



What the Government's national innovation and science agenda means for business

The Government's national innovation and science agenda

- On Monday 7 December 2015, Prime Minister the Hon. Malcolm Turnbull MP and Federal Minister for Industry, Innovation and Science, the Hon. Christopher Pyne MP, released a national innovation and science agenda that aims to “create a modern, dynamic, 21st century economy for Australia”.
- The Government will invest \$1.1bn to incentivise innovation and entrepreneurship, reward risk taking, and promote science, maths and computing in schools. It will specifically focus on:
 1. Culture and capital by encouraging Australians to embrace risk and invest in start-ups;
 2. Collaboration between businesses, universities and researchers to commercialise ideas;
 3. Talent and skills to build a future-fit workforce and attract innovative talent; and
 4. Government as an exemplar to use technology and data to deliver better quality services.

More information is available at www.innovation.gov.au and www.pwc.com.au.

The PwC view

According to the Prime Minister, there has never been a better time to be an Australian, and from this week you could probably extend that to say there has never been a better time to be an Australian start-up.

The Innovation Statement gives tremendous substance to what we've been hearing from the Government about agility, creativity and innovation. Support for the creation of a more accommodating environment for start-ups and innovation has been building for some time, although until now that support has not been active.

In 2013 PwC released a report called 'The Startup Economy' which found that the Australian tech start-up sector has the potential to contribute \$109 billion (4% of GDP) and 540,000 jobs by 2033.

The report said, in order to achieve the sector's potential, Australia would need an additional 2,000 tech entrepreneurs to switch from the existing workforce, and in the longer term would need to adjust the education system to create a tech entrepreneur production line. The Innovation Statement provides some tangible measures that will help deliver these objectives.

For example, the 10 year capital gains tax exemption and 20 per cent tax offset for investors in early stage ventures will

supercharge interest and investment in start-ups. Making capital easier to come by, will in turn, make it more attractive to establish and work in the start-up sector.

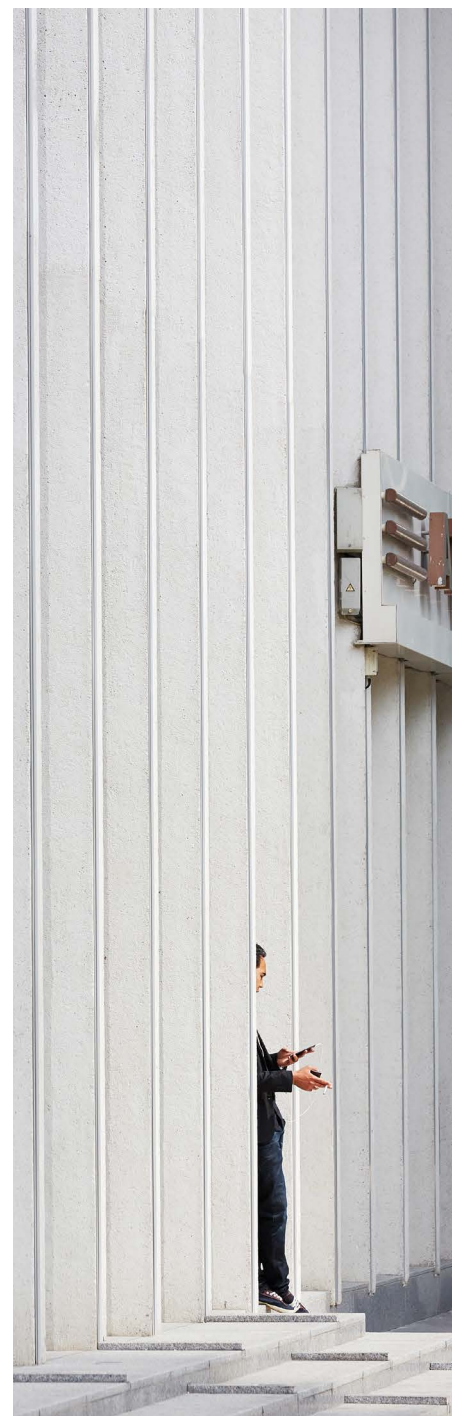
Changes to make it easier to grant 'sweat equity' will also increase the allure of tech start-ups for potential employees – particularly for anyone who has ever dreamt of being one of the first few to get on-board at Apple and Facebook when they were founded.

