

## **REGIONAL INFRASTRUCTURE INQUIRY COSBOA SUBMISSION**

The Council of Small Business Organisations of Australia was established in 1979 primarily to ensure the Trade Practices Act delivered on its promise for small firms. Through 25 years of quarterly meetings, public comment and member feedback, Council has developed a clear and certain view of what its sector needs to see in Australia's regions. Background material on COSBOA is included at the end of this Submission.

### **COSBOA and regional small business**

In 1996-97 COSBOA carried out a major national research project into small business in four regions in eastern Australia in conjunction with the then Commonwealth Department of Transport and Regional Development. COSBOA undertook the project as for many years COSBOA's members had been raising concerns about difficulties being faced by regional small businesses.

One of the key questions was the run-down in regional physical and commercial infrastructure and the cumulative inhibiting effect this neglect was having on regional small business. Regional decision-makers simply do not have the information they need to make the best decisions in the long-term interests of their communities and constituencies.

The project's findings were published in late 1997 under the title *Jobs in Our regions: Building on the Small Business Base*.

Copies of the publication were circulated to all members of Parliament and Senators in December 1997, and a copy is included here for the Committee's reference.

The research confirmed the wide range of disadvantages facing regional small businesses, and the urgent need to improve their operating environment.

The research focused on four key themes:

1. *Gathering and dissemination of "size dimensional" economic information to key regional decision-makers;*
2. *Evaluation of the impact on small business employment of increasing concentration of ownership in the retail sector;*
3. *Evaluation of the impact on small business employment of retraction of public and private regional offices and regional decision-making; and*
4. *Evaluation of the effectiveness of delivery of small business support/information services from all three levels of government.*

Regional infrastructure was an important component of the series of structured interviews with small business operators that formed part of the project's research methodology. The main findings of the project relating to regional infrastructure are highlighted below.

## **Research findings: regional small business and infrastructure**

Regional small businesses are typically operating at very lean and efficient levels. They have to, to overcome locational disadvantages. While leveraging off competitive advantages, regional small businesses are still very vulnerable to declines in local infrastructure and to local economic shocks, in addition to the pressures that affect businesses everywhere.

### ***Information***

The project found that regional decision-makers do not have the information they need. Decisions are being made without thorough understanding of the long-term implications on the regions, by both public and private decision-makers.

One cumulative effect of these decisions is the prolonged retraction of services and decline in disposable income in many regions. The project identified that the snowballing effect of 'rationalisation' of regional services more than doubles the immediate impact over five years in some areas, with households leaving and withdrawal of disposable income further contracting regional economies.

The project included a questionnaire to over 1,000 regional decision-makers (copy included at Attachment 3). The survey identified a strong demand by regional decision-makers for better small business information. In fact, around 50% of respondents wanted better information on the types of business in their area disaggregated by business size. But the survey also confirmed the existence of wide differences in the perceptions of the impact of a range of policy issues on the regional small business sector. Decision-makers and small business people are a long way apart on their perceptions in many important policy areas. The confidence that regional small business people have in their decision-makers will not improve until some of these gaps in perception and understanding are closed.

Unfortunately, lack of resources has prevented the systematic follow-up to the survey envisaged by those involved in the project.

### **Recommendation 1.**

*That a cohesive and consistent mechanism should be established urgently to collect and provide accurate small business data across federal, state and local jurisdictions.*

### ***Hard infrastructure***

Hard infrastructure comprises bricks, mortar and concrete, that is, roads, railways, ports and airports. Most of the small businesses interviewed were barely satisfied with this infrastructure, reflecting self-selection of currently operating businesses in the interview sample. Roads could almost always be improved and travel times shortened, but overall, apart from some important exceptions, the hard infrastructure necessary to do business in the regions was perceived as adequate.

Many of the hard infrastructure constraints that need attention in the four regions studied are currently being addressed: the need for continued upgrading of the Pacific Highway, the Broadwater Bridge in the Northern Rivers, and the deep water port facility at Eden. The biggest hard infrastructure issue in Eastern Melbourne is the need for the Scoresby Transport Corridor to relieve pressure on arterial roads. Preparation of regional economic development strategies has been a catalyst for groups within regions, each lobbying for their own particular needs, to set priorities for the region as whole.

### **Recommendation 2.**

*That significant public resources be devoted to strengthen regional transport networks.*

### ***Soft infrastructure***

Soft infrastructure includes the range of other materials and services needed to do business, starting with the three factors of production: land, labour and capital. These factors, while important, are quite general. A number of other particular capabilities and services are essential: transport (including regular courier services), telecommunications, electricity, water, access to raw materials and finance, confidence and the critical mass of the local business community, low business on-costs, local government small business friendliness, and access to information and advice.

