FINANCIAL SERVICES KNOWLEDGE HUB

The Committee for Sydney

Building the start-up ecosystem in NSW: from grants to collaboration

Sydney Issues Paper No. 9

September 2015

KPMG
cutting through complexity

Foreword

The momentum of the Sydney economy shows the value of its key sectors to both state and national performance. Whether we look to financial services, professional and business services, ICT or the creative and cultural industries, Sydney is currently leading the nation.

While the Committee for Sydney has celebrated Sydney's momentum, we are not complacent about Sydney's status as Australia's global city and will always seek with our members and stakeholders to find ways to improve its performance and raise its profile.

In October 2014, the Committee in collaboration with NSW Government and KPMG, released 'Unlocking the potential: The Fintech opportunity for Sydney'. This report indicated that with the right ecosystem, support and network, the explosion of start-ups could be catalysed into the long-term prosperity of Sydney's Fintech sector. The report helped drive collaboration between government, existing financial services providers and emerging Fintech entrepreneurs, leading to the creation of a Fintech accelerator, Stone & Chalk, in 2015.

Disruption is the new norm

The Committee for Sydney is passionate about ensuring that changes in Sydney's economy – whether driven by disruptive technologies, changing demographics or consumer preferences – are managed proactively and collaboratively. We aspire for Sydney to be known as a city that embraces disruption through growth of the start-up ecosystem, regulatory responsiveness and connections between established and new businesses. This is because we accept that successful city economies in the 21st century – and economies are increasingly urban and city-focussed – will have a healthy start-up culture and ecosystem at their core.

This report contributes to a broader discussion

The Committee's role is to inform public policy, and reflect the views of our members – a mix of public, private and not-for-profit organisations that are shaping the future of Sydney. We produce evidence-based proposals that draw on international experiences, and are anything but academic. This report has been developed to contribute to discussions of the most effective role government can play in supporting the start-up ecosystem, through a survey of start-ups and identifying key international examples. We stress that the survey of start-ups is indicative and not conclusive because it is based on a small sample. But it does raise key questions and pointers for further research and public policy development. Above all, this report urges Sydney to overcome barriers to success – and get behind – the city's 'next economy'.

Grants are not ideal

The Committee recognises that there are a wide range of policy tools available to government to support the start-up ecosystem. Yet understandably and commendably, much of start-up culture resists reliance on government, and in reality the most successful economies and cities are based on collaboration between the public and private sectors. While the relative lack of direct funding for start-ups in NSW is worth noting, this research points to an underlying conundrum – there are necessarily strict guidelines around transparency and equity of funding using taxpayer money, and this is an inefficient form of support when working with firms with extremely limited resources.

Foreword continued…

This paper identifies various options

Our research with KPMG identifies other forms of government support to improve the ecosystem for start-ups. We applaud the NSW Government's efforts to work with the private sector to develop other forms of support. In 2012, the NSW Government announced that it would establish Knowledge Hubs to support key sectors of the economy, with 5 Knowledge Hubs (Financial Services; Digital Creative; Transport & Logistics; MedTech; and Energy Innovation) launched in 2014 and 2015. The Committee is the coordinator and a key proponent of the Financial Services Knowledge Hub, where we are supporting growth of the Fintech community through a comprehensive suite of actions, in collaboration with the private and public sector.

We have achieved successes

Since the establishment of the Financial Services Knowledge Hub, our research into the potential of Fintech, and understanding of the drivers of that ecosystem, guided a joint private-public initiative to create Stone & Chalk, an incubator / accelerator for early stage Fintech companies. This is an exemplar of a government initiative enabling collaboration between the public and private sectors, to deliver infrastructure in an agile and responsive way to support the start-up ecosystem. We are also leading initiatives to address hurdles in the regulatory environment and ensure the flow of skills to support the industry.

We will continue to investigate this issue

The research indicates some positive models of intervention in other jurisdictions and provides a useful outline of the range of interventions available to government, and models of each from around the world. The Committee will seek to build on this research of financial incentives by investigating other forms of support, and evaluating the effectiveness of the Financial Services Knowledge Hub in supporting start-ups.

Summary

The Committee's experience with the Financial Services Knowledge Hub has reinforced that it is possible for government to show leadership and to "lead from behind" by enabling collaboration between the public and private sectors. The performance and support of government – whether regulatory, via business support or through the creation of enabling infrastructure – matters. These can be done well – as we see in some competing jurisdictions, such as in London or New York, where tech start-up prominence has been achieved through effective public private partnering in less than a decade – or badly. The choice is ours. That choice needs to be informed by research.

Dr Tim Williams
CEO, Committee for Sydney

Introduction

Innovation is central to building competitive advantage in the Australian economy and it is through focused policy initiatives that government has the opportunity to lead the way.

In The Committee for Sydney and KPMG paper *Unlocking the potential: the Fintech opportunity for Sydney* we noted that innovation plays an integral role in growing a nation's economy, employment and standard of living through the development of new products, new processes and support for new sectors.

A number of recommendations were made in that paper for both the private and public sector aimed at establishing a thriving financial technology (Fintech) sector in Sydney.

Since its publication, we have seen one of its recommendations come to life through the opening of Stone & Chalk, an independent not-for-profit Fintech hub in Sydney and the establishment of the Tyro FinTechHub.

