

Labor



FACT SHEET

POWERING INNOVATION

The third wave of Labor's innovation reforms

From the Leader of the Opposition's Budget Reply speech in May 2015, Labor has been announcing a comprehensive suite of measures to spur innovation, and deliver the jobs of the future.

Under this new suite of measures, an elected Shorten Labor Government will:

1. Accelerate innovation in our regions through **Regional Innovation Hubs**;
2. Reform the innovation architecture through **Innovate Australia**;
3. Improve the flow of capital to startups through **Startup Capital**; and
4. Back our best and brightest overseas through a **Landing Pad** for Australian innovators.

These measures build on Labor's higher education policy, our commitments to TAFE and a properly funded school system.

Without these building blocks of human capital, any innovation measures will have less impact.

This third wave of innovation policy initiatives also builds on Labor's previous announcements, including measures to boost science, technology, engineering and maths (STEM) skills, increase access to venture capital to commercialise great Australian ideas and support local start-ups:

- Backing in great ideas through co-investing in early stage and high potential companies through the \$500 million **Smart Investment Fund**.
- Bringing together the superannuation, venture capital and startup sectors in an **Innovation Investment Partnership** to identify barriers holding back investment in Australian-based venture capital funds and early-stage enterprises.
- Improving access to finance for startups and micro-businesses through a partial guarantee scheme, **Startup Finance**.
- Getting startups to help solve government problems through **Challenge Platforms** and support startups to compete in government tenders.
- Supporting 100,000 young people, especially women, to **Study STEM** by writing off their debts on completion.
- Putting more focus on quality and completion at university with around 20,000 more graduates each year and **Student Funding Guarantee**, not \$100,000 degrees.
- Developing a **National Digital Workforce Plan** given that 100,000 more ICT workers will be needed by 2020.
- Create **two new visa classes**, offering 4,000 visas, to attract the best global entrepreneurial talent to help build Australia's growing startup ecosystem.
- Creating a new **Startup Year** at universities so students can develop their idea, get business knowhow and connect with finance.
- Boosting the skills of 25,000 current primary and high school teachers to **Teach STEM**.
- Teaching scholarships for 25,000 science, technology, engineering and mathematics graduates.
- Giving every child the opportunity to **Learn Code** or computational skills at primary and secondary school.
- Working with industry to establish a \$9 million **National Coding In Schools** centre to develop the resources and expertise required.

More information on Labor's plan for the future is available at: www.futuresmartaustralia.org

Turnbull-Abbott Government's Record

The Government's record in innovation has also been consistent since the 2013 election - they have slashed support for innovation, degraded science and research, and made deep cuts into programs that had been working successfully with Australian businesses to create more jobs.

Since the 2013 election, the Turnbull-Abbott Government's Budgets have:

- Abolished the Innovation Investment Fund: \$350 million funding round abandoned

- Abolished the Commercialisation Australia: \$260 million cut
- Defunded the NICTA (National ICT Australia Ltd) from 2016: \$84 million cut
- Cut \$115 million from the CSIRO
- Cut \$75 million from the Australian Research Council (ARC)
- Cut \$28 million from the Australian Nuclear Science and Technology Organisation
- Cut \$107 million from the Cooperative Research Centres (CRC)
- Cut \$175 million from the Research Training Scheme (RTS)
- Cut \$16 million from Geoscience Australia
- Cut \$20 million from the Bureau of Meteorology
- Cut \$120 million from Defence Science and Technology
- Cut \$300 million from Sustainable Research Excellence
- Cut \$1billion from the R&D Tax Incentive with further cuts proposed
- Abolished the Enterprise Solutions Program: \$25 million cut
- Abolished Industry Innovation Precincts: \$280 million cut
- Cut \$27 million from Australian Industry Participation Plans
- Cut \$25 million from the TCF co-investment programs
- Abolished Enterprise Connect
- Plans to abolish ARENA and the Clean Energy Finance Corporation

Accelerating innovation in our regions

What is the issue?

Encouraging greater innovation should be a national economic priority – and it's one that will require the commitment, resources and know-how of many across our nation.

At the moment, however, around two-thirds of Australia's startup activity takes place in just one city: Sydney.

Labor believes that government should play a role in encouraging the spread of innovation activity across the country. We understand that innovation is not something that just occurs in cities – we know that companies and individuals across regional Australia are embracing innovation and entrepreneurship to strengthen local economies.

