


**CABINET - SUBJECTS FOR CONSIDERATION, 10 JUNE 2008 11:00 AM**


Not relevant



**1 New Initiatives/Policy Matters**

101      MSI03/08CS      Minister for Science and Information Economy's Item  
(Paul Caica)  
**APPROVED**

Not relevant



101  
TO THE DEPUTY CHIEF EXECUTIVE, CABINET OFFICE

Attention: Senior Cabinet Clerk (Cabinet)  
FAX: 8226 3566

**NOTIFICATION OF A CABINET NOTE WITH LIMITED DISTRIBUTION**

I request that the following submission be 'locked' due to its extreme sensitivity. This means that it is only to be viewed by:

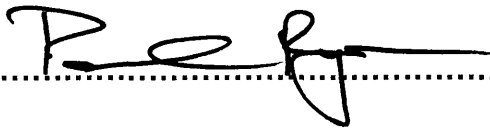
Ministers and Chief Executives (including the Commissioner for Public Employment and the Crown Solicitor if the matter is relevant to them).

Title: **SA GOVERNMENT SUPPORT FOR EARLY-STAGE COMMERCIALISATION OF RESEARCH – TRANS TASMAN COMMERCIALISATION FUND (TTCF)**

Date of meeting: **10 JUNE 2008**

File number: **MSI03/08CS**

**SIGNATURE OF CHIEF OF STAFF:**



Portfolio: **SCIENCE AND INFORMATION ECONOMY**

Date: **3/6/08**

Minister's Contact Officer for discussion with Cabinet Office

Name **PAUL RYAN**


Telephone **82268520**

**0423 782 388**

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TO BE ACTIONED BY CABINET OFFICE:

NOTED



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Tanya Smith,

**Deputy Chief Executive  
Cabinet Office**  
/ /

CABINET COVER SHEET

- 1. TITLE: SA GOVERNMENT SUPPORT FOR EARLY-STAGE COMMERCIALISATION OF RESEARCH – TRANS TASMAN COMMERCIALISATION FUND (TTCF)
- 2. MINISTER: Hon Paul Caica MP  
Minister for Minister for Science and Information Economy
- 3. PURPOSE: To seek Cabinet approval for:
  - 3.1 DFEEST to negotiate and finalise on behalf of the SA Government the terms and conditions of the SA Government's support to enable the State's three universities to partner in the Trans Tasman Commercialisation Fund; and
  - 3.2 DFEEST to provide a total of \$250,000 per year for five years (\$1.25m total) to be jointly available to the three South Australian universities participating in the ,Trans Tasman Commercialisation Fund (TTCF).

4. RELATIONSHIP TO: This proposal directly addresses the innovation targets within the SASP, specifically T4.6 – Commercialisation of Research: *increase gross revenues received by South Australian-based research institutions from licences, options, royalty agreements, assignments, licensed technology and patents by 2010.*

5. RESOURCES REQUIRED FOR IMPLEMENTATION: The sum of \$250,000 per year for five years (\$1.25m total), the resources to be provided by DFEEST.

Period	2008/09	2009/10	2010/11	2011/12	2012/13
Amount (\$'000)	\$250	\$250	\$250	\$250	\$250

6. COMMUNITY AND ENVIRONMENTAL IMPACT: Access to early-stage investment capital from TTCF will support vital commercialisation of intellectual property developed by the State's three local universities, helping to stimulate the growth of new start-up businesses, employment and income for the benefit of the State.

7. RISKS: The State's three universities have signed an agreement to participate in TTCF. The investment capital is from a private source and investments risks are carried by TTCF participants. The SA Government will not be a participant in the TTCF. The SA Government is to provide a grant under contract with the three participating South Australian Universities in support of local operational costs of the TTCF.

8. **CONSULTATION:** Consultation has occurred with senior officers in the Victorian Government and New Zealand Government.
- DFEEST is working with the Crown Solicitor's Office in drafting a funding agreement outlining the terms and conditions of the SA Government's support.
9. **COMMUNICATION STRATEGY:** The partners to TTCF are proposing to make a coordinated announcement on 16 June 2008 with each State having the opportunity to host individual announcements or launches thereafter.
10. **URGENCY:** URGENT. TTCF Partners are aiming to publicly announce this initiative on 16 June.
11. **RECOMMENDATIONS:** It is recommended that Cabinet:
- 4.1 Note that the State's three universities are seeking to partner in the proposed Trans Tasman Commercialisation Fund (TTCF) which directly addresses SASP target T4.6 to improve the commercialisation performance from research;
  - 4.2 Approve DFEEST finalising negotiations on the terms and conditions of the SA Government's operational support to the State's three universities to partner in TTCF; and
  - 4.3 Approve DFEEST to provide \$250,000 per year for five years (\$1.25m total) to a consortium of the State's three local universities to support increased commercialisation of R&D within South Australia and thereby approve the sending of the attached draft letter containing the required conditions of SA Government's support.