This paper focuses on another recommendation to enhance the current regulatory, tax and business incentives available to the start-up community. The reason for this is government has a key role to play in driving innovation through providing the enabling foundations, including regulatory frameworks on which high-tech high-growth businesses can establish themselves.

The June 2015 CEDA paper *Australia's Future Workforce* highlights the changing nature of work and the possible impacts of technology on our economy predicting that some 40 percent of jobs may disappear in the next 15 years. This is a key challenge for both the Australian and New South Wales (NSW) economies. It is imperative that government support new businesses and the creation of new jobs to maintain our competitiveness.

Government can drive (or regrettably, inhibit) the growth of the start-up ecosystem through a range of policy interventions and different programs (outlined in Appendix A).

One of the key policy areas where government seeks to do this is through the use of business incentives to seek new ventures and signal future economic growth opportunities so as to attract both capital and talent towards these areas of need.

There is no shortage of studies to assess the optimal forms of support for the start-up ecosystem.[1] Indeed, with growing attention on the value of the 'new economy', governments are necessarily reviewing policies and programs to support the ecosystem, such as the current Federal Senate Inquiry into Australia's Innovation System; the NSW Government's August 2015 announcement to create Jobs for NSW (noting the importance of welcoming disruption in order to grow the economy); and the City of Sydney's recently released Draft Tech Startup Action Plan, which is open for consultation.

This research seeks to augment the existing evidence, to develop specific recommendations.

Source: [1] The Crossroads report by StartupAUS is the most cited recent example. *Crossroads: An action plan to develop a vibrant tech startup ecosystem in Australia*, StartupAUS, April 2015.

Introduction continued…

We seek to understand the effectiveness of business incentives in the form of government grants and incentive programs to the start-up community in NSW. In doing so we have sought to answer three key questions:

1. How aware is the start-up community in NSW of grants and incentives available to them?
2. What are the major barriers to accessing government grants and incentives?
3. What recommendations would we make to government to improve access to and uptake of grants and incentives?

This paper details the responses to these questions and the recommendations we make for government in considering the design and use of business incentives for the start-up community in NSW. We also reinforce the opportunity for government to explore options other than grants. The findings and recommendations presented are reflective of the perceptions and views of the start-up community we engaged.

Finally we would like to thank all those who contributed to the development of this paper, the members of the Financial Services Knowledge Hub, NSW Department of Industry, and those members of the start-up community who participated in our survey and one-on-one interviews.

See Appendix A for more detail

Our methodology

A five phase methodology and approach was followed to develop this research paper.

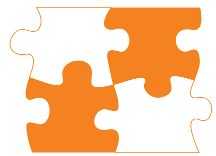
1. Research and analysis of grants and incentives

- Research on types of Australian Federal and State Government grants and incentives available was undertaken, including eligibility criteria for key grants and incentives
- Research on other jurisdictions was conducted to obtain an understanding of approaches taken by other countries

2. Conduct surveys with start-ups

- Surveys were undertaken to understand the level of awareness of, access to and usefulness of grants and incentives which provided a basis for recommendations to test with key stakeholders*
- More than 75 start-ups operating across 16 sectors responded to the survey. The majority operate in Technology (22 percent), followed by Internet (17 percent) and Fintech (15 percent)
- Start-ups were engaged via KPMG and FS Knowledge Hub networks

3. Consult subject matter experts



- KPMG subject matter experts were engaged to review the suitability and validity of recommendations
- Experts provided insight on the current grants and incentives landscape and the outlook and plans for grants and incentives going forward which have been incorporated into this paper

4. Engage start-up community figures

- Consultation and engagement with key representatives of the start-up ecosystem to:
  - obtain insights on government support offered to the start-up ecosystem
  - validate survey findings, and
  - obtain valuable input for recommendations going forward.

5. Analyse and synthesise insights and develop paper

- Key themes and insights identified
- Findings summarised
- Case study examples researched and analysed
- High level recommendations drafted and tested with subject matter experts and key stakeholders
- Final research paper issued

* Survey questions can be found in Appendix B

Grants and incentives

There are several grants and incentive programs targeted at start-ups in NSW at the Federal and State level, which are provided to support innovation and commercialisation across several industries.

Federal Government

Entrepreneurs' Infrastructure Programme

At the Federal level, there is the Entrepreneurs' Infrastructure Programme that is broadly intended to support start-ups. It is designed so that there are smaller programs available to early stage businesses and larger programs which businesses can access as they mature. This is a major commercialisation program that is aimed at businesses who have completed their research and development (R&D) and are now looking to take their product to market. The programme offers six services, organised under these elements: business management, research connections, and accelerating commercialisation. The programme is delivered by AusIndustry, which is the business program delivery division of the Department of Industry and Science.

Federal Government

R&D Tax Incentive Program

The R&D Tax Incentive is a broad-based entitlement program open to all industries. The incentive is intended to offset the cost of developing new knowledge, including new or improved products or services and works by providing a tax offset for every eligible dollar spent on R&D activities, regardless of whether the R&D is successful or whether the company is making a taxable profit or not. Start-ups can use this to reduce their tax liability or where no tax liability exists, the refundable tax offset can be cashed out. For larger businesses, there is a non-refundable tax offset that can be carried forward to reduce tax in future years. Note there are special rules which may apply such as where government grants and the R&D tax offset are received for the same R&D activities, the R&D tax offset will be reduced.