In many regions, universities are, or have the potential to be, drivers of local innovation activity. Our universities produce world-leading research and academics. They play a key role in training the workforce for the digital economy, and an increasingly important role in partnering with industry, investors and researchers to create and grow new businesses, and to foster a more entrepreneurial culture in Australia.

In 2013, Australian universities contributed around 4 per cent of the world's total academic research output and 6.7 per cent of the papers published in the top 1 per cent of academic journals.

However, as noted in a recent report to Chief Scientist prepared by Spike Innovation, *Boosting High-Impact Entrepreneurship in Australia – A role for universities*,¹ Australia placed only 72nd for Innovation Efficiency, a measure of innovation output relative to input in the Global Innovation Index.

The report found:

- Most Australian universities do not emphasise high-impact entrepreneurship, and funding arrangements do not incentivise entrepreneurial behaviour, teaching or engagement.
- Exposure to high-impact entrepreneurship during university has been shown to lead to greater levels of startup formation.
- The most effective entrepreneurship education combines classroom-based learning with experiential programs such as hubs, accelerators, internships and overseas placements.
- A significant effort is needed to boost the capabilities of Australian universities to teach high-impact entrepreneurship and produce entrepreneurially-minded graduates.

In recent years, Australian universities have been investing in new ways to support student entrepreneurs. Australia already has around 25 tech startup accelerators, hubs and co-working spaces that support around 250 tech startups each year,² including several university-based hubs and accelerators.

However, the establishment of accelerators and hubs at metropolitan universities has not been replicated to the same degree in regional and rural tertiary institutions.

StartupAUS argues that there is a compelling economic case for government to support accelerators and hubs to boost the national innovation effort:

In the US, for every dollar of public investment in incubators an additional thirty dollars in tax revenue is generated, and 87 per cent of incubator graduates stay in business. For every \$10,000 of government funding invested in incubator programs an additional 58 local jobs are generated...³

A number of countries have established networks of accelerators or hubs to provide hubs for startups to access technology expertise, training and mentoring for founders, and venture capital and angel investors.

For example, Sweden has 43 hubs in its national network, which also includes 33 science parks

1 Spike Innovation, *Boosting High-Impact Entrepreneurship in Australia – A role for universities*, <http://www.chiefscientist.gov.au/wp-content/uploads/Boosting-High-Impact-Entrepreneurship.pdf>

2 StartupAUS, *Crossroads 2015*, <http://startupaus.org/wp-content/uploads/2015/04/Crossroads-2015.pdf>, p. 54

3 StartupAUS, *Crossroads 2015*, <http://startupaus.org/wp-content/uploads/2015/04/Crossroads-2015.pdf>, p. 54; see also International Business Innovation Association FAQs, <http://www.nbia.org/resources/business-incubation-faq>

and 12 seed investment funds. Every year, the network supports around 950 high-growth technology companies, of which around one in six secure venture capital investment.⁴

Canada has a robust network of university-based hubs. Initiatives such as the Canadian Acceleration and Business Incubation (CABI) focus on fostering collaboration between universities/colleges, governments and business hubs and accelerators from both the public and private sectors.

According to UBI Global, which benchmarks university business hubs around the world, in 2015 North American business hubs have attracted almost \$2 billion in investment, meaning each of the 60 hubs has received an average of \$33 million each. And in the past 5 years, North America's business hubs have created almost 30,000 jobs (473 jobs per hub) and over the same period generated \$5.3 billion in sales, equating to an average of \$89 million in sales per hub.⁵

Finland is also leading the world when it comes to supporting hubs and accelerators, with 14 in Helsinki alone. The most successful of them, Startup Sauna, has graduated more than 150 startups since 2010, raising more than \$60 million in capital after graduating from the hub.⁶

Labor's new approach – a national entrepreneurship support network

Labor believes we need to broaden our national entrepreneurship support network to build stronger links across the innovation system and ensure our most promising startups and student entrepreneurs get the support they need to build globally competitive technology companies and dynamic new ventures in other fields.

A truly national network would raise the profile of entrepreneurship and boost the number and success rate of technology entrepreneurs among university students and graduates. Universities – in partnership with local businesses – are well placed to provide practical training and mentoring to students with a great idea and an entrepreneurial streak.

Digital disruption is affecting industries across the economy, from advanced manufacturing to services to mining and agriculture. At the same time, information and communications technology provides new opportunities for businesses to start up anywhere in the country.

