National Reconstruction Fund

KPMG submission

KPMG Australia, February 2023

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Contents

Executive summary

KPMG Australia (KPMG) welcomes the opportunity to provide a submission to the Department of Industry, Science and Resources' National Reconstruction Fund consultation (the consultation).

KPMG supports the establishment of the $15 billion National Reconstruction Fund and its seven priority funding areas. Investment at this scale is a welcome move to provide a much-needed boost to Australia's innovation ecosystem, and support outcomes that will help underpin the nation's economic prosperity.

KPMG supports the establishment of the $15 billion National Reconstruction Fund (NRF) and its seven priority funding areas. Investment at this scale is a welcome move to provide a much-needed boost to Australia's innovation ecosystem, and support outcomes that will help underpin the nation's economic, social, and environmental prosperity. Future sustainability and resilience should be key concepts. The introduction of the NRF can play a significant and critical role in de-risking ideas and opportunities across Australia's innovation system and building Australia's sovereign capability and international competitiveness to ensure Australia is well-prepared to maintain its prosperity in an increasingly volatile global geopolitical context.

While $8 billion of funding has been notionally allocated, KPMG considers that the balance of funding should be earmarked for enabling infrastructure that is not sector specific, but benefits all seven sectors. For instance, there are a number of industries (i.e., space), that are not specifically defined as priority areas, which should be recognised as enabling infrastructure and encompassing special technologies that provide far broader benefits.

KPMG has limited its comments to key questions within this submission and would welcome further engagement on this issue. We believe that developing the right funding models, especially those with integrity and which will provide the most value to industry and government will take time and must be done with care. As such, we urge the government to consult widely on the NRF and develop robust mechanisms to ensure the integrity and long-term viability of the programs within it.

If you would like to discuss the contents of this submission further, please do not hesitate to reach out.

Yours sincerely,

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Background

About KPMG

KPMG is a global organisation of independent professional firms, providing a full range of services to organisations across a wide range of industries, governments and not-for-profit sectors. We operate in 146 countries and territories and have more than 227,000 people working in member firms around the world. In Australia, KPMG has a long tradition of professionalism and integrity combined with our dynamic approach to advising clients in a digital-driven world.

Accelerating Business Growth team

KPMG's Accelerating Business Growth (ABG) team is dedicated to developing integrated advice aimed at supporting the growth ambitions of our clients. We work with our clients to understand their business needs and assist in delivering holistic advice that enables them to reach their growth potential.

Section 1:
KPMG recommendations

RECOMMENDATION 1:

KPMG recommends broader eligibility requirements for the NRF with alternative risk mitigation approaches (for example, partial ownership of underlying assets such as IP and/or infrastructure). Risks around ESG obligations and compliance as well as present and future geopolitical volatility should also be taken into consideration in risk analysis and mitigation.

RECOMMENDATION 2:

KPMG recommends 'platform' investments in enabling capabilities within and across the seven identified sectors be prioritised, as these opportunities are fast-emerging and require significant investment.

RECOMMENDATION 3:

By supporting projects to grow domestic manufacturing capabilities for materials in demand for high value and strategic industries such as carbon fibre, and electronic components including chips and printed circuit boards (PCBs), the NRF would improve Australian industry's resilience against supply chain disruptions

RECOMMENDATION 4:

By supporting programs improving domestic manufacture of defence materiel to reduce dependence on international supply chains, and create export opportunities to members of our vital partnerships (for example the Quad and AUKUS), Australia's national security would benefit from the NRF.

RECOMMENDATION 5:

KPMG recommends that a balanced range of metrics be used when measuring transformation and diversification. Metrics could include:

- Business growth (for example annual turnover, number of employees);
- Co-investment (attraction of other capital through national or global co-investment);
- Staff movement between commercial and public research roles; and/or
- Australia's ranking in the Economic Complexity Index (or a similar metric).

RECOMMENDATION 6:

KPMG recommends that value add should consider the non-commercial outcomes or benefits that the NRF is looking to support, and how these can be assessed (e.g., skills and training for the workforce of the future, geopolitical preparedness, and social and environmental sustainability).

RECOMMENDATION 7:

KPMG recommends that flexibility be prioritised at this stage of the NRF. KPMG suggests broad supporting guidelines to help organisations develop initial investment submissions, and that case studies are developed based on early funding rounds to provide further guidance without being overly prescriptive.