The responses to the interviews indicated that local services generally meet the needs of the small businesses interviewed. But this partly reflects the self-selection of interviewees from the pool of businesses currently operating. And many small businesses are concerned about losing key local service elements. For example, courier services in more isolated areas were named by many small businesses in those areas as being a vital life-line, minimising locational disadvantage. And poor mobile phone coverage of most rural areas, even under the analogue network, is a constant source of frustration.

### **INFORMATION**

Awareness of industry programs and business development support from state and federal governments was low among the small businesses interviewed, though there were considerable differences in awareness levels across business sizes, types and regions.

In general, businesses in the more urban areas — inner Eastern Melbourne and Canberra — rated their awareness as between 5 and 8 out of 10, while those in smaller towns typically rated 3 to 4. Businesses in manufacturing tended to be more aware of programs, and to be making more use of programs, particularly the larger firms (10 employees or more). This reflects an emphasis in current programs, especially federally funded programs, on improving the competitiveness and export potential of manufacturers. Some business in other fields rated their awareness fairly highly, but said they were not eligible for most programs.

### **Recommendation 3.**

*That governments at all three levels coordinate activities to improve delivery of business-relevant information to regional small business.*

#### ACCESS TO FINANCE AND FINANCIAL SERVICES

Banking is a sensitive issue amongst small business people. The views on the big four national banks amongst those interviewed was quite polarised, either quite positive or fiercely negative. Many businesses banking with the big four expressed frustration at the persistently higher levels of interest rates on small business loans, despite high security, fees and charges and lack of decision-making by local managers. Frequent changes of local managers also added to uncertainties. On the other hand, some businesses banking with the major banks expressed strong satisfaction and loyalty. Views on local banks and credit unions were not so polarised and were in general quite positive.

One factor behind the different interest rates to small business borrowers is information. Some of the small business people we spoke with were surprised to find the price of money is actually negotiable. One had discovered through casual conversation that another bank in town would be able to do a better deal on the business loan, despite the rates advertised in the window being the same. While financiers with large organisations are used to negotiating over loan rates, small business people simply do not have the time or resources to do a thorough comparison-shop. The trend is still for regional small businesses to have poorer local banking services.

Regional small businesses are often not in a position to choose between financial institutions. Almost all banks seem to be reducing their regional networks to pursue cost savings. In many towns there is only one bank, thus distorting the picture of which banks are being chosen.

And no business that we interviewed — in all types and all sizes — reported that their main banking services were provided outside the local town if there was a branch in town. While technically this is possible, it is simply not an option taken up voluntarily by regional small business at this stage, a finding supported in the National Farmers' Federation review in 1996 (National Farmers Federation 1996). More work on this behaviour would be useful to banks seeking to preserve small customers while closing regional branches.

With only one local financial institution to choose from, issues of comparing the price of money or the service offered become redundant.

With no local financial institution at all, costs to small businesses go up. A review by the Credit Union Services Corporation (Australia) Limited sought to quantify the scope and scale of these costs. These costs are higher for businesses handling a lot of cash.

For high cash handling businesses the loss of the local bank branch means: higher cash holdings (and consequent foregone interest earned and reduced ability to pay loans quickly); extra burdens while acting as defacto banks for customers; additional EFTPOS transactions; and associated costs.

The survey also suggests that where the last branch closes, local businesses also put off investments by not applying for loans — part of the collective drag on the local economy.

#### **Recommendation 4.**

*That the recommendations in the Regional Banking Services Inquiry be favourably considered.*

#### REGIONAL INVESTMENT FUNDS

Superannuation is another concern, and most regional small businesses resent seeing local money being taken away to centrally managed superannuation funds and would like to see better access by regional small businesses to those funds. A regional superannuation fund in southern NSW is growing rapidly as local people support development of a fund that ploughs much of its resources back into the region.

#### **Recommendation 5.**

*That superannuation fund administrators be strongly encouraged to return funds to regional areas by opening up investment in regional businesses.*

#### BUSINESS CRITICAL MASS

The core element of infrastructure is the strength of the local business mix itself. As businesses close, communities are at risk of falling into a viscous cycle of decay.

The cumulative effect of local purchasing strengthens local economies. Some regions are developing programs to stop consumer retail leakage, but few regions recognise the important role of local small business as buyers of goods and services in their own right.

The spending patterns of large businesses, especially local or regional offices of national or state-based businesses, were frequently mentioned as not helping the local small business sector. Many of these firms seek, quite appropriately, to cut costs nationally. This unfortunately often leads to centralisation of functions and central purchasing of goods and services, to the detriment of regional providers of those goods and services:

Two examples illustrate the impact of these changes in decision-making. One of the major banks used to have a regional manager in the Northern Rivers

area who had responsibility for all the bank's offices in the area. As such, the regional manager was expected to manage maintenance and alteration work on the branches, and most suppliers and contracting work was sourced locally. The loss of this responsibility led to many of these contracts being let to state and nationally based suppliers. Maintenance of the bank's airconditioners, for example, had been done by a local contractor, but the simple centralising of decision-making led to the job being transferred to a national servicing chain, without the local contractor being able to tender.