Combined with Labor's plan for a Startup Year – encouraging the entry of around 2,000 graduate-led enterprises a year – this initiative will provide a strong platform for regionally-led innovation.

REGIONAL INNOVATION HUBS

Labor will create a Regional Innovation Fund, which will kickstart a range of initiatives to expand the role of Australia's regions in contribution to the national innovation effort.

It will, for example, invest in an expansion of the network of hubs and accelerators across the country, focussing on regional and rural sites. Labor will also support the continuation and expansion of existing university-based hubs and accelerators in metropolitan and outer-metropolitan universities.

Our approach will be flexible, underpinned by consultations with stakeholders in rural and regional Australia to ensure investment reinforces local economic strengths and priorities or helps diversity economic activity.

And in recognition of the success and demonstrated potential of existing university-based hubs and accelerators in metropolitan areas, additional funding will also be available on a competitive basis for these universities to ramp up their programs.

University-based accelerators will be at the centre of this initiative; however we will remain open to other avenues to boost regional innovation activity.

For example, funded entrepreneurship hubs could be based at a regional university campus or, in some cases, a local TAFE or private consortium that has attracted demonstrated regional support across business and state/local government bodies.

4 StartupAUS, Crossroads 2015, <http://startupaus.org/wp-content/uploads/2015/04/Crossroads-2015.pdf>, p. 56

5 UBI Global, November 2015, <http://ubi-global.com/global-insights-celebrating-the-future-of-academic-incubators-ubi-awards-in-north-america/>

6 <http://startupsauna.com/startups/>

A Shorten Labor Government would fund the establishment of up to 20 new accelerators over three years, based on applications from consortia that must include, at a minimum:

- a regional university or TAFE;
- local government(s); and
- a local business organisation (such as a Chamber of Commerce) or a group of local businesses.

Each consortium would receive seed funding of up to \$500,000 per year for three years, which must be matched at least dollar-for-dollar with funding from the consortium or other sources.

The aim is to establish self-sustaining innovation hubs within universities/TAFEs that are closely integrated with the local business community.

Metropolitan universities will be eligible for grants of up to \$200,000 per year to establish or expand an accelerator or hub, which will also need to be matched dollar-for-dollar by either the university, industry or other sources.

Funded innovation hubs would also have flexibility in the amount and type of support offered to individual startups, enabling hubs to experiment and identify what works in creating new businesses in regional Australia.

Other activities that could be supported by the fund include:

- Addressing skills and experience gaps by enabling established entrepreneurs from various parts of the country to team up with regional accelerators and mentor new startups; and
- Enabling university-based accelerators to offer seed funding for a limited number of student-led startups on a competitive basis to support prototyping and early proof-of-concept.

Central to our approach will be a commitment to consult and work with regions to ensure that the Regional Innovation Fund provides the greatest possible benefit to a regional innovation effort.

Startup Capital

Australia punts more on the Melbourne Cup each year than it invests all year in innovative new startup businesses.

Not enough finance is flowing into our startup sector, which is stunting innovation in Australia, slowing the development of new ideas and new business opportunities.

That is why Labor will act to encourage more capital into Australian startups so they can innovate, develop their concepts and most importantly help create the jobs of the future.

Why are we doing this?

Startups typically find it more difficult to access capital than their larger commercial counterparts because of a lack of prior financial history, limited supporting collateral and their risk profile. Strengthening capital flows within the startup ecosystem will deliver substantial support to early stage innovation. Two major sources of capital support are venture capital firms (funds more prepared to invest in projects with a higher risk profile) and angel investors (usually high net worth individuals whose incomes are generally considered greater than \$250,000 per annum). But angel investors directed just \$21million to startups in 40 deals in 2012. We must do more to encourage additional investment into Australia's growing startup system.

The tax system is an important way of achieving this end. Countries around the world such as the United Kingdom and Israel have introduced new tax incentives for investors which are helping to channel more funds into the startup sector.

And this support is now paying off. In the UK, nearly 2,900 startup businesses have received support through the successful Seed Enterprise Investment Scheme (SEIS).

United Kingdom - Benefits of the Seed Enterprise Investment Scheme (SEIS)

The UK Government introduced the SEIS in 2012 as a complement to the larger more established Enterprise Investment Scheme (EIS). The SEIS recognises the particular difficulties which very early stage companies face in attracting investment, by offering substantial tax relief for investors.