NSW State Government

Innovate NSW

At the State level, the Innovate NSW program assists small to medium businesses that use enabling technologies to rapidly develop business driven solutions, including mobile, cloud, analytics, sensors, advanced materials and biosciences. The aim of the program is to build globally competitive business-to-business (B2B) offerings. There are three grants available under this program: Minimum Viable Product, Tech Vouchers and Collaborative Solutions. This program is delivered by NSW Department of Industry.

- The Federal and State based grants are competitive while the R&D Tax Incentive Program is open to all businesses who meet the eligibility criteria
- Outside of these three programs, there are a range of other grants offered by Federal and State governments that may be applicable but are not specific to start-ups

Findings

A number of key findings were identified, indicating some successes and challenges with the grants and incentives offered to start-ups.

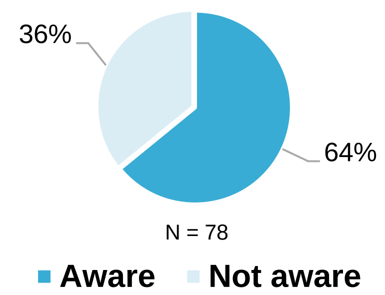
Reasonably high awareness of grants and incentives among the start-up community, however application rates are low

There is a reasonably high level of awareness of government grants and incentive programs among the start-ups surveyed with 64 percent indicating they are aware that business incentives are available. However, corresponding application rates are relatively low, with only 39 percent of those that are aware, submitting an application.

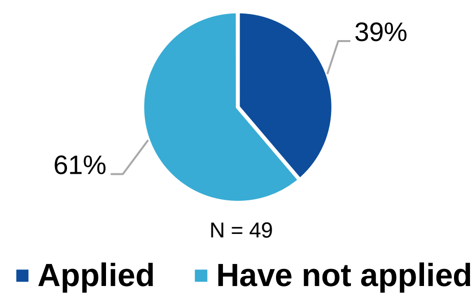
Although more than 25 different government grants and incentives are currently available, only seven were applied for by start-ups surveyed, two of which are now closed. These include the Entrepreneurs' Infrastructure Programme: Accelerating Commercialisation, Innovate NSW: Minimum Viable Product Grant, New Enterprise Incentive Scheme from the Department of Employment, Export Market Development Grants from the Australian Trade Commission, and the R&D Tax Incentive. The two that were applied for but are now closed include the AusTrade and Commercialisation Australia Grants. The overwhelming majority (60 percent) applied for the R&D Tax Incentive.

The majority of reasons cited for the low uptake centred around process and resource challenges. Our research highlighted while that there are no fees associated with applications, there are other costs for start-ups such as time and effort required to search for and submit applications. In many cases, a lack of resources mean start-ups must make a choice between spending time on product development, customer engagement, grant applications, and seeking other forms of funding such as investment from family and friends, crowdfunding, angels or venture capital. When choosing between sources of funding, start-ups also consider other forms of support they may need such as networks, mentoring and access to customers.

Awareness of grants and incentives among start-ups



Grants and incentives applications



Findings continued…

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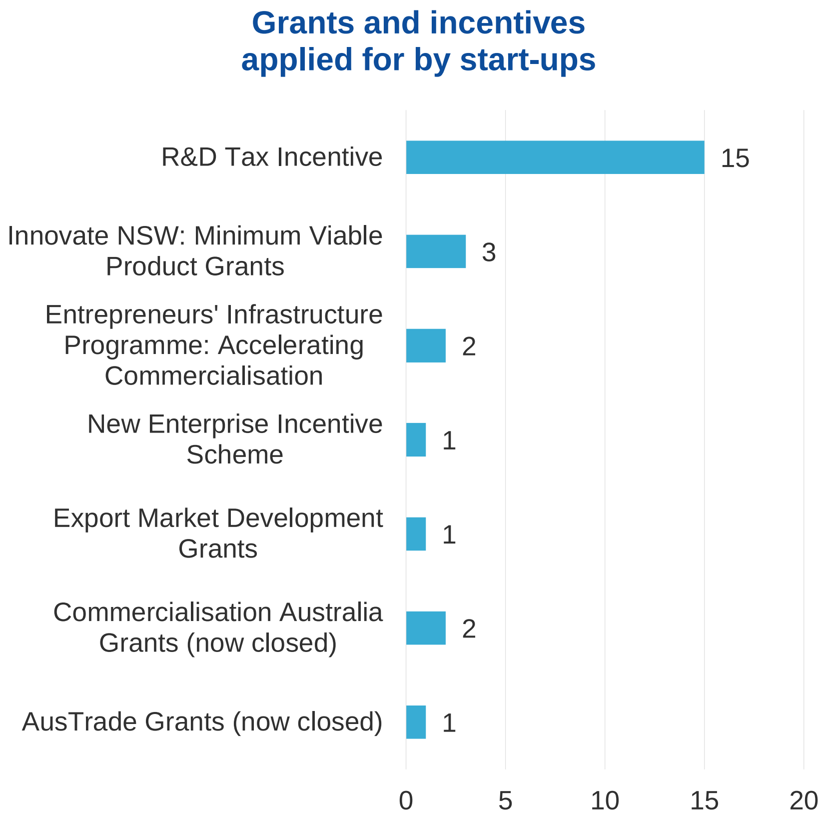


N = 19. Note: Start-ups may have applied for more than one program

R&D Tax Incentive a winner!