Entrepreneurs and innovators will also celebrate the removal of some of the regulatory barriers around crowd-sourced-equity-funding, which restrict the ability of early stage start-ups to raise funds via crowd-funding platforms.

All of these policies will help ensure that Australian success stories like Seek, Carsales and Atlassian become the rule, rather than the exception.

In terms of supporting our education system to deliver a pipeline of tech entrepreneurs, the \$48 million proposal to support 'STEM' education is critical at a time when 75 per cent of the fastest growing occupations now require skills in these areas.

PwC research shows 44 per cent of current Australian jobs will be at risk from digital disruption over the next 20 years; today's investments in STEM will prepare our young people for the jobs of tomorrow.





However the statement recognises that tech entrepreneurs and STEM graduates won't appear overnight. That is why is it especially pleasing to see a new 'entrepreneur' visa, as well as changes that will make it easier for overseas students who study STEM and ICT qualifications to navigate Australia's skilled migration program.

The added benefit of the changes to visas is that, by extension, it should deepen our engagement in the region and help us participate more constructively in the new Asian Century.

More broadly, the Innovation Statement is critical to our aspirations in Asia. With the recent free trade agreements the opportunity for entrepreneurs, start-ups and the services sector to find a market amongst the growing and sophisticated Asian middle class is greater than ever before.

Elsewhere, the Prime Minister's language around an 'ideas boom' was encouraging; doubly so because it was tempered by the reference to the role that failure plays in fostering a healthy innovation ecosystem. It's ironic that the nation that coined the phrase 'have a go' has become so conservative when it comes to the way we conduct ourselves commercially – when it comes to business, we hate failure.

One explanation for this is our relatively punitive measures for Australian businesses which 'have a go' and fail. Our insolvency regime is one example, and the measures proposed in the innovation statement – reducing the length of bankruptcy and giving companies the chance to trade out of insolvency – will remove some of the stigma and cost of failure. More importantly, it will encourage the 'have a go' mentality and calculated risk-taking we exhibit in areas like science, the arts and sport, but so rarely in Australian business culture.

So plenty of good news for start-ups, but what's in there for corporate Australia?

Corporate Australia will benefit from the incentives for researchers and entrepreneurs to work together with industry. Speeding up the Australian Research Council (ARC) Linkage Projects grants will help, and in the longer term large businesses will benefit when the investment in STEM skills comes to fruition.

Larger businesses would also welcome the omission of changes to the existing research and development tax incentive, which encourages innovation amongst all businesses, both large and small. It will be interesting to see whether it remains unscathed in future proposals on broader tax policy, or if it is traded for incentives like company tax cuts, which would also foster growth in private sector jobs and innovation.

Elsewhere, the Statement contains a framework for established companies to follow in the 'government as an exemplar' concept. If the public sector, with its perceived hierarchies and bureaucracies, can collaborate with start-ups, surely a leaner, more agile private sector could follow suit?

Please find a summary of the key themes from the Innovation Statement, and their impact on business and the broader economy. Please contact us for tailored insights on maximising opportunities for your business or investment portfolio.

Culture and capital

1. Culture – reform of insolvency laws

The changes to insolvency laws strike a better balance between encouraging entrepreneurship and protecting creditors by:

- reducing the current default bankruptcy period from three years to one year;
- introducing a ‘safe harbour’ to protect directors from personal liability for insolvent trading if they appoint a restructuring adviser to develop a turnaround plan for the company; and
- ‘ipso facto’ clauses, which allow contracts to be terminated solely due to an insolvency event, unenforceable if a company is undertaking a restructure.

Policy intent

To develop a more dynamic public policy framework that supports innovation and responsible risk taking, and begins to change the national psyche from perceiving failure as a significant negative setback, rather than as an opportunity to learn and move forward.