I declare that I have no actual or potential conflict of interest in relation to the proposals contained in this submission.



**PAUL CAICA**  
**MINISTER FOR SCIENCE AND INFORMATION ECONOMY**

3/06/2008

TO: THE HON PREMIER FOR CABINET

RE: SA GOVERNMENT SUPPORT FOR EARLY-STAGE  
COMMERCIALISATION OF RESEARCH – TRANS TASMAN  
COMMERCIALISATION FUND

1. PROPOSAL

For Cabinet to:

- 1.1 Note that the State's three universities are seeking to partner in the proposed Trans Tasman Commercialisation Fund (TTCF) which directly addresses SASP target T4.6 to improve the commercialisation performance from research;
- 1.2 Approve DFEEST finalising negotiations on the terms and conditions of the SA Government's operational support to the State's three universities to participate in the TTCF; and
- 1.3 Approve DFEEST to provide \$250,000 per year for five years (\$1.25m total) to a consortium of the State's three local universities to support increased commercialisation of R&D within South Australia and thereby approve the sending of the attached draft letter containing the required conditions of SA Government support.

2. BACKGROUND

- 2.1 Westscheme, Australia's largest non-government superannuation fund with Clause 7(1)(c) in funds under management, has committed to providing \$30 million for investment in early-stage commercial ventures originating from five research institutions.
- 2.2 The five participating research institutions are:
  - University of Adelaide
  - University of South Australia
  - Flinders University
  - Monash University
  - University of Auckland
- 2.3 Westscheme has a history of investing in early stage commercialisation funds, having partnered Murdoch University in 2003 Clause 7(1)(c). In 2005, Westscheme invested Clause 7(1)(c) with the university-based Uniseed involving the University of Queensland, the University of Melbourne and the University of New South Wales, which has since gone on to attract further investment totalling Clause 7(1)(c).
- 2.4 Westscheme has committed to providing \$30 million for up to 10 years via the newly established TTCF Trust which has been established to hold the investments generated through this initiative and manage the

administrative costs. The trustee of TTCF Trust is TTCF Pty Ltd (ACN: 130 470 727).

- 2.5 TTCF can invest all of the \$30m with the participating universities in less than 10 years, although no more than \$10m in any single year. TTCF equity funds will be restricted to investments within the five participating universities only.
- 2.6 The five participating universities, Westscheme and TTCF Pty Ltd have signed a Collaboration and Shareholders Agreement detailing the terms and conditions of the relationship between Westscheme, the TTCF Pty Ltd (trustee) and the five universities. DFEEST has a copy of this document, as well as other documents associated with TTCF, for reference in developing the funding agreement through the Crown Solicitor's Office.
- 2.7 The three participating South Australian universities have approached the SA Government, through DFEEST, to match their contribution of \$250,000 per year for the next five years (\$1.25m total) towards the local operating costs of TTCF.
- 2.8 The Victorian and New Zealand Governments have each been approached to contribute equivalent amounts Clause 7(1)(c) to match their local universities contribution towards the operating costs of TTCF. The breakdown of participant contributions are as follows

<b>TTCF Budgeted Operating Costs</b>	
Source	Amount per year
<ul style="list-style-type: none"> <li>▪ Monash University</li> <li>▪ Victorian Government (Dept of Innovation, Industry and Regional Development)</li> </ul>	Clause 7(1)(c)
<ul style="list-style-type: none"> <li>▪ University of Auckland</li> <li>▪ New Zealand Government (NZ Trade and Enterprise)</li> <li>▪ Auckland City Council</li> </ul>	
<ul style="list-style-type: none"> <li>▪ University of Adelaide</li> <li>▪ University of South Australia</li> <li>▪ Flinders University</li> <li>▪ South Australian Government (Dept Further Education, Employment, Science and Technology)</li> </ul>	
<ul style="list-style-type: none"> <li>▪ Westscheme</li> </ul>	
<b>TOTAL</b>	

- 2.9 The operating costs incurred by TTCF include salaries for four senior investment managers, one of whom will be based in South Australia to provide expert commercialisation advice to local research institutions and make investment recommendations to TTCF. The Chief Investment Manager, (one of the four aforementioned positions), has already been appointed by TTCF and will now proceed to work with the TTCF participants in appointing the remaining investment personnel.
- 2.10 It is envisaged that each of the investment managers will have different technology commercialisation experience, enabling the universities to

tap into a wide breadth of expertise across all the investment managers.

