustry grant programs targeted at certain sectors. Most of them (including business assistance programs like Enterprise Connect) are pitched more at small and medium enterprise level (rather than start-up or micro size businesses).

Similarly, the South Australian government runs a number of business assistance programs (including providing contributory funding to Business Enterprise Centres). These programs include those specified under the Department of Trade and Economic Development web portal <http://www.southaustralia.biz/Doing-Business-in-SA/Considering-a-New-Business/Programs.aspx>, as well as those targeting growth firms (eg the *innovate sa* program²).

4.2 LOCAL GOVERNMENT PROVISION OF BUSINESS ASSISTANCE

Given the levels and diversity of business assistance policy at the national and state levels, it is important to provide clear answers to the question of what are the appropriate roles for local government in providing business assistance. As a first step in answering this question it is useful to specify what the objectives of local government are in providing such assistance and critically analyse how these objectives differ from those of the national and state governments.

Ultimately, local governments want *local* economic and employment development and this is the key objective driving local government business development programs. Local governments will also have preferences about what particular type of business activity is appropriate within their jurisdictions. Whilst these priorities will shape local government assistance policy, it is important that local government policies are harmonised with the types of business assistance provided by other levels of government.

Given that overcoming market failure in relation to access by businesses to relevant information is one of the rationales for government provision of business assistance, it is important to recognise that local information is a significant – perhaps the most significant – component of the information that many businesses need to operate successfully. This is particularly true of businesses that do most of their trade in the local area, such as retail businesses, but it is also true of businesses that sell goods and services outside the local area. When a business chooses to locate in a particular place it must be aware of the full set of local regulations and conditions that will impact on its business operations.

In Australia, policies impacting on economic development have traditionally been the preserve of Commonwealth and state governments. However, economic restructuring, particularly since the

² Which is also under review by the state government

early 1980s, has seen the rise of local government as a more active participant in promoting economic development at the local level. Jones suggests that individual local councils that establish economic development policies may be operating outside the statutory parameters of their legislative frameworks and often well beyond their resource capacity (Jones, 2008:23). Furthermore, the literature is unambiguous on the fact that a meaningful response to demands for local economic development requires the allocation of considerable resources and effective coordination between each sphere of government (Jones, 2008:24).

The Australian Local Government Association argues that local government contributes to economic development through a range of policy measures, including:

- planning and coordination;
- supporting local businesses;
- providing infrastructure;
- identifying investment opportunities; and
- promoting tourism, cultural and recreational activities, and incentives for investment (quoted in Jones 2008:29).

Lennon and O’Neil (2003:2) point out that through its range of ‘normal’ activities and services, local government is a key player in its local (and regional) economy in a number of ways:

- *“It spends money on development infrastructure that facilitates business and community activity and sustains environmental quality (eg roads, drains, parks, and gardens);*
- *It provides important community services that support economic activity and promote the health and well-being of the local population. These assist in social cohesion and the development of local identity (eg child care, recreation services, aged care);*
- *It is an effective partner in the early stages of project development through its role in development approvals (eg planning, building and health); and*
- *It is often the point of contact for local businesses and the community in relation to day-to-day concerns that affect the immediate environment for business production and quality of life (eg local land use conflicts and their resolution, lobbying other spheres of government for attention to problems outside the Council’s responsibility, providing information on changes to regulations, housing controls, etc.)”.*

In undertaking these activities, which *are* part of their fundamental obligations, local councils are in fact directly influencing the way in which the local economy develops (Lennon and O’Neil, 2003:2).

Beer (2006) discusses some of the problems faced by local governments in adequately addressing economic development in their region. The issues can be summarised as relating to:

- Fragmentation in responsibility across different levels of government (Beer, 2006:120);
- No uniformity in funding and institutional architecture across states and territories (2006:120);
- The fact that the real value of financial support to local government from the Federal government and state governments has fallen over the past two decades, while the tasks required of local governments have grown (2006:122); and that
- The Federal government is considered to be the only tier of government in Australia with the necessary resources *“to sustain a coherent and viable program of local or regional or economic development”* (2008:120).