RECOMMENDATION 8:

KPMG recommends that the NRF seeks to understand detailed rationale for which sub sectors of the priority industries represent the greatest economic and industrial impact for Australia, and the most positive social and environmental benefits.

RECOMMENDATION 9:

The government needs to carefully consider the geopolitical and other megatrends that are impacting manufacturing, investment and trade when determining the final investment mandate for the NRF

RECOMMENDATION 10:

The NRF could seek to address risk being a barrier to private sector investment by setting aside a proportion of funding for high-risk/high-return projects.

RECOMMENDATION 11:

KPMG recommends the government consider how the NRF could leverage other forms of support including the R&D Tax Incentive, investor tax incentives and the proposed patent box regime.

RECOMMENDATION 12:

KPMG recommends that the consultation consider how to anchor the commercial benefits of innovation to Australia, relative to the investment and IP generation activities undertaken here.

RECOMMENDATION 13:

Given the well-established venture programs in operation in other states and territories, it would be beneficial if the NRF clearly outlined how it intends to operate alongside these funds and consider if it can leverage capital available in other government backed funds through a coordination mechanism.

RECOMMENDATION 14:

KPMG considers that loan programs could be structured in a way that payback occurs as a royalty upon completion of the project and/or income derived from the project being funded, to avoid becoming a sub-prime loan program.

RECOMMENDATION 15:

KPMG recommends that the government consider whether other federal programs should be amended to remove inconsistencies and barriers to complementary operation with the NRF and each other.

RECOMMENDATION 16:

KPMG recommends that non-financial mechanism for supporting priority areas include working with relevant policy makers to improve career pathways for researchers who wish to commercialise innovative technologies.

RECOMMENDATION 17:

KPMG recommends the NRF review and consider strengthening research cooperation with the United States, as well as the EU research missions, which provide a pathway to align the business and research community to a common objective. Any relevant objectives or learnings could be incorporated into Australia's regime.

RECOMMENDATION 18:

KPMG recommends that the government expediate amendments to the Migration Act in order to ensure Australia attracts leading professionals in priority sectors to support projects funded through the NRF.

RECOMMENDATION 19:

KPMG recommends that the government carefully considers other funding sources already available at the state and federal level and how the NRF will interact with these other funding sources.

Section 2:
KPMG insights

Response to consultation questions

KPMG has responded to the consultation questions where we are best placed to provide insights and recommendations to the consultation.

Questions seeking input to inform further definition of the seven priority areas of the Australian economy

What types of projects or investments should the Government direct the NRF to focus on, or not invest in, within each of the seven priority areas to achieve the NRF's purpose?

KPMG supports the establishment of the $15 billion National Reconstruction Fund (NRF) and its seven priority funding areas: renewables and low emissions technologies; medical science; transport; value-add in the agriculture, forestry and fisheries sectors; value-add in resources; defence capability; and enabling capabilities. Government support for industry is needed, especially across a number of strategic sectors, in order to develop Australia's sovereign capability and international competitiveness in the increasingly competitive geopolitical context.

Investment at this scale is a welcome move to provide a much-needed boost to Australia's innovation ecosystem, and support outcomes that will help underpin the nation's economic prosperity. The introduction of the NRF can play a significant and critical role in de-risking ideas and opportunities across Australia's innovation system, for example through the provision of initial funding in high-value opportunities that can provide a mechanism to grow/leverage more private finance/other investments in the delivery of outcomes in the short- and longer-term.

KPMG understands that the intention of the NRF is not to operate as a grant funding mechanism and to avoid duplication with a range of other funding sources available to primarily support early-stage discovery through research and development. KPMG is supportive of a NRF funding rationale that is oriented towards transformative, high-value market opportunities, that are truly in the priority sectors identified and which are properly and transparently selected and administered.

KPMG recognises the NRF will prioritise funding *programs rather than projects* and suggests programs need to be multi-year, with low administrative overheads, to provide security of operations, recognise the time required to deliver the potential outcomes, and ensure efficiency in delivery. These elements ensure that resource effort can be directed towards commercial pursuits (rather than administrative reporting requirements) whilst recognising the need for accountability and transparency.