PwC view

In order for Australians to embrace an innovative and entrepreneurial culture, the stigma and personal cost of failure needs to be addressed. The USA has long been touted as an entrepreneur-friendly environment and consequently has many innovators and ‘cutting edge’ industries. To facilitate Australia’s future prosperity, we need greater balance between fostering the ‘have a go’ attitude of Australians and ensuring the right safeguards are in place to protect the community.

- **Reducing the length of bankruptcy** to 1 year is a sensible approach, however, the stigma of bankruptcy usually lasts longer than the current 3-year term. The majority of those who have declared bankruptcy continue to find it difficult to obtain credit for many years after the event. We welcome community debate on whether individuals should have their credit history improved or expunged after bankruptcy.
- **The new safe harbour for directors** will allow corporate entities to trade out of potential insolvency, if a suitably qualified adviser is engaged.
- **An ‘ipso facto’ clause** allows for the termination of an agreement when a company enters a Voluntary Administration (VA) and there has been no other contractual breach. This often unnecessarily destroys value and stymies a corporate restructuring, which is counterproductive given the VA regime was enacted to allow a corporate to restructure its affairs more easily. We support the government’s proposal to ban these clauses as the sole reason for termination of a contract.

2. Capital - tax offsets and crowd funding

- **Investors in start-ups** will be able to claim tax rebates of up to \$200,000 a year; ten year capital gains tax exemptions will also be available for investors who hold shares in a start-up for three years or more.
- **Established start-ups** will get a tax break sooner, with a 10 per cent tax rebate for venture capital investments to expand existing start-ups.
- **Public companies** with less than \$5 million in assets and less than \$5 million in annual turnover will be able to crowd-source equity funding.
- **Innovative business** investing in intangible assets will be able to self-assess the asset’s tax useful life in line with the economic life of the asset to obtain tax deductions over a shorter period of time.
- **Relaxed eligibility requirements** for concessional tax treatments under the Venture Capital Limited Partnerships (VCLPs) regime will allow managers to undertake a broader range of investment activities and attract a greater diversity of investors.

Policy intent

To encourage greater investment in innovative ventures to improve the likelihood of commercialisation of new ideas.

PwC view

Australia’s start-up sector has been waiting for a spark like this to ignite its potential. Tax relief for individual investors in early stage companies will help grow the pool of venture capitalists and angel investors investing in early-stage ventures. These incentives may attract investors who haven’t previously considered investing in the sector by compensating for the higher risks associated with investing in start-ups and thereby increasing volume and liquidity in the Australian market.

The new taxation exemptions that apply to start-ups and angel investors will have an impact on all companies, as evidenced through the highly successful ‘seed enterprise investment scheme’ in the UK which the Australian Government is attempting to mirror. The ten-year capital gains tax exemption and 20 per cent tax offset for investors will direct investment into areas of our economy with the greatest potential for growth.

Investors, start-ups and emerging companies often cite access to capital as a barrier for growing their business in Australia. Opening up small business and start-ups to retail investors through crowd-sourced equity funding measures will help unlock growth and innovation in Australia.

In addition, mirroring tax deductions for intangibles such as patents and copyright over their economic life rather than a set statutory period means tax deductions arise when they should.

Collaboration between business, universities and researchers

- **Bridging the gap between industry and academics:** *The Government will allocate \$127 million over four years to facilitate collaboration between industry participants and universities, with a specific call out for collaborative efforts that demonstrate ‘non-academic impact and industry engagement’.*
- **Government innovation board:** *A new ‘Innovation and Science Australia’ board has been formed to oversee innovation policy, as well the establishment of a new innovation and science committee of Cabinet. Both will help focus the government’s continued focus on innovation and ensure responsiveness to emerging issues or areas where policy measures aren’t having the intended effect. This new Board will take effect from 1 July 2016 and will replace Innovation Australia. Its first task is to review the R&D tax incentive program to sharpen its focus as a key support mechanism for businesses undertaking R&D in Australia.*
- **Cyber security:** *A new ‘Cyber Security Growth Centre’ will be operational by mid next year. It will bring together industry, research and government stakeholders to strengthen Australia’s cyber security and develop a springboard for Australia to become a global leader in this area.*
- **CSIRO:** *The Government will give \$90 million back to the CSIRO and develop a cashed up innovation fund to help it co-invest in new companies and existing start-ups developed by the CSIRO, publicly funded research agencies or universities.*

Policy intent

Boost commercial returns from collaboration between the private and public sector – something Australia is lagging in compared to global counterparts – and unlock the economic potential of Australian research by teaming up with industry to solve problems.