Beer concludes that as a result of these developments, there has been a lack of wholesale investment in infrastructure and a lack of wide ranging business development programs at the regional level, unlike the experiences of other countries (2008:123).

Finally, a note of caution: while examining how other councils approach economic development is instructive for this project, it must be remembered that local governments are not homogenous. State legislative frameworks concerning the roles and responsibilities of local councils differ from each other. The issues faced, opportunities presented and approaches taken to facilitate and promote economic development all differ between Councils according to local circumstances (Lennon and O’Neil, 2003:2).

Despite these caveats and cautions, there is a prima facie rationale for local government to provide local information and services to businesses and this goes some way to answering the question “*why should local councils invest in business assistance programs*”. In addition, there may be a competitive imperative for each council to assist businesses and encourage them to locate and grow within their geographical boundaries because other councils are pursuing similar strategies. Therefore, it may be the case that some of the expenditure on business services is wasteful if this is the sole motivation for business assistance. Further, in light of the developments discussed in Section 5.1, it may be desirable to consider a higher degree of integration and coordination between the assistance programs of councils in order to maximise the effectiveness of these programs.

Another rationale for business assistance might be to achieve an alignment between the strategic development objectives of the council and the types of businesses that locate there. For example, in the City of Adelaide, retail, education and residential services business may be preferred over manufacturing businesses.

4.3 THE IMPORTANCE OF SMALL BUSINESS IN ECONOMIC DEVELOPMENT

Having identified rationales for the provision of business assistance by local government, we now discuss its economic impact. At the most obvious level, new businesses mean more economic activity, more jobs, and economic growth and development. The distinction between growth and development is significant: new businesses are more likely to be participants in new and expanding sectors of the economy which therefore have the greatest potential for ongoing growth and offer the potential to create new and desirable types of jobs in new growth sectors.

Whilst it is clear that economic development involves the decline of some types of business and the creation of new businesses in new growth sectors, it is less obvious what government at all levels can and should do to assist economic development by assisting the start up of new businesses. For example, Edmiston (2007) poses the question: does promoting entrepreneurship and small business make sense as an economic development strategy? (2007:74) and concludes that “*more research is needed to properly evaluate the case for a small business strategy and whether public engagement in economic development itself is cost-effective and worthwhile*” (2007:74).

Edmiston asserts that the location of a new large firm into a region (for example, through tax or other incentives) *often retards* the growth of existing enterprises or discourages the establishment of enterprises that would otherwise have located there (2007:75). Some indirect positive spill over effects of new large firms including links with suppliers, increased consumer spending, transfer of

knowledge and sharing a pool of workers. However, there are also a number of negative spill over effects including constraints on the supply of labour, upward pressure on wages and rents, congestion and budget pressures from incentives (2007:75).

Edmiston's case for the importance of small business (despite her reservations) is that expansion of existing firms tends to have a multiplicative positive employment effect. This supports the notion that internal business generation and growth has potentially better prospects as a strategy than attraction of large firms to a region (2007:75).

The sheer size of the small business sector underscores its importance to the economy. In total it is estimated that South Australia has around 135,000 small businesses, representing 95% of all private sector business establishments in the state (de Rozario, 2009:12). The City of Adelaide is estimated to have 4,824 small businesses (85% of all businesses). Furthermore, Blandy (2008:48) estimates that small business employs just under a third of persons employed in the city.

Adelaide Thinker in Residence, Dennis Jaffe, in his 2008 report on family businesses points out that (based on 2004 ABS statistics, Cat 8127.0) of the 85,000 businesses in South Australia, some 53,000 were family businesses. Further, family businesses account for 55 per cent of all private sector employment. Jaffe recommends several forms of support for family businesses and while his recommendations are predominantly focused on the particular needs of family business, because these make up such a significant proportion of all businesses, his ideas are relevant to business support more generally. He emphasises the provision of business advice, development of personnel through training and education and development of business-friendly taxation policy.

Aside from its size is the growth potential of small businesses: for example, employment growth in personal, micro and small businesses in South Australia has easily exceeded employment growth in medium and large businesses, especially in manufacturing, construction, property and business services and health and community services (Blandy 2008:46).