It is important that the NRF is not viewed as a mechanism for propping up industries in decline. The NRF should invest in emerging high-value industry sector areas of focus (with an evidence base) that will fuel the future economy and support Australia's national security. Additionally, the NRF should focus on industries where Australia has a comparative/competitive advantage and in sectors of sovereign supply chain necessity.

A number of funding schemes are often limited to well established companies, i.e., minimum thresholds of years of operation and operating profits (typically greater than $1 million). Although KPMG recognises it is important to manage risk, this prevents start-ups with great solutions from accessing the type of capital that might support growth and the acceleration of outcomes. KPMG recommends more flexible eligibility requirements with alternative risk mitigation approaches (for example, partial ownership of underlying assets such as IP and/or infrastructure).

Risks around ESG obligations and compliance as well as present and future geopolitical volatility should also be taken into consideration in risk analysis and mitigation.

KPMG strongly supports the government's focus on the seven priority funding areas; however we consider that the focus on 'enabling capabilities' that support all priority areas should be a key focus of the NRF.

Enabling capabilities

KPMG suggests 'platform' investments in enabling capabilities within, and importantly across, the seven identified sectors be prioritised; these opportunities are emerging quickly and require significant investment (often in physical hardware or infrastructure, which is notably harder to attract private investment). These should be carefully aligned with broader investments in infrastructure such as transport.

Quantum technologies

Analysis in KPMG's September 2022 report *A Prosperous Future – Key industries for Australia/US Collaboration* found that Australia could add 80,000 highly skilled jobs to our work force and secure AUD $24 billion in incremental capital investment by the end of the decade if we accelerate Emerging Technology exports to the United States. Specifically in relation to Quantum computing, the study finds that this industry is on the verge of a huge growth spurt, with the current market size of US$288m rising to over $3.3bn in the next five years.

Australia ranks in the global top ten for Quantum computing research and venture capital investment, and the report points to Defence as a key opportunity. There are significant opportunities in this area that are likely to come in the longer term as Australian-developed leading technologies are increasingly adopted and sold into defence industry organisations.

Australia's world-leading research in AI, Quantum Science and the Digital Economy are three sectors poised to benefit from the landmark AUKUS partnership. KPMG's report notes that Australia ranks among the top ten nations globally for Quantum Computing research, early-stage investment and QC patents. However, the report contends Australia must improve efforts to transform innovation into commercialisation to capitalise on the unprecedented economic opportunities in Emerging Tech.

Space-based capabilities

Another important example of this is space-based capabilities which can enable many of the seven NRF priorities. Space capabilities such as remote sensing and communication technologies will provide a 'low impact' and cost-effective alternative to traditional resource exploration and management processes. Thus, prioritising investments on space-based downstream technologies will pave the way for building a sustainable resource exploration and management sector.

While the term 'space technology' is commonly aligned with planetary exploration and rockets, the space sector is ubiquitous and provides enormous economic benefits to downstream users across most sectors. A strong space industry, focused on satellite and componentry manufacturing, will yield economic benefits for Australia. Besides the improvements which space-based positioning, navigation, and timing, Earth Observation/remote sensing, and communication offers Australian mining, agriculture and environmental monitoring, this technology is scalable and exportable. Once a spacecraft is launched, the space-based sensors and communication assets are easily adapted to serve regions beyond Australia, making their services a valuable product to be exported. International interest and demand in technology-aided mining and agriculture is growing, and the NRF should specify the need for Australian space technology programs to grow and create these services to capitalise on this demand.

Investment in advancing space technology and developing a strong space industry provides direct and indirect societal benefits. The pride in having sovereign spacecraft and components launched into orbit, and access to space as a national resource, is a key motivator for many countries currently pursuing their own space programs. Many nations have capitalised on the miniaturisation of technology and reduced cost of launch achieved in the past decade as a means to leapfrog their country's science and technology knowledge workforce. Education to enter high-value Science, Technology, Engineering, Mathematics (STEM) careers also benefits from a strong aerospace industry and national space program. This is seen in the United States (US) where STEM degrees as a proportion of total degrees awarded peaked during the Apollo program, and had been in decline until recent initiatives over the past decade reinvigorated interest in STEM – aided by increased national space activity and head-of-state visions. KPMG believes NRF support for the space industry will benefit Australia beyond the direct applications of the technologies developed and manufactured by those programs which receive funding.