The R&D Tax Incentive had the highest uptake among the start-ups surveyed. This may be good news for government as studies have shown that the greatest return on investment (ROI) to the government from R&D tax offsets occurs when it is accessed by start-ups. Stability of such programs is a key factor and whilst innovation is important at all levels, the impact on the economy at the start-up level is found to be greater than when accessed by large corporates.[2]

There are many factors which may explain the comparative popularity of the R&D Tax Incentive including lower administrative needs as a broad-based entitlement program, and its incorporation into the corporate tax system. It was acknowledged by the start-up community that while the application process for the R&D Tax Incentive may not be simpler than for grants, the ability to easily outsource claims on a risk and reward basis is valuable.

Feedback from start-ups on the R&D Tax Incentive is positive, many finding the program to be “easy and relatively straight forward”. The start-up community feel that although there may be an opportunity to reduce lead time for receipt of R&D tax offsets to enable better cash flow for start-ups, there is little to be addressed overall.

Feedback on other grants has been less positive. Start-ups have stated there is lots of red tape and that it is a “long arduous process”. In comparison to the R&D Tax Incentive, grant applications cannot be as easily outsourced, one respondent stated that “the complex application process means the business will most likely need to seek specialised help which in turn has an associated cost”. Moreover, unlike the Incentive, grants are competitive meaning an applicant may end up out of pocket. Whilst it is recognised that merit based grants may require more information, the information being sourced can be prohibitive thereby deterring good start-ups from applying where it is the intention to provide government funding to the best start-ups.

Source: [2] Taxation Paper No 52, 2014, European Commission, A Study on R&D Tax Incentives: Final report, written by a consortium led by CPB with CAPP, CASE, CEPII, ETLA, IFO, IFS and HIS.

Findings continued…

A number of key findings were identified, indicating some successes and challenges with the grants and incentives offered to start-ups.

Complexity of the application process is an inhibitor

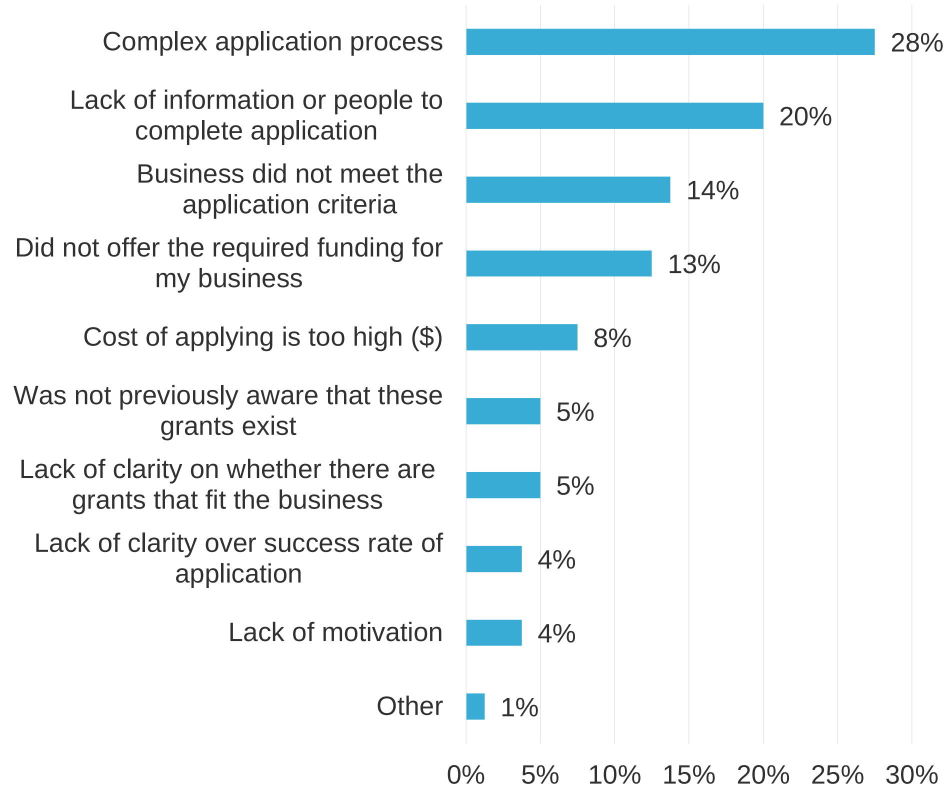
There is evidence of a high degree of complexity in the application process for many grants and that some grants are perceived to have overly onerous requirements as indicated by the top three reasons start-ups do not apply for grants and incentives:

- Twenty-eight percent specified a complex application process.
- Twenty percent indicated a lack of information or people to complete applications (referring to the need for a start-up to prioritise activities given minimal resources).
- Fourteen percent believed the business did not meet the eligibility criteria.