A US study (Haltiwanger et al, 2009:1), in analysing data from the US Census Bureau's Business Dynamic Statistics³ concluded that:

"the fraction of employment accounted for by US private-sector business start-ups over the 1980-2005 period is about 3% per year.... While this is a small fraction of overall employment, all this employment from start-ups reflects new jobs. As such, 3% is large compared to the average annual net employment growth of the US private sector of the same period" (2009:1).

Therefore it implied that

"excluding the jobs from new firms, the US net employment growth rate is negative on average, and this simple comparison highlights the importance of business start-ups to job creation" (2009:1).

The sheer size and diversity of small businesses mean that 'churn' is a major characteristic. It also is a reason why a small business closure is often unrelated to the financial viability of the business and may instead reflect a myriad of other factors.

³ A data source that can track start up companies on a comprehensive bases

It is clear from this discussion that the level of small business activity is critical for economic development at the local, regional and state level.

4.4 THE IMPORTANCE OF BUSINESS ASSISTANCE ACTIVITIES

Considering both the rationale for local government provision and the importance to the economy of the small business sector it is critical to continually evaluate the effectiveness of assistance programs.

An international comparative study has been undertaken by Beer *et al* (2003). This research included a large comparative survey of local and regional economic development agencies in four countries, namely: Australia, England, Northern Ireland and the United States. One of the features of the survey research and findings was that it asked the local government economic development policy makers and providers of assistance *themselves* what worked best in terms of the range of services they provide (and conversely what didn't work) (2003:51). The questionnaire asked practitioners to make an assessment of their agency's effectiveness in achieving its local or regional development objectives (2003:52) and then nominate their most and least effective activities (2003:57). The results demonstrated that *"there was a remarkable degree of consensus from all nations as to what constitutes the most effective"* local and regional economic development activity (2003: 57). In all 4 nations, practitioners most frequently nominated the *"provision of business advice and services"* as their most effective activity (2003:57). Other effective activities (in Australia) were:

- Infrastructure development and service provision
- Networking/partnerships
- Sector planning and development and
- Tourism promotion (2003:58).

Conversely, the least effective activity that Australian respondents identified – apart from 'other' – was *"inward investment/promotion of region"* (2003:58).

The Productivity Commission report *Design Principles for Small Business Programs and Regulations* (1998) critically evaluated a number of Australian government small business programs across a range of 'good design criteria'. The 4 programs that were evaluated were:

- The Export Market Development Grants (EMDG) scheme and Export Access programs run by Austrade;
- the National Industry Extension Service (NIES) — now known as the Enterprise Development Program (EDP); and
- the New Enterprise Incentive Scheme (NEIS) (Lattimore *et al* 1998:131)⁴.

Some assessments of the merit of some of these programs are detailed below⁵. In term of the Export Market Development Grants scheme:

⁴ See Lattimore *et al* (1998) for a detailed description of these projects.

⁵ Notwithstanding limitations in evaluation methodologies

- It was estimated that on average 47% of marketing expenditure made by grant recipients was induced by the program. This was a high rate of inducement, but a reasonably large response would be expected given the generosity of the program;
- In terms of 'bang for a buck' — the increase in small business' spending on export marketing promotion (relative to what would otherwise have occurred) per dollar of revenue forgone - the bang for a buck in the EMDG scheme was estimated at \$1.54 (relatively high for a business program);
- In turn, each dollar of net subsidy is estimated to have generated exports of around \$14.70 (Lattimore *et al* 1998:134-135).

In summary, the program was assessed as being big enough to make a difference, highly visible to potential clients, targeted smaller 'export ready' businesses, weeded out ineffective users of the program using an export performance test, was administratively efficient, used state-of-the-art risk management techniques (such as a computerised risk assessment model) and limited taxpayers' exposure through a novel annual cap on expenditure (Lattimore *et al* 1998:137).