Compositive materials and electronics

Manufacturing industries using composite materials and electronics are suffering supply chain disruptions and strain in Australia and internationally. Supply chain uncertainty inhibits growth in manufacturing, in turn making Australia more reliant on offshore manufacturing and supply chains. By supporting projects to grow domestic manufacturing capabilities for materials in demand for high value industries such as carbon fibre, and electronic components including chips and printed circuit boards (PCBs), the NRF would improve Australian industry's resilience against supply chain disruptions. Industries which could most benefit from improved domestic supply chains include vehicle and equipment manufacture, energy, MedTech, maritime, aviation and space. This growth will also create export opportunities, as Australia is not the only nation encountering shortages in materials needed for high value manufacturing.

Sovereign defence capability

Reliance on international partners for critical Defence manufacturing, such as guided weapons, ammunition, and spare parts, and services such as satellite communication and geospatial intelligence, exposes Australia to de-prioritisation in times of conflict. International partners will struggle to meet their own manufacturing needs during a high-tempo large-scale conflict. For example, Ukraine's current daily artillery munition use outpaces the US's daily production by more than a factor of ten. By supporting programs improving domestic manufacture of Defence materiel to reduce dependence on international supply chains and create export opportunities to members of our vital partnerships (for example the Quad and AUKUS), Australia's national security would benefit from the NRF. Investing in defence industry to ensure supply in times of crisis can also have added spillover benefits and contribute to the NRF's 'enabling capabilities' priority area. For example, defence projects funded through the NRF could focus on supporting engineering, data science, software development, artificial intelligence, robotics and quantum.

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How should industry 'transformation' and 'diversification' be defined and measured for each of the seven priority areas?

KPMG notes that the government is aiming to diversify and transform Australia's industry and economy through the NRF.

At a high level, KPMG considers that diversification needs to recognise the valuable role of businesses of all stages, shapes and sizes in the transformation, growth and sustainability of the seven priority areas.

Metrics that could be used to measure this include:

- Business growth (for example annual turnover, number of employees); and/or
- Co-investment (attraction of other capital through national or global co-investment).

KPMG also recommends tracking metrics that indicate increased collaboration and stronger relationships between publicly funded research institutions (e.g., universities) and industry. For example, staff movement between universities and industry.

Transformation programs generally require businesses to design and implement new and innovative ideas and deliver fundamental changes in business operations that generate new revenue streams and help transition to a new way of doing business. Measuring this metric is difficult but not impossible. Metrics could include new products offered or an increase in revenue/turnover as noted above.

Furthermore, KPMG considers that one standalone metric would be insufficient to accurately measure progress, and therefore it will be critical to include a balanced range of indicators.

RECOMMENDATION 5:

KPMG recommends that a balanced range of metrics be used when measuring transformation and diversification. Metrics could include:

- Business growth (for example annual turnover, number of employees);
- Co-investment (attraction of other capital through national or global co-investment);
- Staff movement between commercial and public research roles; and/or
- Australia's ranking in the Economic Complexity Index (or a similar metric).

How should 'value add' be defined and measured in relation to relevant priority areas?

Value add should consider the non-commercial outcomes or benefits that the NRF is looking to support, and how these can be assessed. For instance, a value add around skills and training for the workforce of the future is both critical for business, but also Australia's future economy.

A value add about supporting Australia's geopolitical resilience is likewise essential for business success as well as Australia's continued prosperity and national security. Ensuring a business is integrating social and environmental justice principles into its strategic development will also strengthen its sustainability and help create an equitable Australian society across generations.

The NRF should also work with state government programs to strategically align investment and avoid duplication. Investments should be focused in areas and mechanisms that can significantly move the dial in areas that are critical to priority sector growth, and therefore, the Australian economy. There are several current examples of duplication in large scale investment as state governments around the country invest in their own capabilities, such as quantum technologies and mRNA.

Lastly, products or innovations that are defined as being at an early technology readiness level (i.e., TRL 1-5) are often funded and developed within Australia, and then move onto global markets to, amongst other reasons, access capital. One of the NRF's longer term objectives should be to keep later stage innovations onshore and the NRF should carefully consider how it will measure the program's impact on access to capital at higher technology readiness levels.