A number of start-ups stated they have looked at applying for certain grants, but did not end up following through as the application process appeared too onerous. Others have stated that the “paperwork and process is so bureaucratic that most start-ups find it easier to go to crowdfunding and other options”. One start-up stated that the Minimum Viable Product (MVP) Grant slowed down the product development process and they decided not to go ahead with it. Complexity of language and terms used can also be a barrier, with another start-up stating that “the language of public servants can be hard to decipher”.

The feedback we received points to two key factors that contribute to complexity: a) paperwork requested including forms to be completed and documentation to be provided; and b) time required to complete. A more detailed review of grant applications will further substantiate pain points within the grant application processes.

Challenges and barriers to access



N = 30. Note: Start-ups were given option to select more than one factor

Findings continued…

A number of key findings were identified, indicating some successes and challenges with the grants and incentives offered to start-ups.

Lack of knowledge over grant applicability and eligibility for individual start-ups

Findings indicate that the research and discovery process for grants and incentives could be more streamlined and simplified. Many start-ups stated it is time consuming to research grants and incentives and verbatim feedback from start-ups indicate many are unsure which ones they may be eligible for.

While it is acknowledged there is a single portal via www.business.gov.au that provides a search function for and information on grants and incentives at the Federal, State and local level, feedback from start-ups indicate that this function is not well known amongst the start-up community.

Our findings also reveal the need for start-ups to familiarise themselves with information from two separate documents under some of the programs in the Entrepreneurs' Infrastructure Programme to ensure they have the information needed to assess the suitability of the grant.

Lack of transparency over qualifying criteria, outcomes and likelihood of success is a deterrent

There is an indication the selection criteria for many grants is unclear and that clarity over eligibility criteria is not always provided up front. One start-up stated that "often hours can be spent looking at grants and incentives you think are applicable only to find something excluding you hidden in a later document or page".

In another scenario, a start-up was asked to submit a full application after being interviewed for a grant, however after spending weeks on the application realised they were not eligible. The start-up community however agreed that the R&D Tax Incentive is quite clear on the criteria a business needs to meet to qualify. This is in part related to the fact claims can be easily outsourced to a professional.

The start-up community's feedback is that there is opportunity for government to provide more information over the amount of funds available, number of applications received, and application success rates for each grant, and also the effect of grants and incentives on start-ups to improve visibility and enable start-ups to make a more informed decision over whether to apply.

Other States – how Victoria supports start-ups

The Victorian Government was often mentioned by the start-up community as an example of a government that has put in place effective initiatives to make the state an attractive place to establish a business. Victoria has 15 grants, vouchers and assistance programs that start-ups may be eligible for.[3] The Victorian Government has also pledged $60 million in its 2015-2016 state budget to launch a start-up initiative where it will provide grants of up to $1 million to start-ups in high-growth industries as identified by the Government including: medical technology and pharmaceuticals, new energy technology, transport, defence, and construction technology.[4]

Sources: [3] http://www.business.vic.gov.au/support-for-your-business/grants-and-assistance; [4] http://www.premier.vic.gov.au/big-boost-for-small-business-and-new-ideas

How do other jurisdictions support the start-up ecosystem?

Our research confirms that government has a key role to play in developing the start-up ecosystem by providing leadership, a supportive regulatory environment, and the necessary infrastructure and skills.

Case Study: United Kingdom (UK)

The UK Government has launched a number of vehicles to support growth of its start-up sector.

There are schemes to stimulate angel investment in young businesses by providing tax relief to individuals who provide funding in start-ups. The Seed Enterprise Investment Scheme (SEIS) is aimed at supporting early stage companies and the Enterprise Investment Scheme (EIS) is designed to support smaller higher risk trading companies. Both reduce income tax liability for investors based on the cost of shares purchased up to £100,000 under the SEIS and £1,000,000 under the EIS. Profits from the sale of these shares are generally capital gains tax exempt and there other conditions which may apply.[5]

While there are many grants available, there has been a general shift toward repayable sources of funding for start-ups and greater use of tax based incentives such as SEIS, EIS, Entrepreneur's Relief and Patent Box.

The UK Patent Box regime is designed to stimulate development and commercialisation of patents and keep associated high-value jobs and activities in the UK.

Profits made from exploitation of patents are subject to a 10 percent tax rate that is lower than the corporate tax rate. The Government allows a lower tax to be paid from qualifying profits derived from patents such as sales of patented and associated items, licence fees and royalties, sale of patents, infringement income and damages, and sales of products using patented processes.[6] It is noted however there are plans to phase out the Patent Box by 2021 due to the tendency to advantage one jurisdiction over another and for the UK to align itself with the G20/OECD Base Erosion and Profit Shifting project.[7]

Sources: [5] https://www.gov.uk/business-tax/investment-schemes; [6] https://www.gov.uk/corporation-tax-the-patent-box; [7] "UK agrees deal on 'patent box' tax break", December 2 2014, Financial Times

How do other jurisdictions support the start-up ecosystem? continued…

Our research confirms that government has a key role to play in developing the start-up ecosystem by providing leadership, a supportive regulatory environment, and the necessary infrastructure and skills.