The Enterprise Development Program delivered a range of enterprise improvement services to SMEs in the traded goods and services sector (1998: 144). One measure of program effectiveness and impact is participants' satisfaction with the program. It was estimated that 91% of firms using NIES services were satisfied with the advisory services they had received. However, as the Productivity Commission highlights, firms' reported satisfaction with a subsidised service is very weak evidence in favour of such a subsidy (1998:149).

A better way of assessing program effectiveness – according to the report - is to link objective measures of firm performance with program usage (ie asking firms whether they would have gone ahead with projects if consultancies had not been available). Using this methodology, Price Waterhouse undertook an evaluation of the NIES program. The Price Waterhouse study involved a survey of firms that had used NIES services which yielded some 650 useable returns, and a control group of non-NIES firms which provided approximately 800 useable returns (1998: 150-151).

Survey results from this study generally showed that NIES firms implemented best practice techniques to a greater extent than the 'control group' - 53% of NIES firms were 'substantially' or 'rigorously' engaged in best practice strategic or business planning, compared to 34% of the control group. The evaluation also found that NIES respondents were more competitive in their prices and had higher export intensity and profitability than the control group (1998:151).

A follow-up study found that the firms undertaking more than three EDP programs performed better in terms of a range of firm performance indicators than those which undertook less. On this basis, Price Waterhouse concluded that the benefits identified in its 1991 study had been shown to be of a longer term nature (1998:151).

The Productivity Commission report concludes that while there appeared to be some in-principle rationales for the program, and some evidence of positive impacts for participants, questions remain about the appropriate target group, nature of any assistance, and its duration (1998:153).

The Price Waterhouse evaluation asked NIES participants to attribute the extent to which their implementation of best practice could be ascribed to NIES. They found that 51% of respondents considered NIES had no impact, 3% attributed the impact entirely to NIES and 46% considered it

largely, but not wholly, due to NIES. This result provides a subjective, but still useful indicator of the effectiveness of the program. It also suggests that while there may be significant benefits from NIES-type programs, they apparently have no impacts for a sizeable share of the participating firms (1998:153).

These types of examples show that government-led business assistance programs can make a positive impact to measures of economic development as long as they are based on sound design principles.

5 ADELAIDE CITY COUNCIL AND BUSINESS DEVELOPMENT POLICY

5.1 CURRENT DEVELOPMENTS IN BUSINESS ASSISTANCE IN SOUTH AUSTRALIA

The business assistance landscape in South Australia is undergoing significant change. As a result of the recommendations of the Sustainable Budget Commission, the Department of Trade and Economic Development (DTED) is being significantly restructured with far fewer staff. This will impact on the focus of small business policy and program provision, particularly as a consequence of the State Government withdrawing from funding BECs. Consultations with DTED officers indicate that the focus of state government industry policy/programs in the future will be in relation to the following *key industry sectors*:

- Services to the resources sector
- Knowledge and intensive services
- Clean tech and
- Advanced manufacturing.

In these sectors and across its small business responsibilities, DTED is developing a policy framework focused on understanding the characteristics of the market, identifying gaps and working across governments and industry stakeholders in addressing these gaps⁶. However, this policy framework is yet to be finalised.

In response to the withdrawal of State Government funding, the BEC Working Group (which involves all the BECs and the Councils that fund them (including large councils such as Onkaparinga, Playford and Salisbury) is working collaboratively on identifying different options that will keep the BECs operating beyond June 2011. They are examining various options including amalgamation, fee-for-service models, bringing the BECs 'in-house' etc. AISR consultations with a range of South Australian councils indicate that local government views the provision of business assistance as an important element of their economic development strategy.

The functions of BECs vary somewhat, reflecting the different regions they serve. The BECs have a different mix of Commonwealth, state and local government funding. For example, Enterprise Adelaide – unlike other BECs - does not receive any funding from the Commonwealth government. It has been receiving \$150,000 per year from the state government (which will expire on 30 June 2010). Council itself contributed approximately \$250,000 towards Enterprise Adelaide this current

⁶ Interview with DTED representative, December 2010

financial year⁷. By way of comparison, the Northern Adelaide Business Enterprise Centre (located within Playford Council) currently receives annual funding of:

- \$260,000 from the Australian Government
- \$130,000 from the state government
- \$22,000 from Playford Council and
- \$15,000 from the Town of Gawler.⁸

Clearly the withdrawal of State Government funding to BECs will result in a significant shortfall in funding.