RECOMMENDATION 6:

KPMG recommends that value add should consider the non-commercial outcomes or benefits that the NRF is looking to support, and how these can be assessed (e.g., skills and training for the workforce of the future, geopolitical preparedness, and social and environmental sustainability).

How much detail should be provided on each of the priority areas? How should greater detail and the need for flexibility be balanced?

In KPMG's view, flexibility is more important at this stage of the NRF, therefore the detail on each of the priority areas should avoid being overly prescriptive. KPMG recommends that in its inception, the NRF should be established as quickly and efficiently as possible, with broad supporting guidelines to help organisations develop initial investment submissions.

KPMG suggests that case studies are developed on the basis of early funding rounds to provide further guidance on the type of investment decisions being supported by the NRF Board. This approach would help balance providing adequate direction to applicants, while avoiding being overly prescriptive or limiting.

Greater detail that KPMG considers should be clear from the beginning is what can or cannot be funded through NRF investment, for example permitted (or not permitted) types of expenditure.

RECOMMENDATION 7:

KPMG recommends that flexibility be prioritised at this stage of the NRF. KPMG suggests broad supporting guidelines to help organisations develop initial investment submissions, and that case studies are developed based on early funding rounds to provide further guidance without being overly prescriptive.

Investment needs and opportunities

What are the opportunities for value-add, growth and diversification in each of the priority areas?

Successful investment will consider the future as well as the present, and build in social, environmental, and geopolitical sustainability.

KPMG recommends that the NRF seeks to understand detailed rationale for which sub-sectors of the priority industries represent the greatest social, environmental, economic and industrial impact for Australia. It would also be useful to know which sub-sectors will support Australia's resilience and prosperity in an increasingly unpredictable geopolitical context.

Extensive analysis of Australia's existing and future industrial and workforce strengths combined with an extensive review of global market opportunities will ensure the nation's comparative advantage is identified in the specific sub sectors of the seven priority industries.

A detailed development of the sub-sector opportunities that represent the greatest impact will ensure future NRF investments will be guided into the highest value opportunities that not only drive sustainable and ethical job creation and economic development outcomes, but also ensures sovereign supply chain capability is protected in critical industries.

RECOMMENDATION 8:

KPMG recommends that the NRF seeks to understand detailed rationale for which sub sectors of the priority industries represent the greatest economic and industrial impact for Australia, and the most positive social and environmental benefits.

What are the manufacturing capabilities needed to support each priority area?

KPMG's *Global Manufacturing Prospects 2022* report discusses what global manufacturing CEOs are focusing on in response to the current economic environment.[1] The report finds that more than two thirds of CEOs say they aim to ensure their supply chain is resilient in the event of a major global disruption at some point in the future and that the main operational priority to achieve growth objectives over the next three years is to invest in the digitization and connectivity of all functional areas.

Manufacturers are finding that lead times are becoming shorter and product lifecycles are becoming increasingly shorter. Batch sizes need to be smaller while being economically viable and delivery needs to be faster in industrial and consumer transactions alike. Product variants are becoming increasingly larger and hyper personalised products are just down the road, even in industrial products. Last but not least, industrial buyers, consumers and governments prefer products that are supported by a sustainable value chain.

The government needs to closely consider the megatrends impacting Australian manufacturing when finalising its investment mandate including:

Going green: with natural disasters expected to cost the Australian economy almost three times more in 2050 than in 2017, we can expect to be living in a more volatile climate, characterised by unprecedented weather events. There is an increased focus on potential solutions to our resource constraints through synthetic biology, alternative proteins, advanced recycling and the net-zero energy transition. By 2025, renewables are expected to surpass coal as the primary energy source.

Digitally enabled: the pandemic fuelled a boom in digitisation, with teleworking, telehealth, online shopping and digital currencies becoming mainstream. The future demand for digital workers expected to increase by around 80 per cent from 2020 to 2025. The expectation from businesses, consumers and government participants is to digitally engage. This digital engagement will be a critical consideration while bidding for new business.

Autonomous operations: there has been an explosion in artificial intelligence (AI) discoveries and applications across practically all industry sectors over the past several years. Coupled with IoT, Big Data and Metaverse, these new technologies enable factories to be run autonomously through Digital Twins.

