

BN18/4330

22 June 2018

Mr Michael Johnsen
Chair, Committee on Investment, Industry and Regional Development
Support for Start-ups in Regional NSW
Emailed to: investmentindustry@parliament.nsw.gov.au

Dear Mr Johnsen

Re: Parliamentary Inquiry into Support for Start-ups in Regional NSW

On behalf of the NSW Government, thank you for providing Ms Zoe de Saram from the Department of Industry with the opportunity to address the Committee on 30 May 2018.

As requested, the Department provides additional information obtained from agencies within the NSW Government as follows.

From Jobs for NSW, Department of Industry:

- an updated submission on support for startups in regional NSW, addressing five of the Questions on Notice.

From the Department of Finance, Services and Innovation:

- information on the extent to which regulatory sandboxes have enabled testing of innovative products and services in live environment.

I confirm that the information can be attached to the transcript and be published.

The Department of Industry is committed to supporting startups in regional NSW, and looks forward to the findings of this Parliamentary Inquiry.

Yours sincerely



Simon Draper
Secretary

Response to Question on Notice #1 An updated submission on the rationale for Jobs for NSW funding and its targeting, market gap, distribution of successful regional applicants, customer experience as well as the audit and risk management processes in place

About Jobs for NSW

Jobs for NSW provides financial support to startups and emerging and fast-growth small to medium enterprises (SMEs) to scale and grow new jobs in NSW.

With a \$190 million fund to invest over four years, Jobs for NSW offers a suite of financial products including grants, loans and loan guarantees to support industries and entrepreneurial businesses that generate sustainable jobs across the State.

These innovative approaches are intended to accelerate job creation across NSW, investing a minimum of 30 per cent of the fund in regional NSW (i.e. outside the metropolitan centres of Sydney, Newcastle and Wollongong).

Jobs for NSW's direction is underpinned by our State's vision for job creation

The Jobs for the Future report (**Attachment 1**) outlines a 20 year vision for work in NSW, including emerging challenges and opportunities. In particular, the report provides the evidence base for our purpose - all net jobs growth in NSW comes from just six per cent of small to medium businesses: the businesses that scale.

- Around 60 per cent of these jobs come from existing firms that grew from fewer than 20 people up to 199 people and;
- Around 40 per cent of these jobs came from new firms that grew.

Meanwhile, existing medium and large businesses shed jobs, largely due to productivity improvements in their much larger workforces.

The remaining small businesses whether new or existing (93 per cent of all NSW firms) did not grow, or ceased business.

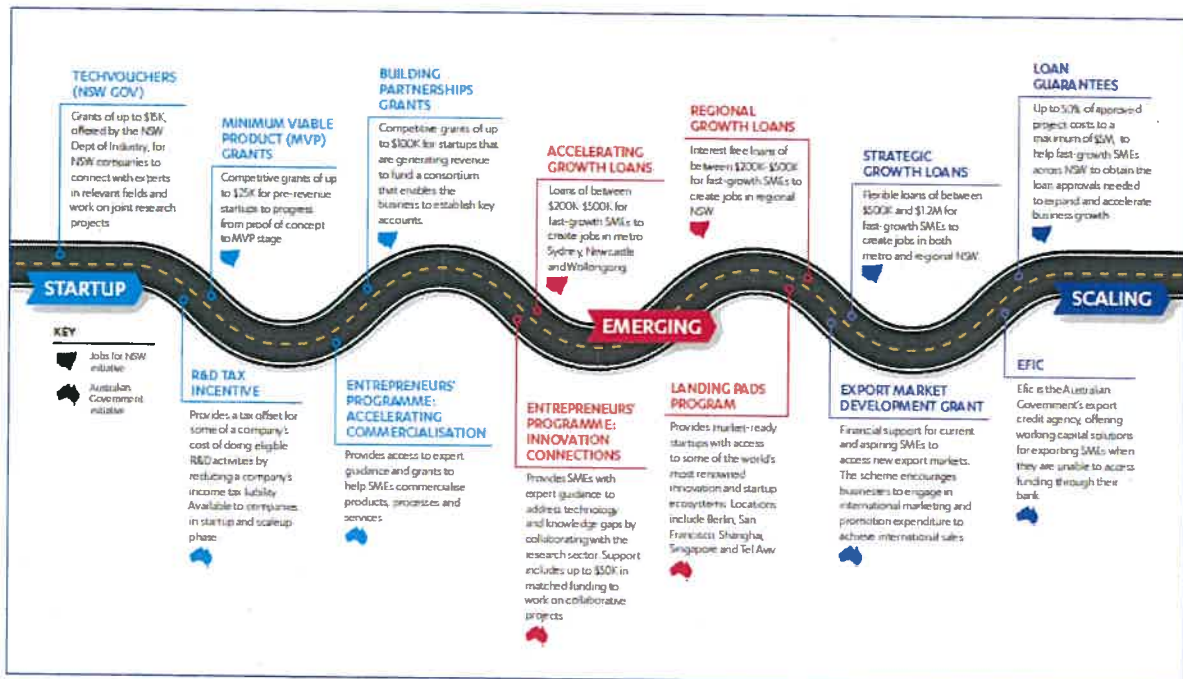
This means we focus on two segments in creating jobs in the NSW economy:

- **Startups** – defined by Jobs for NSW as organisations that have fewer than 20 employees and with a scalable business model. Often these companies have no sales (so are pre-revenue) or operating at a loss. Typically these firms are younger than three years of age but can be older.
- **Fast Growth SMEs** – those small percentage of SME with growth plans that are adding jobs to the NSW economy (often building export capabilities and stepping up on to a global stage and/or rapidly gaining new customers in the emerging new markets of the internet age). These companies often have sales but are seeking to grow quickly and do not have sufficient cash flow to finance this growth. Startups can also become fast growth SMEs.

Both groups are focused on growth and often embrace technology-based solutions to enable this growth. This creates a common interest and is often the key to building regional communities of entrepreneurs as these smaller communities do not have as many startups or growth focused SMEs as in large metropolitan centres.

Grants and loans can help startups grow

Jobs for NSW has established a **Funding Roadmap** which is a portfolio of products and support offered by the agency – as well as reflecting support from the Commonwealth Government (e.g. AusIndustry products).



Focusing on Jobs for NSW products in the **Funding Roadmap** shown above includes:

- For startups, the **Minimum Viable Product grant (MVP)** which helps a startup go from proof of concept to first sale (providing matched funding grant up to 50% of approved project costs, to a maximum of \$25,000)
- For startups and growth-focused SMEs – the **Building Partnerships grant (BP)** provides eligible businesses up to 35% of approved project costs up to a maximum of \$100,000.

Companies at this stage usually do not have sales at all, or sufficient sales to meet the criteria of banks to provide a business loan as their target markets are new: presenting additional risk to a bank. For these companies, providing they have an Australian Business Number in NSW as well as owning or having rights to intellectual property to enable them to address new market opportunities, they may be eligible for Jobs for NSW's MVP and BP grant products which are offered on a competitive basis on published assessment criteria.

By contrast for an individual wishing to start a small business operating in mature markets (e.g. retail sectors such as food), banks may consider a small business loan (at an interest rate much higher than a house mortgage).

For startups that start to scale and grow sales quickly (emerging companies), Jobs for NSW also offers debt products which require the company to demonstrate it is unable to access bank finance. Such situations may be where the company has insufficient financial history (e.g. less than three years of financial operations) or has insufficient collateral (e.g. insufficient tangible assets) to meet banks' lending criteria.

- For startups and SMEs unable to access bank finance, Jobs for NSW offers a range of loans, from interest free loans of up to \$500,000 for companies creating at least 10 full time equivalent (FTE) jobs of two years (**Regional Growth Loans** and **Accelerating Growth Loans**) – or larger loans of up to \$1,200,000 (**Strategic Growth Loans** - creating 20 FTE jobs over three years).

Some more established scaling companies seek to expand their business but find their bank is unwilling to fully finance this growth. In this case, Jobs for NSW offers **Loan Guarantees**, increasing the funds available to fund these expansion plans, providing the company plans significant job creation (e.g. more than 30 FTEs over three years).

Response to Question on Notice #2 Information on how NSW Government manages the ownership of equity in businesses

The NSW Government makes equity investments to address identified barriers and gaps in the equity finance market that are constraining job creation. The funding provided is similar in effect to grants and other instruments used by governments to support industry outcomes for the good of the community.

The role of the NSW Government in making equity investments is to:

- take a minority, non-directive ownership stake;
- have no role in the day to day operations or management decisions of the company invested in;
- seek to exit the investment once the job creation target has been achieved; and
- reinvest any profits from the divestment of assets to support more businesses.

The GO NSW Fund is an innovative and sustainable way to support Australian business and aligns with NSW Government's aspiration to be a leader in innovation.

Response to Question on Notice #3 Guidelines for the Local Innovation Network Expressions of Interest (EOI)

How can Jobs for NSW further support regional entrepreneurs and startups?