Consultations with local government by the AISR reveals that the provision of business assistance by local government varies with some providing services on a cost recovery basis (through fee for service), some acting simply as a referral service, others integrating their business assistance program with running business incubators⁹ and others providing contestable grant programs for start-up businesses.

In this context it is also important to acknowledge the vast array of business types across all sectors that are prevalent in each region in Australia – each with different requirements in terms of business assistance. From working from home sole traders, to family businesses, to start-ups, small businesses, growth businesses, young business owners¹⁰, through to large businesses (all with different levels of skill and sophistication), all business types potentially will desire to access business advice, support or funding from one of more tiers of government.

The challenge for councils in this environment is to determine their priorities in business assistance programs, maintain their effectiveness and reduce costs and integrate new approaches with strategic directions of the various councils.

5.2 ACC STRATEGIC DIRECTION

Earlier sections of this report have identified various rationales for the provision of business assistance by local government. In this context, two key issues have emerged from ACC's recent deliberations on the role of 'business assistance'. These are:

- That assistance 'packages' should be made available to all sizes of businesses (not just small businesses). It is acknowledged by Council that the packages will vary depending on the business characteristics – ie different packages for start-ups, expansion companies, organisations seeking to relocate to Adelaide, area or precinct development, industry sector development, develop support, etc. The packages will be tailored to the needs to these segments and could include services around: general business information; research and city information; connections/networks; professional advice; space and location services;

⁷ Based on information provided to AISR by the ACC program manager.

⁸ Based on correspondence from the City of Playford

⁹ eg Port Adelaide Business Enterprise Centre

¹⁰ Some networking and mentoring schemes in South Australia are targeted specifically at young people intending to or currently operating a business. They include SAYES and Gr8 Business Connections, both run through Business SA.

business plan advice; registration and licences; infrastructure and public realm; right through to speeded up development approval¹¹.

- The business case for Council to have a role in the provision of business assistance services needs to be clearly articulated.

An analysis of ACC's role in economic development in general and business assistance in particular requires an understanding of the context of its current strategic direction – the *City of Adelaide Strategic Plan 2008-12* (ACC:2010). The following points from the Strategic Plan are relevant to council's economic development and business assistance future:

- Council *"requires a critical mass of residents, workers, students and visitors, engendering a sustainable knowledge economy"* (ACC: 2010:3);
- In terms of the **City context**: plans for the City as outlined in the State Government's *South Australia's Strategic Plan* and *The 30 Year Plan for Greater Adelaide* centre on the accelerating the importance of Adelaide City as the hub of Greater Adelaide by *"accommodating increased residential and employment growth to support state government's population target of 2 million people by 2050"* (2010:6);
- **Council's Vision** to 2012 includes: that
- *"A strong economy will drive and support employment, education and social opportunities, new artworks and public place developments and support environmental innovation"* and that *"the City will be a magnet which attracts talent, develops skills and innovation and invests in the education of its people"* (2010:9)
- **City's priorities** to 2012: Adelaide will build as a tourist destination. New businesses will continue to be attracted to the City and supported together with hundreds more workers. Exciting enhancements to Rundle Mall and the Central Market will confirm the City as the State's premier retail precinct. The City will continue to deliver a strong business environment that creates employment and prosperity for future generations (2010:11).
- **Target**: to *"Increase the number of people employed in the City to 125,000 by 2012"* (2010:13).
- **Continuing initiatives**: business support for relocation and expansion within the City and small business advice from Enterprise Adelaide (2010:16).

Appendix 1 provides greater detail about the anticipated economic development outcomes of Council's *Strategic Plan* as well as providing information about Council's Economic Development Program Plan.

The Strategic Plan has reaffirmed a role for Council in business assistance along with highlighting the target sectors in term of economic development in the city – advanced business services, retail, education and tourism. These sectors are ones in which Council would specifically like to be proactive in its engagement with the business sector. The recent appointment by ACC of a number of Relationship Managers in these target sectors is aimed at facilitating and deepening the level of engagement by Council in these sectors.