Case Study: Israel

Israel is known as a start-up nation success story and has the highest rates of R&D spending in the world, more venture capital as a share of GDP than any other country and the largest number of start-ups relative to its population in the world.[8]

The success of Israel lays in its ability to generate and maintain a pipeline of early stage businesses and availability of venture capital. The Government made a strategic decision to jumpstart their high-tech sector as a way of creating economic security for the nation and the need for focused funding policies to support this sector was recognised.

In the early 1990s, the Israeli Government established a number of initiatives. One of those was a competitive matching grants program where 66 percent to 90 percent of R&D costs were covered. These grants were structured as high risk loans where successful projects must repay the funding received via a small deduction of a percentage of annual sales. Another initiative was the creation of a USD$100 million fund called Yozma which created ten funds that co-invested with experienced international venture capitalists, matching up to 40 percent of funds. Private investors had the option to buy out the government's share by repaying the original investment plus interest and 7 percent profits from the fund.[9] The fund aimed to spread the money across many funds, took a portfolio approach, and fostered international collaboration.

Currently, the Government offers government support to start-ups through its annual budget of USD$450 million where up to 85 percent of seed funding is provided for close to 200 incubated start-ups each year.[10]

Case Study: Singapore

Singapore provides many sources of early stage funding through programs delivered by several government agencies.

The SPRING Singapore Government agency delivers a collection of programs to help start-ups which include equity investment, grants and technology commercialisation. In particular, its venture investment arm SPRING SEEDS co-invests in start-ups with third parties such as angel investors and accelerators.[11]

Singapore's Media Development Authority (MDA) delivers two programs, one for early stage and one for late stage start-ups. The early stage program provides SGD$60,000 seed funding to start-ups, where $50,000 comes from the MDA and $10,000 from an incubator. The funds are provided to the incubator. The funding is provided in four rounds of $15,000 and is dependent on the achievement of milestones. The later stage program provides start-ups with approximately SGD$200,000 funding where $100,000 funding from an incubator is matched one-to-one by the MDA. There is no equity stake taken by the MDA.[12]

The National Research Foundation's Technology Incubation Scheme co-invests in start-ups up to 85 percent of the investment up to a maximum of SGD$500,000 by a recommended incubator.[13] Singapore also offers a R&D tax incentive which is modelled on the Australian R&D Tax Incentive and is administered by the Inland Revenue Authority of Singapore (IRAS).

Investment of SGD$225 million to support Fintech innovation has been announced by Singapore to fund innovation centres and infrastructure.[14]

Sources: [8] http://www.oecdobserver.org/news/fullstory.php/aid/3546/Start-up_nation:_An_innovation_story.html; [9] OECD Science, Technology and Industry Outlook 2014, OECD; [10] http://business.financialpost.com/fp-comment/israels-yozma-an-example-for-Canada; [11] http://www.spring.gov.sg/Pages/Home.aspx; [12] http://www.idm.sg/category/support-schemes/for-start-ups/; [13] http://www.nrf.gov.sg/innovation-enterprise/national-framework-for-research-innovation-and-enterprise/technology-incubation-scheme; [14] http://www.straitstimes.com/business/banking/225m-boost-for-financial-technology

Recommendations

We propose four practical recommendations based on our findings. These are intended to be design principles to guide the design of existing and future grants and incentives should they be chosen as a primary method to support start-ups.

1. Increase education and awareness

- Provide a one-stop-shop for launching and growing a business:
  - Engage in broader government collaboration to establish a central hub and holistic start-up entry point which provides comprehensive information on and applications for: administrative activities (ABN, incorporation etc.), grants and incentives, and include an online chat, phone or email helpline.
  - Explore opportunities to improve user-friendliness of the grants and incentives search function on www.business.gov.au.
  - Provide a simple and quick online tool which allows start-ups to calculate their eligibility upfront (e.g. R&D Tax Incentive Tool).
  - Consider working with Federal and State Government departments and agencies to offer a standard application for all grants and incentives (with ability to customise questions).
- Market grants and incentives to the start-up community in the same way they market themselves:
  - Engage in viral marketing of grants and incentives, its benefits and how to apply through traditional and non-traditional channels including incubator and accelerator programs, co-working spaces, social media and online targeted advertising.

2. Efficient and effective application process

- Redesign the application process using a customer-centric approach to enhance user experience and drive greater adoption[15]
  - Design from a user perspective by reducing clutter, adopting a modern layout, ensuring up-to-date content which can increase task completion rates.
  - Organise content and features according to the way citizens think, not according to internal organisational structures.
  - Use simplified language, clear instructions and relevant FAQs which minimise or eliminate the need for specialist help or assistance from a customer helpline.
- Reduce timeframes from application to response and receipt of grants and incentives:
  - Competitive advantage of start-ups is faster speed to market than incumbents and timely funding can enable this. Start-ups are also very cash-flow sensitive.
  - Provide clarity over expected end-to-end application response time.
- Reduce documentation requested and length of applications:
  - Review applications for opportunities to streamline the process and reduce the amount of documentation required whilst still ensuring rigour.
  - Consider providing the ability for previously submitted information to be used for multiple grant and incentive applications, including storage of past applications on the system.