To build stronger networks in regional NSW, in collaboration with Department of Premier and Cabinet as well as sister agencies in the Department of Industry and Department of Finance, Services and Innovation, Jobs for NSW has launched the **Local Innovation Network (LIN)**.

The LIN focuses on seven key centres with existing incubators and a startup ecosystem. The areas identified are:

- Bathurst
- Wagga Wagga
- Armidale
- Coffs Harbour
- Byron Bay
- Newcastle
- Wollongong

Note that under the Jobs for NSW Act, Wollongong and Newcastle are not considered regional however these locations have universities and are the focal points for entrepreneurs in the surrounding areas.

Following extensive consultation in these centres, the EOI sought proposals from leaders in the startup ecosystems that built on strengths and addressed local barriers in these communities which:

- encourage best practice,
- expand their geographic footprint, including investment in equipment or fitout if required,
- build awareness and engagement to expand their client pipeline and build participation in regional entrepreneurship.

These seven centres were identified as the seven strongest emerging innovation areas across NSW and providing funding up to (\$300,000 per centre) is intended to enable them to

build on their strengths and address weaknesses. The funding will help these centres build a pipeline of entrepreneurs to join working spaces in these areas (whether on full-time or hot desking basis) or build interest in business growth and entrepreneurship in the local communities by attending events and programs run from these sites.

As the centres develop they will be able to increase their support to surrounding regions and regional entrepreneurs.

At the time of the Parliamentary Inquiry, the EOI to this program was open. It closed on 1 June 2018 and the evaluation of submissions during the EOI is currently underway.

All proposals received under the EOI will be assessed against objective criteria which require applicants to show:

- solutions that leverage competitive strengths and address growth impediments unique to that local region,
- evidence of collaboration with local stakeholders and best practice experts,
- evidence of the number of regional entrepreneurs that will have access to the assistance,
- demonstrate a strategy to support startups to create jobs; and
- provide value for money, including co-investment.

Response to Question on Notice #4 Leveraging the resources of TAFE to support start-ups in regional NSW

Will there be videoconferencing facilities that link regional NSW hubs? Can the facilities of TAFE be leveraged?

As noted, the Jobs for NSW LIN program is a community-led initiative that builds on recognised strengths and addresses challenges to build best practice, expand footprint and generate pipeline for startups and growth businesses to join these entrepreneur communities. Rather than infrastructure such as dedicated videoconferencing facilities - they may choose to invest in other areas: that will be what we learn from the submissions in the EOI.

While not providing as higher resolution as dedicated videoconferencing, today there are a range of third party Voice Over Internet Protocol videoconferencing platforms (e.g. SKYPE, Go-to-Meeting and ZOOM) as well as social media platform channels (e.g. a Facebook live session).

Response to Question on Notice #5 Geographic distribution of successful applicants and extent to which being in an incubator /co-working space assists the applicant

What support has Jobs for NSW provided to startups in regional NSW?

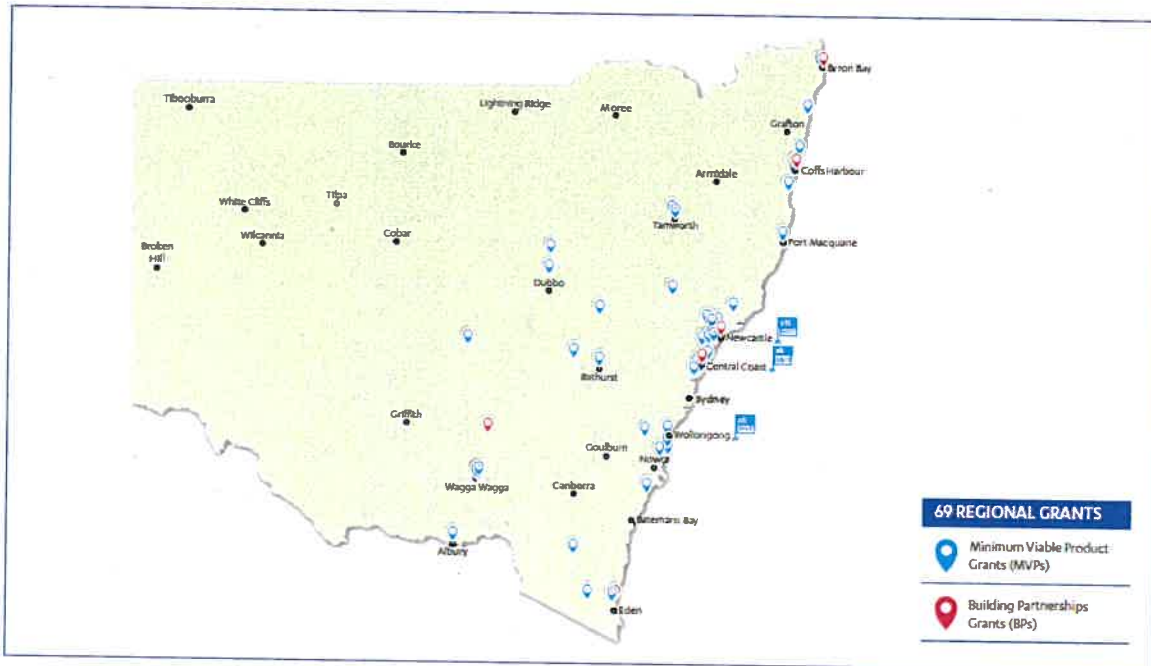
In the period from June 2014 through to April 2018, more than 69 regional startups have directly received grant support through grant products such as the Minimum Viable Product and Building Partnership grants.