¹¹ Information provided to AISR by ACC program manager.

Overall, it is clear that ACC's Strategic Plan – while supportive of economic development – is fairly broad and non-specific about how this business development can or should be delivered and what the outcome of delivering such services will be.

5.3 ENTERPRISE ADELAIDE

A centrally-located, visible, face-to-face based business advisory unit like Enterprise Adelaide faces the challenge of avoiding trying to “*all things to all people*”. In reality, the risks involved for Council in providing some contributory funding for a small Business Enterprise Centre are relatively small. After all, Enterprise Adelaide does not, for example, expose itself to financial risk by providing seed funding to potential growth companies. Notwithstanding the fact that the operation of Enterprise Adelaide does not create commercial risk, it is nonetheless important to evaluate whether the resources allocated to business assistance could be redirected to other programs that would more effectively achieve the Council's economic development objectives.

Does the provision of business assistance services contribute to economic development in the city of Adelaide? Given that the operating cost to Council of running Enterprise Adelaide is relatively small (as there is – at the moment at least - contributory funding provided to the operation of Business Enterprise Centres by the State Government) any tangible examples of where their assistance has directly resulted in a sustainable new business starting up and maintaining a presence in the city (of which there are many)¹² can be seen as contributing to the aim of Council's of building business capacity and capability in the city.

Table 2 shows the extent of Enterprise Adelaide's 'contact' with the local business community.

¹² See de Rosario (2010) and <http://www.enterpriseadelaide.com.au/index.php/exporting> for some examples

Table 1: Enterprise Adelaide Reporting Summary 1st Quarter 2009-10

Part 1: Key Performance Indicators	Total
Total number of businesses serviced	302
Total telephone contacts (DOES NOT include email contacts)	3,039
Total Brief Client Sessions	146
Conduct 75 'In-depth' Client Sessions per quarter (300 per annum)	473
Nominate a minimum of 10 Business Owners in the Business Owners Coaching program per annum	0
Conduct a minimum of 2 - maximum of 4 Better Business Series workshops	2
Facilitate a minimum of 4 - maximum of 10 Starting Your Own Business workshops per annum	3
New businesses established	24
New businesses established - Jobs (Full Time Equivalent)	22
DTED Specialist Training Sessions Conducted (includes BMSD workshops)	1
Referrals to DTED for specialist services	3
Part 2: Client Profiles (<i>note that clients may be in one or more categories</i>)	
Business Intender	56
Start up	49
Family business	34
Home based business	34
Established businesses	192
Business Turnover (all businesses seen)	
<i>0-\$100k</i>	<i>157</i>
<i>\$101k-\$500k</i>	<i>68</i>
<i>\$501k-\$1million</i>	<i>26</i>
<i>\$1.01million-\$5million</i>	<i>18</i>
<i>\$5.01million plus</i>	<i>1</i>
<i>n/a</i>	<i>6</i>
<i>unknown</i>	<i>9</i>

Part 3: Service Activity: Type of General Business Services Provided <i>(clients may receive more than one service)</i>	
Start up issues	75
Business planning	40
Operations management	94
Marketing	381
Legal	119
Financial management	45
Compliance	23
Export	1
Business diagnostic	0
Referrals	291

Source: Information provided by Enterprise Adelaide, 17 December 2010

The range and reach of Enterprise Adelaide’s services are widespread and the AISR has been advised by Enterprise Adelaide that the number of businesses it assists has increased significantly since its inception in 2004. From its first full year of operation (2005-06) to 2009-10, the total number of businesses ‘serviced’ by Enterprise Adelaide rose from 431 to 1,279¹³. Enterprise Adelaide staff indicate that around twenty percent of people who make an initial inquiry to Enterprise Adelaide are referred to one of their business advisors. A meeting with a business advisor is the first step towards a mentoring, information and referral process forming a small business establishment roadmap.

Enterprise Adelaide’s method of working with businesses (depending on lifecycle stage, location, business type and industry) is to provide information and advice; business mentoring; case management services and a range of education sessions (de Rozario, 2010:6).

