

LIMITED SUPPORT FOR VICTORIAN TECHNOLOGY AND INNOVATION

A TECHNOLOGY SECTOR PERSPECTIVE ON THE 2018 VICTORIAN BUDGET

Strategy⁶¹ is a boutique consultancy firm that delivers growth strategy, value creation and deal structures for established or mid-market businesses seeking to gain impact from high-technology, high-growth, transformational business models.

In the last four years we have advised over 35 organisations spanning the full breadth of the technology sector. Our clients include business of all sizes and stages as well as federal and state governments, research institutions and universities.

Our core focus is the technology sector, which encompasses the research, development, manufacture, distribution and funding of technologically based goods and services, including hardware, software and biomedicine. As such it influences all industries, from manufacturing and mining to professional services and education, and its accelerating impact is becoming generally well understood.

THE 2018 BUDGET AT A GLANCE

In a context of November's Victorian election, the 2018 Budget is focused on \$13.7 billion of physical infrastructure, principally in transport, of which \$2.8 billion is for new projects. Substantial investments are also made in additional service delivery, particularly across education, health and law & order.

Concurrently with this spending, the budget forecasts a \$1.4 billion surplus in 2018/19, tempered by a projected increase in debt to 6% of gross state product in 2019/20 up from 4.6%.

The majority of new funding for business and industry is for regional Victoria. Most notably, the budget halves the payroll tax rate paid by businesses who pay at least 85% of their payroll to regional employees, strengthening last budget's reduction.

DIMINISHING SUPPORT FOR THE TECHNOLOGY SECTOR

Victoria has Australia's second highest proportion of business expenditure on research and development, but this has had a declining trend in recent years.¹

Victorian Government has recognised that the technology sector is undoubtedly critical to Victoria's future economy in recent budgets. This has influenced key funding decisions such as the \$508 million Premier's Jobs and Investment Fund, \$60m investment in Startup Victoria and LaunchVic, and the \$200m Future Industries Fund.

¹ Australian Bureau of Statistics, 8104.0 - Research and Experimental Development, Businesses, Australia, 2015-16.

From a technology sector perspective, this year's budget has delivered little new funding.

As such, the sole initiative under the Department of Economic Development, Jobs and Transport's Industry and Enterprise Innovation priority is a further \$11 million towards removing mobile blackspots in regional Victoria.

The Investment Attraction and Assistance Program receives \$55 million in 2018/19, a further reduction from \$90 million in 2017/18 and \$116 million in 2016/17. This program looks to encourage interstate and international businesses to expand into Victoria and has in the past attracted Slack, Square, GoPro and Zendesk to establish their headquarters in Melbourne.

Taken together, this may indicate a trend of reducing focus on technology and innovation since the Victorian Government's 2015 platform which highlighted medical technologies and pharmaceuticals; new energy technologies; and transport, defence and construction technologies in its six priority industries.

Of long-term benefit to the technology sector, the Government's welcome focus on science, technology, engineering, and maths (STEM) education continues with \$32.9 million in targeted funding to schools over the next three years, and \$2.3 million for 10 Tech Schools.

SOME SUPPORT FOR SMES

As the vast majority of Australian technology sector are small-medium enterprises (SMEs), assistance to small businesses generally supports the sector.

While announced in the 2017 budget, the headline support to small business is that they will retain the payroll tax-free threshold increase to \$650,000 (up from \$625,000).

The budget further invests \$5 million in procurement activities to help local businesses secure work supplying and building government projects.

Additionally, the budget allocates \$14m for small business mentoring and support, with a key focus being assisting business owners understand how they can benefit from the digital economy.

TARGETED FUNDING TO BIOMEDICAL RESEARCH, DIGITAL HEALTH AND GOVERNMENT CYBER SECURITY

The budget provides an additional year's funding of \$2.3m to Melbourne Biomedical Precinct Office, which seeks to translate Victoria's biomedical research strength into local jobs and industry. The Office undertakes strategic planning, provides advisory services promotes the Melbourne Biomedical Precinct and released its Strategic Plan two days prior to the Budget.

Under this strategy, the budget allocates \$124 million to extend the Royal Children's Hospital's electronic medical records system to Melbourne Health, the Royal Women's Hospital and Peter MacCallum Cancer Centre. Although the system is provided by US-based Epic, it may provide opportunities for Australian digital health companies and projects by establishing a modern system for integration.

Relatedly, a Centre of Research Excellence for bone marrow biology will be established with \$2 million in funding over four years to help accelerate finding a cure for bone marrow failure syndromes.

Finally, public sector cyber security defences will be improved with \$17.6 million allocated to delivering its first Cyber Security Strategy.

If you have any queries related to this overview, please contact Hugh Sheppard at hugh.sheppard@strategy61.com.au.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Bill Petreski". The signature is stylized and includes a long horizontal flourish extending to the right.

Dr Bill Petreski

Principal