A total of \$1.9 million of funds has been provided to these 69 regional startups (MVP and BP grants) which is paid out subject to achievement of milestones.



Jobs for NSW Regional Startup Funding

2014 to 30 April 2018



A further 30 regional businesses (excluding Sydney, Newcastle and Wollongong) have received funding support from Jobs for NSW's portfolio.

Does a startup being in an incubator improve the likelihood of success in applying for an MVP grant?

As requested by the Committee, Jobs for NSW has analysed the last nine months of applications to the MVP program.

Each MVP application is assessed on a competitive basis on the following published criteria:

1. Economic benefits to NSW

Examples of this include:

- job creation and/ or enhancing the talent pool in Jobs for NSW target segments
- export potential of solution
- benefits to regional NSW.

2. Level of innovation

Examples of this include:

- uniqueness of idea
- innovative application of new or existing technologies
- potential to accelerate market adoption.

3. Strength of the business model

Examples of this include:

- sizeable target market
- value of potential customer or channel to market
- management capability.

4. Industry sector benefits

Examples of this include:

- benefits to an industry sector, i.e. optimising efficiency, new supply chain or capability
- addressing a market gap
- ability to scale across other sector(s).

As at 15 June 2018, since September 2017 when the MVP guidelines were updated, there have been 251 applications assessed (throughout NSW).

Of the 251 applications over this nine month period:

- 143 were successful, with 64% of these startups in incubators or co-working spaces
- 112 were ineligible or unsuccessful, with 48% in incubators or co-working spaces.

What is the client experience with Jobs for NSW now?

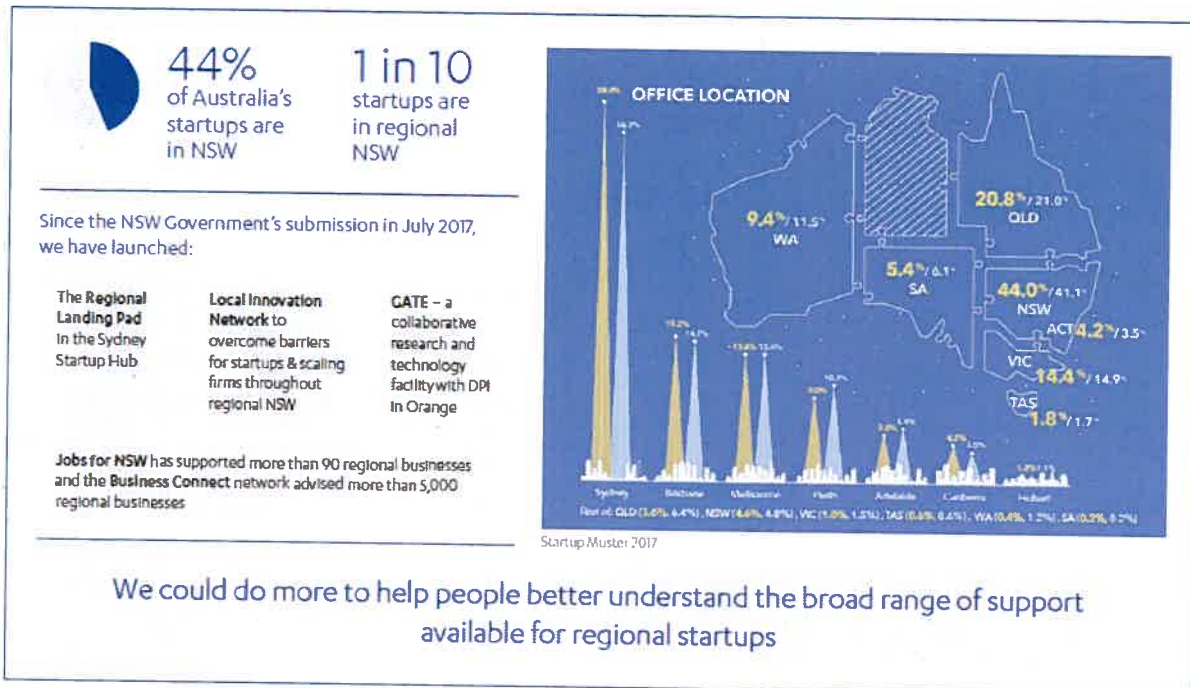
Since the call for submissions to the Committee in July 2017, the team within Jobs for NSW has evolved the eligibility criteria and streamlined the assessment process, moving from a two stage to a one stage application. In addition eligibility criteria have evolved in light of feedback.