Human = Trust: a strong consumer and citizen push for decision makers to consider trust, transparency, fairness and environmental and social governance. Though technology has evolved and enables autonomy, the rule of decision still needs governance by a trusted human who can ethically and responsibly govern more socially acceptable and equitable outcomes. Trust in business will be key for its growth as information becomes more available and more transparent.

[1] Manufacturing CEOs respond to global uncertainty - KPMG Global

Geopolitical disruption: an uncertain future, characterised by disrupted patterns of global trade, rising geopolitical tensions, competition, mistrust and an increasing emphasis on protecting national security. While the global economy shrunk by 3.2 per cent in 2020, global military spend reached an all-time high of $2.9 trillion and Australia saw a 13 per cent increase in cybercrime reported relative to the previous year. This means that we have to not only focus on re-evaluating sourcing locations and supply chain dependencies, but also foster nearshore and onshore capability.

RECOMMENDATION 9:

The government needs to carefully consider the geopolitical and other megatrends that are impacting manufacturing, investment and trade when determining the final investment mandate for the NRF.

What are the gaps in or barriers to private sector investment in each of the priority areas?

One barrier to private sector investment in some sectors is lack of scale. For instance, lack of an immediate and sizable market limits access to capital – even where the medium- to longer-term market is evident. The NRF may help bridge this gap by providing more patent funding.

In addition, there are circumstances where risk erodes venture capital funding. As an example, the Clean Energy Finance Corporation (CEFC) often provides funding for higher risk projects which, due to that risk, struggle to find funding from the private sector. The NRF could seek to address this barrier by setting aside a proportion of funding for high-risk projects.

RECOMMENDATION 10:

The NRF could seek to address risk being a barrier to private sector investment by setting aside a proportion of funding for high-risk/ high-return projects.

How can the NRF help build or encourage stronger pathways for Australian developed innovation and research, and encourage additional private investment in priority areas?

There are a number of existing state and federal programs that seek to support Australian innovation and to encourage additional private investment. For instance, at the federal level, there are a number of tax incentives such as the R&D Tax Incentive and several investor tax incentives designed to increase private investment in early stage technology companies. At the state level, there are a variety of programs, some of which provide grant funding (e.g., NSW's MVP program[2]), some provide low-cost loans and more recently, equity via co-investment with the private sector (e.g., Breakthrough Victoria[3]). Each of these programs has its strengths and weaknesses.

KPMG recommends the NRF consider these existing programs to both assess and learn from their relative strengths and weaknesses, and avoid duplication and develop complementary funding models that deliver the best outcomes.

Beyond leveraging existing programs, the NRF should also consider how it can:

- Strengthen pathways and partnerships between industry and publicly funded research (e.g., universities). For instance, the NRF could fund collaborative projects, develop mission-based research objectives (see examples from the EU) and help build innovation networks. Outside of, but complementary to the NRF, the government could introduce additional tax incentives (e.g., tax concessions for commercialised university IP, tax credits for businesses that collaborate with research institutions, etc.) and work with the education portfolio to reform career pathways for academics (e.g., career credits for working in related commercial fields).
- Support and retain commercialisation of strategic innovations. For example, whether NRF funding (in whatever form) require IP or resulting revenue to remain in Australia (noting that such a requirement may hamper commercial activities and limit private investment). Outside of, but potentially complementary to the NRF, existing investor tax incentives (Early Stage Venture Capital Limited Partnership (ESVCLP) / early stage innovation company (ESIC)) and the proposed Patent Box

[2] https://www.nsw.gov.au/grants-and-funding/mvp-ventures-program

[3] https://breakthroughvictoria.com/

regime should be factored into the NRF framework.

Finally, the consultation should consider broader support, for example mechanisms that allow the government to buy or invest in innovative technology.

RECOMMENDATION 11:

KPMG recommends the government consider how the NRF could leverage other forms of support including the R&D Tax Incentive, investor tax incentives and the proposed patent box regime.

RECOMMENDATION 12:

KPMG recommends that the consultation consider how to anchor the commercial benefits of innovation to Australia, relative to the investment and IP generation activities undertaken here.

How could the NRF consider Government policy priorities in performing its investment function?

For the NRF to be successful, a principles-based and flexible investment mandate is required. This mandate must be informed by a clear understanding of the key trends and opportunities present in each of the priority areas.