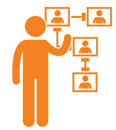
Source: [15] Digital Government Ease of Use Index 2015 Report, 2015, KPMG

Recommendations continued…

We propose four practical recommendations based on our findings. These are intended to be design principles to guide the design of existing and future grants and incentives should they be chosen as a primary method to support start-ups.

3. Greater transparency of outcomes

- Ensure clarity over eligibility criteria is provided up front:
  - List all criteria and documentation required on the front page before the application begins.
  - Provide clarity on where to find information and include links to the appropriate website or webpage.
- Provide transparency over pool of funds available, funds currently available and the success rate:
  - Provide more visible information on funding amounts and funding caps rather than providing this information in lengthy documentation where it can be difficult to locate.
- Provide visibility over ROI, impact and outcomes of grants and incentives:
  - Taking the R&D Tax Incentive to one side, only 13 percent of respondents had tried to access a government grant. This raises the question as to the value of government grants in driving this sector of the economy.
  - Whilst grant programs are reviewed for efficacy by government, the findings are not always publically available. There may be benefit to making these available to the public to educate and provide transparency on the ROI, impact and outcomes of grants.



4. Strategic use of grants and incentives

- Link to 'smart' money:
  - Implement eligibility criteria that funding must be obtained from angel investors, incubator and accelerator programs and other eligible investors before government funding can be obtained in the form of matched funding up to a certain percent. This funding could be provided to investors or directly to start-ups.
  - Angels, incubators and accelerators contribute knowledge, expertise and networks which improves likelihood of success for start-ups.
  - Leveraging the capabilities and expertise of other investors in the start-up ecosystem increases probability of greater ROI due to external validation.
- Target specific high-growth sectors:
  - Whilst the Entrepreneurs' Infrastructure Programme and Innovate NSW Program target current key sectors of the Australian economy, government should consider providing greater support to emerging areas of growth such as Fintech given NSW's strength in Financial Services.[16]
  - Increase awareness in the start-up community that government is directing investment to particular sectors and that a number of grants do this as there is currently a lack of awareness.

Sources: [16] http://www.business.gov.au/advice-and-support/EIP/Pages/EIP-Eligibility.aspx# and http://www.trade.nsw.gov.au/business-and-industry-in-nsw/innovation-and-research/innovate-nsw and "Unlocking the potential: the Fintech opportunity", October 2014, Committee for Sydney and KPMG

Further considerations and strategic challenges

Other areas for government to focus on to establish the necessary foundations to support growth of the start-up ecosystem.

Driving capital and directing talent

- Whilst this paper has focussed on the grants and incentives available to start-ups, ultimately, a successful entrepreneurial sector requires both capital and talent.[17]
- On the investor side of the equation, there is an opportunity to explore attractive tax incentives such as the UK's SEIS and EIS in Australia for angel investors and crowdfunding.
- There is also an opportunity to explore further incentives to attract private capital from superannuation funds, corporates and international players such as the venture capital investment component in the Significant Investor Visa (SIV).[18]
- Improved and increased availability of capital will attract skilled talent. In addition, more strategies to address skill and talent shortages could be developed in collaboration with educational institutions, businesses and the start-up community, including:
  - increasing access to entrepreneur visas
  - boosting interest in science, technology, engineering and mathematics (STEM) education and careers
  - making NSW an attractive and welcoming destination for global talent
- The June 2015 CEDA paper *Australia's future workforce?* indicates that workers are increasingly moving towards self-employment and that this is an aspirational goal for over 50 percent of the workforce, highlighting the need for Australia to ensure there is optimal infrastructure and policies to support entrepreneurs and small businesses[19]

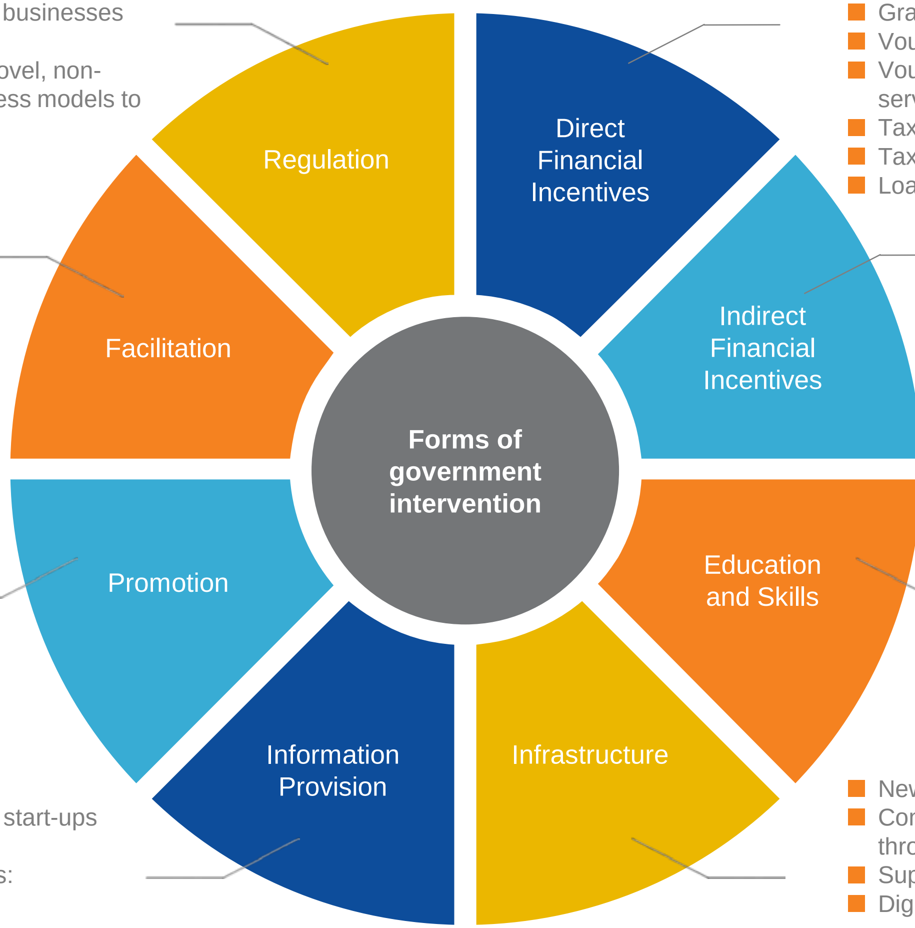
Physical infrastructure support at the state level