For example, from September 2017, MVP applicants had to be pre-revenue (i.e. no product sales) and be able to demonstrate Proof of Concept – evidence of market need and a working prototype. This greatly streamlined the assessment of MVP applications as previously companies with sales sought to access the MVP grant to offset their product development costs and so the program criteria were sometimes difficult for applicants to interpret given the wide range of business stages that were applying to the program. This diversity also made it more difficult to assess applications against these criteria.

In May 2018, a market survey was conducted of 36 MVP grant recipients (both metro and regional applicants) which strongly endorsed the program. Key facts in this survey of 36 startups from a range of sectors include:

- there has been an increase in employment by 76%
 - prior to the grant, the cohort of 36 startups reported employment of 96 individuals and within 12 months, this had grown to 170 individuals
- the grant assisted the startups achieve major milestones
 - 19 of the 36 startups reported they gained their first sale
 - 24 of the 36 startups captured a key customer to the business
- In terms of experience with Jobs for NSW
 - 30 out of 36 rated it was Very Easy to do business with Jobs for NSW, with the remainder positive and one neutral
 - 31 out of 36 stated it was Very Likely they would recommend Jobs for NSW grant products to a friend or colleague.

In summary, NSW is making good progress, but we could do more



Attachments

1. Jobs for the Future Report, 2016 - <https://www.jobsfornsw.com.au/about-us/our-reports/jobs-for-the-future>
2. Jobs for NSW 2016-17 Annual Report - <https://www.jobsfornsw.com.au/about-us/our-reports/annual-reports>

Additional information on Jobs for NSW products can be found on our website, including an online eligibility check, guidelines and case studies.

<https://www.jobsfornsw.com.au/funding/startups>

QUESTION ON NOTICE:

Provide examples of how regulatory sandboxes have enabled testing of innovative products and services in a live environment.

DFSI response:**A pilot program 2017 demonstrated low demand for the creation of regulatory sandboxes**

In the first quarter of 2017, DFSI invited applications for the creation of regulatory sandboxes in NSW. Businesses were invited to identify their regulatory barriers to innovation, as the first step in negotiating a regulatory sandbox.

Only 14 businesses made a submission, demonstrating a very low demand at that time. None of the submissions met the criteria for establishing a regulatory sandbox because either the barriers they were experiencing were within Commonwealth regulations or they identified a barrier that upon further investigation no real barrier to market entry was identified. Many of the businesses had not been in contact with the relevant regulator prior to engaging with DFSI and they were unclear of the regulatory framework within which they were operating.

Regulators can offer exemptions or create testing environments within the scope of their legislated powers. There is no central register for tracking this activity.

Regulators can set up a regulatory sandbox and provide exemptions to the legislation they administer. DFSI does not maintain a central register of regulatory sandboxes in NSW and is not aware of any existing sandbox trials within the DFSI portfolio.

Regulatory reform will be led by the new Productivity Commission

In February 2018, the NSW Government announced that it will soon establish its first ever Productivity Commission to drive microeconomic reform and tackle burdensome regulation in NSW.

The Productivity Commission will have carriage of implementing the Greiner recommendations, including Recommendation 4(d) which recommends the establishing a new statutory framework for innovative regulatory development and implementation methods such as co-design, trials, regulatory sandboxes and use of digital services and data¹

¹ <https://www.treasury.nsw.gov.au/sites/default/files/2018-02/Independent%20Review%20of%20the%20NSW%20Regulatory%20Policy%20Framework%20final%20report.pdf>