- 2.11 Other operating costs include analytical and administrative resources to manage the operation of TTCF.
- 2.12 The Victorian and New Zealand Governments have committed to supporting TTCF although each government is at a different stage in developing its funding agreement. The New Zealand Government has already signed a funding agreement with the University of Auckland. The Victorian Minister for Innovation has signed a letter of intent to TTCF committing Victorian Government support for TTCF pending the finalisation of a funding agreement with TTCF Pty Ltd.

### 3. DISCUSSION

- 3.1 This proposal directly addresses the SASP target T4.6 *Commercialisation of Research*, by supporting access for our local universities to early-stage risk capital. Early-stage finance is used to fund the development of promising intellectual property to a stage where universities can begin to earn revenue from the technology via licensing, options or royalties.
- 3.2 There is still a significant gap in the provision of true early-stage risk capital in Australia, especially in cities outside of Melbourne and Sydney. Private venture capital funds rarely make early-stage investments, preferring instead to make fewer but larger investments at later stages, when the technology risks are lower and there is more certainty about higher returns.
- 3.3 Higher returns expected from private venture funds also means minimal allowances for administration/operating costs and therefore, fewer fund managers with time to do the hands-on work necessary to add value to a promising idea before it has reached proof-of-concept. As a result, private venture funds typically focus on investing well after the proof-of-concept stage. Examples of private venture funds in South Australia include Paragon Private Equity, ANZ Capital, Blue Sky Private Equity and Terra Rossa Capital.
- 3.4 There are no broad-based early-stage venture funds based in Adelaide. Terra Rossa Capital makes early-stage investments but only within the life sciences and within an environment supported by the business and industry development activities of Bio Innovation SA, which in effect serves to develop and present early-stage investment opportunities to early-stage funds such as Terra Rossa.
- 3.5 Similarly, Playford Capital has been successful at investing Federal Government funding for early-stage investments. The Playford model has operated with State Government support for operating costs, allowing Playford to provide levels of support to ventures that would be uneconomical for a fully private fund.

- 3.6 TTCF will operate at the earliest risk stage, providing investment to take research and development outcomes to proof-of-concept and thus, to a stage that makes the intellectual property more attractive to follow-on investments from other sources.
- 3.7 Westscheme's offer, through TTCF, enables it to increase its capture area for potential investments to South Australia and New Zealand while expanding its presence within Victoria, where it already has access to University of Melbourne IP (through Uniseed). South Australia's three local universities have combined research expenditure approximately equal to the individual expenditure of Monash University and University of Auckland. TTCF also offers the State's local universities the opportunity to collaborate with the other partner universities to 'pool' their intellectual property and exploit joint efforts to commercialise.
- 3.8 In return for the universities and SA Government contributions to the operating costs of TTCF, at least one TTCF investment manager will be permanently based in South Australia. The investment manager will be independent from the universities but will work closely with the technology transfer offices of each university to develop each project to the point where an investment proposal can be presented to the TTCF Investment Committee.
- 3.9 Based on advice from Access Capital Pty Ltd, the advisor to Westscheme for TTCF, South Australia could expect to generate 2 – 3 new investments per year, translating to around 10 -15 potential new companies over the next five years and the consequent income and employment generated from those businesses.
- 3.10 As well as the investment and new business development opportunities that will arise from TTCF, other tangible benefits include skills development (technology commercialisation, entrepreneurship, financing, etc) and strengthened collaboration between the State's research organisations.

### **Economic, financial and budgetary implications**

- 3.11 The support being sought from the South Australian Government (\$1.25m over five years) has the potential to leverage up to \$30m in early-stage risk capital via the TTCF, although realistically, the State's universities would be competing on equal terms to attract TTCF investment. Assuming the three local universities are able to attract one-third (\$10m) of investment from TTCF, this represents an 8:1 leverage ratio on the SA Government's support.
- 3.12 Based on experience with similar types of funds such as Uniseed, the initial seed investment from early-stage funds can leverage additional funds from external private sources and government grants by a factor of at least 5.

- 3.13 Based on local experience, Playford Capital invested Clause 7(1)(c) and leveraged private co-investment of Clause 7(1)(c) and public grants of Clause 7(1)(c), resulting in a total leverage investment ratio of Clause 7(1)(c).
- 3.14 The participating universities expect TTCF funds to be fully committed over the next five years. In the event that some balance of funding remains uncommitted at the end of five years, additional operating costs may be sought from participants until all funds are committed, although for no longer than 10 years. DFEEST only intends to support this initiative to a maximum of \$1.25m over five years, with no further commitment beyond those amounts or time period, with funding in the first 5 years subject to performance standards.. Any future requests for support towards operating costs beyond five years will be subject to a performance review and expected benefits for the SA Government.