Enterprise Adelaide provides assistance services that – in the view of their staff - have intangible as well as tangible value. For example personal contacts are extremely important. People’s businesses are their livelihood and being able to access one-on-one mentoring (as opposed to accessing information on-line) is considered very important. This is an example of the more general point in that there are efficiencies in terms of economies of scale and specialisation in information aggregation and provision – put more simply, these business services mean that each new business does not have to reinvent the wheel.

Enterprise Adelaide appears to enjoy a positive reputation. Enterprise Adelaide indicates that it has received no complaints from businesses or potential start-ups about Enterprise Adelaide or the services it provides since its establishment in 2004.

Engagement with the local business community through Enterprise Adelaide provides Council with a feedback on issues of importance to business that Council can attend to. An example of this was

¹³ Data provided to AISR by Enterprise Adelaide

identification of the need to tie business services with planning issues (for example for businesses seeking City premises). This is an area of considerable importance in business establishment - for example, de Rozario (2010) in his study on business intenders assisted by Enterprise Adelaide found that high costs associated with property rental were identified as a major limiting factor preventing small business intenders from establishing in the City (2010: 28).

5.4 POSSIBLE FUTURE DIRECTIONS FOR ACC

The changed policy framework affecting Enterprise Adelaide – in particular the withdrawal of funding from the State Government for business enterprise centres - provides ACC with the opportunity to comprehensively review the way it provides business assistance services in the future. The review could consider issues such as:

- Whether the range of services provided by Enterprise Adelaide needs to be streamlined (eg the removal of services like organising and running business workshops)
- Whether it should consider other services to complement its existing range of services. For example, the Port Adelaide BEC also runs a business incubator on the same premises.
- Whether some sort of cost recovery model (such as fee-for-service) should be introduced and
- Whether it should merge with other near-city BECs to achieve economies of scale.

More fundamentally though, when it comes to economic development, *where does Council have the power to influence change?*

Council's Strategic Plan has a broad catch-all approach to economic development with programs aimed at the attraction of government departments and educational institutions to the city, practical assistance to help business wanting to relocate to the city, local area development initiatives, facilitation of key industry sectors in the city, marketing of the city in conjunction with the State Government and business assistance. In delivering this range of programs they are providing a suite of activities not dissimilar to those provided by other capital city councils.

In addition to the provision of business assistance services and programs, Council can also make a difference to the economic development of the City of Adelaide by designing innovative programs that respond to *key emerging economic trends*. For example:

- What individual and partnership programs can Council run to take advantage of the economic opportunities as Australia moves to a low carbon economy?¹⁴
- Similarly, how can Council position itself to take advantage of the rollout of the National Broadband Network?
- How can Council best leverage the business needs of the increasing number of business migrants seeking to invest in the City of Adelaide?

In the case of Enterprise Adelaide as a frontline delivery mechanism, the challenge is for responses to these economic trends to be incorporated into their business model going forward.

¹⁴ See for example The Climate Group (2008) and AIIA (2010) for a discussion of the role of the ICT sector in climate change abatement policies;

6 KEY OBSERVATIONS AND SUMMARY

The geographical area that forms the Adelaide City Council area contains considerably greater number of city workers than city residents. Despite this, many more Council services are aimed at servicing the needs of residents than of workers or businesses. For this reason alone, the engagement with the business sector that Enterprise Adelaide delivers is invaluable and should be nurtured. However, this is not an 'economic development' imperative per se for business assistance services.

The economic development case for business assistance and more specifically for Adelaide City Council to provide such services is harder to measure¹⁵. The key stakeholder interviews that formed part of the project revealed that other councils experience similar issues articulating the extent of the economic development benefits that their business assistance provides. In some cases, key performance indicators relate to the number of businesses seen, not to specific outcomes relating to these businesses. Even councils which offer small grants to assist businesses to set up and grow in their region and can document the number of businesses that have grown after receiving the grants find it hard to measure whether:

- The assisted businesses would have been able to set up and grow anyway without the grant;
- Whether similar employment outcomes would have been achieved in the local economy without the grants scheme. The savings of money and resources in administering the scheme may in fact have been able to be used by Council to help existing or potential businesses in other ways.