Similarly, most banks no longer process cheques in branches but have central cheque processing facilities. Maintenance of local processing machinery was a small but important job for some local equipment service businesses which has now disappeared.

This suggests that the relative benefit to a region of a small business (in terms of the amount of money contributed to the local economy per dollar of business turnover) – is greater than that of a larger business. However, larger businesses clearly have greater absolute impact on local suppliers when they do source locally.

### **Recommendation 6.**

*That comprehensive regional business impact assessments accompany plans by public agencies to scale back regional operations or regional decision-making.*

### UTILITIES

Small businesses in all regions expressed concern about the loss of utility services in their regions as the now privatised (or corporatised) utilities close regional services to pursue efficiency gains.

The break-up of the electricity distributors around Australia is also exacerbating price differentials between small and large users. Most distributors have explicit price concessions for large volume users, with small business only able to access these through 'cooperative arrangements' which are traditionally not attractive to the sector.

Our interviews indicated that existing telephone services are adequate for normal users, though not for high volume users or for mobile service users. Amongst the new high volume user types are those firms acting as Internet Service Providers. Given the growth of these types of businesses in the future, an inadequate telecommunications infrastructure will become more of a constraint on local business development.

Mobile phone services are another area of frustration, with digital coverage still limited to zones around 20 kilometres outside sizeable towns. Analogue services still offer greater coverage, though in areas off the main trunk routes (for example, away from the Maroondah, New England or Pacific Highways), even that service is poor.

'Most of us gather on the hill by the tip, you can usually get a signal there', said several people in Dungog. Poor mobile coverage is a major hindrance for people working on-site. No contact means no next contract.

### **Recommendation 7.**

*That the discriminatory pricing policies favouring large businesses that are being adopted by the privatised service providers be re-examined on public benefit grounds and disallowed.*

#### TRANSPORT

Efficient local transport is vital to regional small businesses, especially those manufacturing goods for export outside the region:

*'We pack the products through the week, leave them in boxes in the store room on Friday evening and by Monday morning they've been collected, shipped and are awaiting distribution in Sydney. Good communication with the warehouse in Sydney is essential for avoiding any short-term shortfall during the week.'*

For many regional businesses, locational disadvantage is a catalyst for smarter, tighter and more competitive management practices:

*'We pack the load for each job onto trucks and send them away — most of the jobs are in Sydney and this will increase through to the Olympics in 2000. Tight management of the needs for materials in Sydney and our production schedules means we can meet contractors' demands. But being in the Hunter, we can't get it wrong. Being at over three hours away from most of our customers means we can't patch up mistakes before causing a lot of frustration and delays at the other end. That means lost customers, and we rely on our reputation.'*

While regular couriers are a lifeline for many smaller manufacturers, others are content to rely on Australia Post.

*(See Recommendation 2)*

### **Summary**

Though flexible, adaptable and leading edge in many respects, most regional small business types still face strong competitive pressures based on a physical separation from economic centres, the lack of information about developments in their fields, absence of close business networks, and just-adequate infrastructure.

Regional small businesses rely on adequate infrastructure, both hard and soft. Hard infrastructure is reported as being broadly adequate, perhaps a consequence of the ability of existing businesses to work with what is already in place. Some regional small businesses, especially in high-technology communications industries, are being constrained by limitations in telecommunications infrastructure. Soft infrastructure is more varied, as are

the responsibilities for rectifying key gaps. Particular concerns are in the relationship with local government and finance.

Local governments have important roles in both setting many aspects of the local business environment, and as purchasers from local suppliers. There is considerable scope for local governments to have a more active role in local small business development.

All the regional small businesses interviewed banked locally — none was making use of remote banking facilities. Some small business types are being held back by lack of access to finance, especially in towns with only one or no local bank branch.

There seems to be potential for gains from networking activities in regional areas to overcome the sense of isolation from other producers and help build local and regional critical business mass. But few regional small businesses are aware of or have the time to work out how to get a network started, or are aware of existing programs that facilitate networking.

And indeed, the levels of satisfaction with existing infrastructure may not be a particularly good guide. Current expectations may not in fact be able to bring the regions into the next 20 years. The primary example is telecommunications, where infrastructure must really satisfy the leading edge, the power users, not just the mass users.

It is these leading edge businesses that will bring their region forward, and their needs that must be addressed if the gaps between Australia's rich regions and poor regions are not to widen.