PwC view

There is substantial value in the Government fostering greater interconnectivity between key players in the community, not least as an avenue to bring different people, skill sets and perspectives together to help solve problems and generate fresh ideas. In our experience, problem owners and solvers rarely hit the mark without collaboration, aligned incentives and a guiding hand.

This is not a new problem; we know that collaboration increases the probability of market innovations by 70 per cent. What is promising this time is an increased emphasis on using market opportunities to drive collaboration.

We have worked with hundreds of start-ups through our Open Innovation approach and learnt that cracking the collaboration challenge requires humility from all sides. Combining the strengths of government, corporate Australia, the research community, the start-up and small business sectors will be Australia’s recipe for innovation success.

The challenge is learning how to rapidly scale this type of collaboration so that collectively we have the agility to compete as an Innovation Nation.

In addition, it is important to not only incentivise innovation but to be globally competitive in the R&D space, and the Government’s focus will help improve Australia’s position in a competitive innovation environment. Business is seeking certainty around the support it can receive to base innovation in Australia so it is pleasing that the R&D Tax Incentive program has remained a key platform of support for business.



Talent and skills

(especially in science, technology, engineering and mathematics)

Giving Australians the skills to get high-wage, high productivity jobs. This includes:

- \$51 million for coding programs for years 5 to 7, skilling teachers and targeted STEM programs.
- \$13 million to support greater participation of females in research and STEM industries.
- \$48 million invested in encouraging students to participate in science and maths.
- Creation of an Entrepreneurs Visa to entice the world's talented to move to Australia.
- Fast tracking overseas post-graduate students with STEM or computing skills for permanent residency.
- Boosting the funding of quantum computing technology in Australia.

Policy intent

Focus on how Australia attracts and retains talent and builds a workforce that is fit for the future in an increasingly digital environment.

PwC view

Solving problems and creating solutions are skills critical to all businesses. As Australia looks towards new sources of growth in a rapidly changing global economy, we need to build a work force that can speak the language of the future.

Businesses competing in a global economy driven by data, digital technologies and innovation will need more STEM-trained employees who perform roles that involve analytical thinking, imagination, creativity and problem solving capability. PwC research (A Smart Move, April 2015) identifies that 44% or 5.1 million Australian jobs are at high risk from digital disruption over the next 20 years.

All companies should be thinking about their current and future employee mix, and gender diversity should continue to be a focus area. In fact one of the ways we can close the gender pay gap is to encourage more women into higher paying professions, so the Government's investment in getting more women interested in STEM related subjects and careers will be crucial in preparing them for the high-paying careers of tomorrow.

Improving Australia's STEM education outcomes is one of PwC's major focus areas. This includes our 21st Century Minds initiative in collaboration with organisations such as the Office of the Chief Scientist, Google and GE.



Government as an exemplar

Leading by example. Shining a light on the opportunities for Government to innovate, collaborate, upskill and maximise opportunities.

- **Business research and innovation initiative:** The Government spends about \$50 billion on procurement every year in Australia, but when it comes to how that procurement goes on to foster innovation, Australia ranks only 70th out of 140 countries.
- **Data sharing for innovation:** The Government holds a huge amount of unique data that should be capitalised on to solve problems.
- **Digital marketplace and procurement:** Start-ups and small to medium suppliers of digital services find it difficult to participate in government procurements for large scale ICT solutions.

Policy intent

To revolutionise the public sector and match or exceed the pace of innovative change set by the private sector and play a leading role in the cultural and technological change required to ensure that innovation is central to the way Australians operate.

PwC view

The best innovation policy is one that actively encourages innovation and frees up the economy in every way imaginable so that innovation is generated by entrepreneurs (those currently in business and those seeking to be in business) – and that applies to Government too. A new business research and innovation initiative will invite innovators to solve public sector challenges, such as national policy issues or service delivery problems, and compete for generous grants that would help them commercialise their ideas.