Official United Kingdom HR Revenue and Customs Statistics show that in 2013-14 alone almost 2,000 companies received investment through SEIS, with around £164 million in funds raised for early stage startups.

A recent Deloitte report looking into the UK angel market found that:

"Promoting angel investing as an asset class with substantial tax benefits is regarded as an important factor to attract new angel investors into the market."

And that

"Many angels we interviewed said they would not have invested in their seed deals without SEIS."

Taking the Pulse of the Angel Market report, Deloitte, 2013

What is Labor's plan?

Labor has already announced a number of measures to improve access to capital for the commercialisation of great Australian ideas and the establishment of startup ventures. These include:

- Re-establishing a program to support the establishment of new venture capital funds, building on the lessons of the Innovation Investment Fund abolished by the Abbott-Turnbull Government. The \$500 million Smart Investment Fund will co-invest in early stage and high potential companies.
- Bringing together the superannuation, venture capital and startup sectors in an Innovation Investment Partnership to identify barriers holding back investment in

Australian-based venture capital funds and early-stage enterprises.

- Improving access to finance for startups and micro-businesses through a partial guarantee scheme, Startup Finance.

However, we recognise there are many gaps in early stage financing and a suite of measures is required to enable startups across a diversity of sectors to bridge the valley of death.

Labor will help supercharge the formation of startups in Australia by delivering tax relief for angel investors through a new Australian **Angel Investment Scheme** and through changes to the existing **Early Stage Venture Capital Limited Partnerships**.

ANGEL INVESTMENT SCHEME

The Australian Angel Investment Scheme, based on the UK SEIS, aims to attract greater private financing support for startups in the early stage of their development. It will reward individual support for the nation's early stage innovation effort via modest tax relief to investors who purchase an equity stake in those businesses.

The benefits of targeting significant tax relief to very early stage startups (as opposed to more well established businesses in latter stages of development) is that these they have the most trouble getting access to finance because its where the largest market barriers exist. Once early stage startups have proven concepts and get on their feet, they are in a better position to then seek out other avenues of finance, such as venture capital and crowd-source funding.

The Australian **Angel Investment Scheme** will have the following characteristics:

- An upfront 50 per cent tax deduction for an investment up to a maximum of \$200,000 per year.
- Investors can 'carry back' tax relief if they don't reach the maximum \$200,000 cap in any particular year.
- Full capital gains tax exemption for equity held in the startup venture for more than three years.
- Any realised losses following investment in the scheme can be deducted against wage and salary income.
- Deferral of capital gains tax on investments if the investor directs a prior capital gain into a new startup venture.

Startups supported under the scheme would have the following characteristics:

- Maximum of 25 employees;
- Maximum \$400,000 in assets; and
- Maximum raised under the scheme is \$300,000 per year.

Businesses accessing this support must have a permanent presence in Australia and must meet certain rules and eligibility requirements.

Labor will review the program following implementation to ensure it is appropriately calibrated and attracts smart angel investors that can take startup businesses through future stages of development.

Example 1: Jennifer (Upfront tax deduction)

Jennifer invests \$40,000 in Angel Investment Scheme equity. The tax relief available is \$20,000 (\$40,000 at 50 per cent). The tax amount she owes for the year (before relief) is \$30,000 which she can then reduce to \$10,000 as a result of her investment.

Example 2: James (capital gains exemption on disposal)

James invests \$30,000 in Angel Investment Scheme equity. After 5 years, he sells his equity in the startup for \$300,000 yielding a capital gain of \$270,000. Because James held the shares for a period longer than 3 years, he pays no tax on the capital gain.

Reforms to Early Stage Venture Capital Limited Partnerships (ESVCLP)

Venture capital funds of between \$10 million and \$100 million invested in Australian businesses are entitled to preferential tax treatment through the ESVCLP program.

ESVCLP entitles a fund to flow-through tax treatment and its investors receive a complete tax exemption on their share of the fund's income (both revenue and capital).

Labor will lower the minimum level of investment required for entry into the ESVCLP program from \$10 million to \$5 million to facilitate increased funding from angel investors.

Labor will also make sensible changes to streamline and update the requirements of the ESVCLP program, including implementing measures that were proposed by Labor in 2013, in response to a Board of Taxation Review, but abandoned by the Abbott-Turnbull Government.