Returns, financial instruments and working with other investors

KPMG has advised government agencies when developing and establishing investment programs similar in nature to the NRF. For example, Breakthrough Victoria is an independent company that manages a $2 billion investment fund set up by the Victorian Government to make Victoria a global innovation leader. The priority areas include clean economy, health and life sciences, agri-food, digital technology and advance manufacturing. The fund has five investment programs including pre-seed, venture capital, growth capital, platform and fund investment. Importantly, Breakthrough Victoria is independent of government and has its own Board and investment decision making processes. Similar programs are also in place in NSW (NSW Future Economy Fund) and the ACT.

Given the well-established venture capital programs in operation in other states and territories, it would be beneficial if the NRF clearly outlined how it intends to operate alongside these funds. The NRF could potentially seek to leverage the capital available in other government backed funds and include a coordination mechanism to ensure funding is fully utilised where priorities align across certain governments.

In relation to concessional loan programs, the government needs to be careful when selecting applicants so that it doesn't become a sub-prime loan program. Loan programs could instead be structured in a way that payback occurs as a royalty upon completion of the project and/or income derived from the project being funded.

Government should look to avoid the situation whereby companies are funded by way of concessional loans and then later dedicating significant resources in administering the collection of the loans.

The benefit of a long-term concessional loan program is that the fund can be recapitalised and used for future projects without the need to source further funding from Treasury. The consequence might be the significant administration cost of managing the funds after they have been deployed. Unlike grants, whereby once monies are deployed there is less of an administration burden other than ensuring project outcomes have been achieved.

In relation to rates of return, the CEFC and the Northern Australia Infrastructure Fund (NAIF) have similar target portfolio return rates that are broadly benchmarked on the five-year Australian Government bond rate plus at least three per cent. Where the government chooses to depart from this precedent, additional risk strategies may need to be deployed to ensure the program doesn't become a target for less viable projects.

Lastly, KPMG considers that the administration of the NRF scheme will be critical to its success. The NRF could look to the Cooperative Research Centres (CRC) Program for learnings in this area. The CRC Program is a good example of a scheme that has operated well and stood the test of time across multiple governments.

RECOMMENDATION 13:

Given the well-established venture programs in operation in other states and territories, it would be beneficial if the NRF clearly outlined how it intends to operate alongside these funds and consider if it can leverage capital available in other government backed funds through a coordination mechanism.

RECOMMENDATION 14:

KPMG considers that loan programs could be structured in a way that payback occurs as a royalty upon completion of the project and/or income derived from the project being funded, to avoid becoming a sub-prime loan program.

Complementary reforms

In addition to the comments below, the NRF should consider how its funding will complement existing programs and the government should consider whether it should reform existing programs to remove inconsistencies and barriers to their uptake. For instance:

- The Early Stage Investor Tax Incentive provides a tax incentive for investors to invest in early stage innovation companies (ESICs). Qualification as an ESIC can be qualitative (based on principles) or quantitative (based on points). Use of a quantitative qualification mechanism is welcomed, but there are numerous practical issues and inconsistencies (e.g., 50 points for an Accelerating Commercialisation grant, but no points available for any other grant program or government funding, no matter how well established or esteemed). If the NRF is to provide funding via loans and equity, it would be timely to amend the ESIC test such that significant government support (whether via grant, debt or equity) can be used to help the company qualify as an ESIC and thus attract additional private investment.
- The R&D Tax Incentive generally prevents claiming expenditure that isn't 'at risk' or claws back some or all of the benefit where government grant funding is received. The underlying intent is sound (i.e., to prevent double dipping), but construction and more recent interpretation of these provisions have created industry concern (especially the broad interpretation of 'not at risk' expenditure).

KPMG has previously provided submissions to government highlighting these and other issues.[4]

RECOMMENDATION 15:

KPMG recommends that the government consider whether other federal programs should be amended to remove inconsistencies and barriers to complementary operation with the NRF and each other.

Are there non-financial mechanisms that could support priority areas and the objectives of the NRF?

The NRF should work with relevant ministers and departments (for example, the Department of Education) to improve career pathways for researchers who wish to commercialise innovative technologies. This might include recognising the years of commercial employment when deciding on promotion eligibility and developing a formal industry secondment program for early career researchers. These changes would encourage commercial risk taking, increase knowledge exchange and improve the commercial understanding of future researchers.