- Outside of grants, State and local governments should investigate enabling infrastructure to support high-tech high-growth businesses:
  - supporting the private sector and not-for-profits to create spaces where start-ups can come together to develop ideas and build business in a low cost environment. This may include expansion of existing initiatives such as the City of Sydney's Creative Spaces and the NSW Government's smart work hubs.[20]
  - improving wi-fi access, urban amenity and animation of public spaces in areas with high concentration of start-up businesses.

Sources: [17] "Unlocking the potential: the Fintech opportunity", October 2014, Committee for Sydney and KPMG; [18] "Review of venture capital and entrepreneurial skills, 2012, The Treasury and the Department of Industry, Innovation, Science, Research and Tertiary Education; [19] "Australia's future workforce?", June 2015, Committee for Economic Development of Australia; [20] Creative Spaces - http://www.cityofsydney.nsw.gov.au/explore/arts-and-culture/opportunities-for-artists/creative-space; Smart Work Hubs - http://www.industry.nsw.gov.au/invest-in-nsw/why-sydney-and-nsw/economic-development-framework/invest-in-critical-infrastructure/smart-work-hubs

Appendix A: Forms of government intervention

There is a range of policy interventions and programs that government can use to drive the growth of the start-up ecosystem.



Regulation

- Streamlining regulations to accommodate businesses with limited resources for compliance
- Engaging proactively with start-ups with novel, non-traditional and potentially disruptive business models to guide regulatory treatment/changes

Direct Financial Incentives

- Grants to individual start-ups for general expenditure
- Vouchers to support research expenditure by start-ups
- Vouchers to support expenditure on business advisory services by start-ups
- Tax relief for R&D
- Tax relief for employment costs
- Loans

Facilitation

- Linking large organisations (government agencies, corporates) with start-ups through hackathons, collaboration labs etc.
- Linking start-ups with potential investors through pitch days etc.
- Support for conferences and other networking opportunities

Indirect Financial Incentives

- Loan guarantees
- Co-investment in early stage funds
- Preferential tax treatment for investment in start-ups

Education and Skills

- Support for internships/work placements
- Increased focus on building STEM capabilities
- Increased investment in entrepreneur programs in schools
- Support for accelerator programs
- Aligning research funding to areas that underpin start-up growth
- Aligning immigration policies to business needs

Promotion

- Showcasing successful start-ups to raise their profile
- Showcasing city/regional strengths to potential investors
- Showcasing city/regional strengths to global talent

Information Provision

- Mentoring programs
- Business readiness programs tailored for start-ups
- Small business advisory services
- Seminars/workshops about specific topics: regulatory issues, IP, tax, exporting

Infrastructure

- New centres of excellence
- Connect sites with high concentrations of start-ups through transport links/improved amenity
- Support for co-working spaces and incubators
- Digital platforms

Appendix B: Survey questions

Questions focused on awareness, grants and incentives applied for, experience, challenges to applying, and suggestions on what government can do to further support growth of the start-up ecosystem.

- What industry does your start-up operate in?
- Are you aware there are government grants and incentives available to start-ups?
- Have you applied for any government grants and incentives?
- Which grants and incentives have you applied for?
- In a few short sentences, please describe your experience in applying for government grants and incentives.
- What are the reasons you have not applied?
- Do you have any suggestions on what government can do to enable the growth of the start-up ecosystem in Australia and Sydney?

Thank you to those who contributed to the paper

Stakeholders consulted	Organisation
Elizabeth Eastland	iAccelerate
Danny Gilligan and Simon Cant	Reinventure
Ben Heap and Toby Heap	H2 Ventures
Andrew Corbett-Jones	Tyro FinTechHub
Kim Heras	25Fifteen
Eitan Bienstock	ATP Innovations
Bill Petreski	KPMG
Georgia King-Siem	KPMG
Michelle Zucker	KPMG
Dani Sfameni	KPMG

Thank you to all start-ups that participated in the survey for the valuable insights.

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