Currently the ESVCLP rules restrict any one entity from contributing more than 30 per cent of a fund. Only financial institutions are exempt from this rule.

To encourage greater participation from investors in other sectors, rules should enable the regulator to provide exemptions for certain widely held companies who demonstrate an active, sizeable commitment to Australian innovation.

Accordingly, a Labor Government will work with relevant regulators and stakeholders to ease ESVCLP contribution restrictions for widely held companies and sophisticated investors.

Innovate Australia

Labor understands that creating the jobs of the future depends on the strength of our national innovation system.

Innovation is the key to Australia's future prosperity. Most of the jobs of the future will be with companies that do not exist today or in industries that have changed dramatically to keep pace with rapid advances in technology.

What is Labor's Plan?

A Shorten Labor Government will establish a new independent agency called Innovate Australia charged with accelerating economic growth, delivering critical innovation programs and providing expert advice to governments.

Innovate Australia will be modelled on the highly successful innovation agency in the UK, [Innovate UK](#).

Innovate Australia will be a new independent agency. It will be responsible for the administration and delivery of new innovation initiatives, along with existing programs including:

- The Entrepreneurs' Program
- Accelerating Commercialisation Program
- Industry Growth Centres
- R&D Tax Incentive policy
- Cooperative Research Centres (CRCs)
- Venture capital programs
- The Growth Fund and associated programs
- The Next Generation Manufacturing Investment Program
- The Manufacturing Transition Program

Who will benefit?

Bringing responsibility for the administration and delivery of critical innovation policies together under the auspices of a single, independent agency will provide much-needed certainty and strategic direction for business, academia and the research community.

Establishing *Innovate Australia* via legislation will minimise the risk of political interference and changes to government innovation policies with each election cycle.

How will it work?

Innovate Australia will be established by transforming the remit of the existing [Innovation Australia Board](#).

It will be staffed with independent experts, business practitioners and professionals, selected on the basis of their professional and technical expertise across a broad range of industries and sectors.

Landing Pads

Labor will back our best and brightest overseas, encouraging Australian entrepreneurs find new markets, sources of finance and develop expertise internationally.

A Shorten Labor Government will boost commercialisation of Australia's R&D and support Australian entrepreneurs in the United States by setting up a dedicated innovation and commercialisation 'landing pad' in San Francisco.

This landing pad will advance Australia's digital economy and startup sector by:

- providing a home base for newly arrived Australian startups seeking to enter the US market;
- introducing Australian entrepreneurs to US venture/risk capital firms;
- supporting links between American research institutions, companies and their Australian counterparts; and
- showcasing technologies developed by research agencies such as CSIRO and by Cooperative Research Centres to investors to develop a commercialisation pipeline.

This proposal has been recommended by StartupAus and is based on the Kiwi Landing Pad, a successful initiative supporting New Zealand entrepreneurs in Silicon Valley.

The Innovate Australia Landing Pad will complement and build on the previous Labor Government's investment in the Advance Innovation Program. With support from corporate sponsors, Australian global talent network, Advance, has since transformed this initiative creating elevate61 which is "designed to enable high performing Australian businesses to fast track their growth into the United States and beyond".

The Landing Pad will be supported by the Department of Industry, Innovation and Science's international counsellors network, in collaboration with CSIRO, Austrade and other relevant Australian agencies and non-government organisations.

Innovate Australia will also oversee a similar initiative to support our entrepreneurs and startups to engage in Asian economies, particularly those with mature capital markets, such as Singapore.

A Shorten Labor Government will commit \$1.5 million a year over four years to this initiative, and consult with the startup sector on how this funding can be best used to ensure Australian entrepreneurs take advantage of the opportunities in international markets.

Financial Implications

Funding for this policy will be offset from existing announcements Labor has made in making sure multinational companies pay their fair share of tax in Australia, reducing superannuation tax concessions, increasing excise on tobacco, and by abolishing the Emissions Reduction Fund.

Measure	2015-16	2016-17	2017-18	2018-19	TOTAL
Accelerating Innovation in our regions	0.0	0.0	-8.0	-8.0	-16.0
Startup Capital	0.0	0.0	0.0	-14.0	-14.0
Innovate Australia	*	*	*	*	*
Landing Pads	0.0	0.0	-1.5	-1.5	-3.0
Total	0.0	0.0	-9.5	-23.5	-33

* To be managed within existing resources



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