The EU research missions should also be reviewed. These provide one pathway to align the business and research community in a common objective.

The EU missions are specific and measurable:

1. Adaptation to Climate Change: support at least 150 European regions and communities to become climate resilient by 2030.
2. Cancer: working with Europe's Beating Cancer Plan to improve the lives of more than 3 million people by 2030 through prevention, cure and solutions to live longer and better
3. Restore our Ocean and Waters by 2030
4. 100 Climate-Neutral and Smart Cities by 2030
5. A Soil Deal for Europe: 100 living labs and lighthouses to lead the transition towards healthy soils by 2030

The NRF should consider this model and incorporate any relevant objectives into Australia's regime.

RECOMMENDATION 16:

KPMG recommends that non-financial mechanism for supporting priority areas include working with relevant policy makers to improve career pathways for researchers who wish to commercialise innovative technologies.

RECOMMENDATION 17:

KPMG recommends the NRF review and consider complementary US research and the EU research missions, which provide a pathway to align the business and research community to a common objective. Any relevant objectives or learnings could be incorporated into Australia's regime.

[4] https://kpmg.com/au/en/home/insights/2021/10/venture-capital-tax-concessions-review-kpmg-submission.html

How could the NRF work alongside other complementary reforms to best deliver on the Government's policy priorities?

Access to skills and global talent: Review of the Migration Act

KPMG recently provided a submission in response to the Federal Government's Review of the Migration Act[5]. Access to talent in emerging industries is a critical enabler of innovation. KPMG's submission recommends:

- Establishing a new Sponsored Project Visa for targeted short-term projects, valid for 12 months, including a minimum salary, with no labour market testing requirements.
- Introducing a 'Digital Nomad' Visa that provides unrestricted work rights for up to 90 days, with the potential to extend for a further 3 months, that is not age restrictive and is available to all nationalities.
- Increasing flexibility for Australian Multi-National Enterprise to deploy their foreign employees by streamlining the Temporary Skilled Visa (TSV) pathway for intra-company transfers, and allowing TSV holders to job-share or engage in part-time work for a designated period of time.
- Removing tiered occupational links to 2-year or 4-year Temporary Skilled Visas, and replacing it with one overarching Priority Occupation List, including a universal 4-year visa, with potential for indefinite extension. Roles not on the List to be awarded a 4-year TSV if the salary exceeds $90,000.
- Considering lifting the age threshold for company-sponsored permanent residence from 45 to 50 years, with conditions.

In the submission, KPMG also argues that the Global Talent Visa is complex to navigate, and it takes too long to make a decision. To attract leading professionals into priority sectors in Australia, KPMG proposes that certain priority occupations be pre-approved for a Global Talent Visa and government-approved recruiters be allowed to identify appropriate candidates and invite them to apply.

RECOMMENDATION 18:

KPMG recommends that the government expediate amendments to the Migration Act in order to ensure Australia attracts leading professionals in priority sectors to support projects funded through the NRF.

Overlapping and interrelated government funding

In establishing the NRF, it is important the government carefully considers other funding sources already available at the state and federal level. For example, the Rewiring the National Fund, Housing Australia Future Fund, Powering the Regions Fund, the CEFC, Export Finance Australia, NAIF, among others may have overlapping eligibility criteria. It is important for government to provide clear advice to business and investors so that multiple applications aren't made to multiple funding sources, increasing red tape and sometimes confusion. For example, investors may expend significant resources applying for one funding source only to be told that another program better suits the project.

RECOMMENDATION 19:

KPMG recommends that the government carefully considers other funding sources already available at the state and federal level and how the NRF will interact with these other funding sources.

To what extent are other levers required to support the objectives of the NRF (for example, skills, trade, supply chains)?

Other levers will be important in supporting the objectives of the NRF. In KPMG's view, broader policy settings need to support the development of priority sectors and should be aligned with the NRF. This could include:

- High levels of investment in complementary infrastructure;
- Tax holidays for priority sectors; and
- Encouraging the establishment of foreign operations where domestic manufacturing is uncompetitive (for example, Australian R&D and HQ coupled with manufacturing in Indonesia).

[5] Migration system for Australia's future: Submission - KPMG Australia

KPMG

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