### Risk Management Strategy

- 3.15 No SA Government funding (if approved by Cabinet) will be used by TTCF for investments in intellectual property, to avoid any potential liabilities that may arise from intellectual property supported by TTCF. SA Government funding will be used to cover TTCF operating costs only and support expanded commercialisation efforts, including education initiatives among the State's three universities.
- 3.16 A recent short term risk has arisen in the ability of the universities and TTCF to leverage Federal Government grants following the recent axing of the *Commercial Ready* program in the 2008/09 Federal Budget. New initiatives to support commercialisation, however, are expected to be introduced from 2009/10 following the completion of the Federal Government's current National Innovation System review.
- 3.17 The three local universities already have structures and procedures in place to support commercialisation and attract inward investment through their technology transfer offices.
- 3.17.1 ARI Pty Ltd (commercial arm of University of Adelaide) has a team of dedicated commercial development staff to work with the TTCF investment manager in identifying intellectual property with commercial potential. ARI Pty Ltd have also recently introduced a "Commercial Accelerator Scheme" that provides up to Clause 7(1)(c) to develop internal projects to 'investment ready' stage.
- 3.17.2 ITEK Pty Ltd (commercial arm of University of SA) provides up to Clause 7(1)(c) for university projects with commercial potential. It has a comprehensive strategy for managing the commercialisation of IP with staff dedicated to developing commercial opportunities.
- 3.17.3 Flinders Partners Pty Ltd (commercial arm of Flinders University) has staff dedicated to commercial development of IP and provides funding of up to Clause 7(1)(c) per project to support promising commercial ventures.

- 3.18 In signing the Collaboration and Shareholders Agreement, all the participating universities have already committed to maintaining a level of support for their commercialisation capabilities, (that is, their technology transfer offices), that adequately supports the TTCF initiative and the work of the appointed investment managers.
- 3.19 DFEEST is working with Crown Solicitor's Office to develop a funding agreement that contains clear terms and conditions on the State Government's support for the universities participation in TTCF. The proposed conditions and performance benchmarks that will be negotiated with the proponents of TTCF cover the following areas:
- SA universities minimum contribution to TTCF operating costs
  - TTCF investment manager committed to SA, plus access to TTCF investment managers network
  - SA universities fulfilment of obligations with TTCF
  - SA universities expansion of commercialisation / entrepreneurship programs for researchers and students, (coordinated with similar programs run by the former Office of the Venture Capital Board)
  - Establishing formal collaboration mechanisms between the SA universities
  - Meeting target levels of co-investment and grants from external and Federal Government sources
  - Acknowledgement of SA Government support in the TTCF initiative.

### **Consultation**

- 3.20 Consultation has been undertaken with senior officers in the Victorian Government (Department of Industry, Innovation and Regional Development) and the New Zealand Government (NZ Trade and Enterprise).
- 3.21 The New Zealand Government contact has confirmed that their government has signed a funding agreement with the University of Auckland.
- 3.22 The Victorian Government is still working to finalise its funding agreement with TTCF. The Victorian Minister for Innovation has issued a letter to TTCF confirming the Victorian Government's funding support for this initiative, (DFEEST has a copy of the signed letter).

### **Implementation Plan**

- 3.23 Pending Cabinet's approval of the recommendations within this submission, I will forward a letter to the University of Adelaide (the university that has been acting on behalf of the other SA universities) confirming the SA Government's funding support, conditional upon finalising negotiations on the terms and conditions within a funding agreement. A draft of this letter is attached to this submission.

**Communication Strategy**

3.24 DFEEST is advised that the TTCF partners are planning to make a coordinated public announcement of the TTCF initiative on 16 June 2008. The university participants are keen to hold local media events following the 16 June announcement to generate further publicity and to communicate the existence of the TTCF fund. DFEEST will work with the local universities to co-ordinate the State Government's role in a local media announcement about TTCF, subject to approval of this submission..

3.25 The universities have been advised that no SA Government support is to be included in media or promotional material pending confirmation of the SA Government's support via receipt of the attached letter from me.

**Executive Council**

3.26 Executive Council approval is not required.

**4. RECOMMENDATIONS**

It is recommended that Cabinet:

4.1 Note that the State's three universities are seeking to partner in the proposed Trans Tasman Commercialisation Fund which directly addresses SASP target T4.6 to improve the commercialisation performance from research;

4.2 Approve DFEEST finalising negotiations on the terms and conditions of the SA Government's operational support to the State's three universities to participate in the Trans Tasman Commercialisation Fund; and

4.3 Approve DFEEST to provide \$250,000 per year for five years (\$1.25m total) to a consortium of the State's three local universities to support increased commercialisation of R&D within South Australia and thereby approve the sending of the attached draft letter containing the conditions of SA Government support. **In Cabinet**

**PAUL CAICA  
MINISTER FOR SCIENCE AND INFORMATION ECONOMY**

10 JUN 2008

APPROVED  
  
PREMIER

3/06/2008