Furthermore, even the provision of best practice business advisory services will not be able to prevent business closures if global economic conditions deteriorate significantly, as occurred in 2009.

The questions posed by Council that form the basis of this report relate to its specific role in economic development and particularly through the provision of business assistance services to small businesses. In summary, the report finds that:

1. All tiers of governments devote significant resources to various programs of industry development or support justified on the grounds of various economic rationales.
2. While historically, policies impacting on economic development have traditionally been the preserve of Commonwealth and state governments, recent developments have seen the rise of local government as a more active participant in promoting economic development at the local level.
3. Despite this, there are a number of acknowledged problems faced by local governments in adequately addressing economic development in their region.
4. There appears to be a prima facie rationale for local government to provide local businesses assistance programs and services. In addition, there may be a competitive imperative for each council to assist businesses and encourage them to locate and grow within their geographical boundaries because other councils are pursuing similar strategies.

¹⁵ AISR has in fact been commissioned by Council to provide numerical estimates of the value of business assistance to the city economy.

5. Small business expansion tends to have a multiplicative positive employment effect. This supports the notion that internal business generation and growth has potentially better prospects as a strategy than attraction of large firms to a region.
6. International comparative studies of and regional economic development agencies, found that practitioners most frequently nominated the *“provision of business advice and services”* as their most effective activity.
7. The level of small business activity is critical for economic development at the local, regional and state level.
8. The business assistance landscape in South Australia is undergoing significant change. Funding cuts (including to BECs) will impact on the focus of small business policy and program provision.
9. The challenge for councils in this environment is to determine their priorities in business assistance programs, maintain their effectiveness and reduce costs and integrate new approaches with their strategic directions. This will probably involve some specialisation, for example on small and family businesses.
10. There are a number of tangible examples of where the assistance provided by Enterprise Adelaide has played a significant part in sustainable growth and development.
11. The range and reach of Enterprise Adelaide’s services are widespread – the number of businesses the Enterprise Adelaide assists has increased significantly since its inception in 2004.
12. Council’s future direction with respect to economic development and business assistance provision should as part of its priorities identify where Council has the power to influence change.

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APPENDIX 1: ADELAIDE CITY COUNCIL STRATEGIC PLAN: OUTCOME 5 – ECONOMICALLY PROSPEROUS CITY

One of the intended outcomes from the Strategic Plan is Outcome 5: Economically Prosperous City, namely

- A vibrant Capital City that supports the State's prosperity.
- A prosperous Capital City which is the State hub for retailing, business services, education and entertainment.
- A strong business environment which provides employment, attracts talent and investment and develops skills and innovation.
- A City that has taken its place in the international economy (2010:28).

The strategies outlined to achieve this include:

- Support investment, economic development and employment in the City through business advisory services, location advice and the timely processing of approvals.
- Support the attraction, growth and retention of businesses, government and not-for-profit agencies through providing advice and assistance (2010:28).

Finally, relevant key projects and services that relate to this Outcome include:

- Financial and management support for Enterprise Adelaide which provides an advisory service for City based small businesses.
- Services for businesses to assist them to relocate to, expand or remain in the City.
- An economic development strategy with actions to support retail and commercial activities, skilled worker retention and to maximise the benefits to the City of the expansion in the defence and mining sectors.
- Implementation of the Tourism Action Plan, with the South Australian Tourism Commission, to increase the number of visitors to Adelaide and their enjoyment of the City as a destination in its own right and as a gateway to other attractions.
- Financial support and membership of Education Adelaide; a partnership between Council, DFEEST and the Universities that supports the development of Adelaide as an education city.
- Workforce, student and economic growth projections and action plans (2010: 28).

Council's Economic Development Program Plan was developed following the objectives outlined in the Strategic Plan. The value proposition of the Economic Development Program is to promote and support economic prosperity, employment and investment in the city. Three strategies are currently being developed to do this:

- Building local market environment
- Building business capability and capacity
- Building city sectors (ACC, 2010a).