SUBMISSION TO THE GOVERNMENT'S STARTUP YEAR CONSULTATION

18 November 2022

Universities Australia (UA) welcomes the opportunity to make a submission to the Department of Education (Education) and Department of Industry, Science and Resources' (DISR) Startup Year consultation. We appreciate the engagement with departmental officials on this matter and look forward to working together.

UA is the peak body representing Australia's 39 comprehensive universities. Our member universities are spread across Australia in both regional and metropolitan areas. Together, they educate more than one million students each year, undertake significant research and engage globally to grow Australia and the world's knowledge base while supporting our nation's economic and social wellbeing.

Recommendation

UA recommends that the Government:

- establish a working group which will look at the following to ensure an appropriate program within current constraints:

  - » purpose of the program
  - » the nature of the value proposition to students
  - » funding arrangements including flow of funds, and
  - » implementation issues such as accreditation and legislative requirements.

PURPOSE OF THE PROGRAM

Universities play a key role in educating future entrepreneurs and helping startups to grow. Startups are leading the way creating jobs, commercialising new ideas and finding solutions to emerging challenges across the economy. Universities are pleased to work with the Government on the Startup Year initiative to support the next generation of Australian entrepreneurs in driving economic growth.

Through consultations with members, it is evident that more clarity around the purpose and outcomes of the program is needed. It is unclear to our members if this is a practical educational program aiming to build a pool of skilled entrepreneurs with experience in the startup ecosystem, or if the aim is to create new firms. Understanding and agreeing on the purpose is a crucial starting point, and the decisions at this point will flow onto the design of the program.

Many universities are already offering incubators, accelerators, and university-wide programs, so it will also be important to distinguish the Startup Year program, particularly given the financial implication for students.

It is well known that a person's first startup is likely to fail, with research showing that 97 per cent of startups will either exit or fail to grow.[1] Given the low success rate of startups, UA is of the view that this program should be designed as an educational program, with the objective to provide students and recent graduates with skills that enable them to embark on an entrepreneurial pathway at some stage in their life. A program where a business failure is expected but where the lessons learnt through failing builds a student's experience for the next startup they launch, is a valuable addition to the education landscape.

Given the uncertainty about the intentions behind the program, UA recommends that the Government establish a working group with representation from the university sector, industry (specifically the angel investment sector) and government to workshop models for the Startup Year program to ensure a sustainable program with a clear value proposition for students.

VALUE PROPOSITION TO THE STUDENT

Currently, some universities offer accelerator programs for students that are free for a limited number of participants. In order to appeal to students, and to provide incentives to take on additional HELP debt, the program needs to deliver something beyond the scope of existing accelerator programs. This could be:

1. formal recognition of the completion of the program that the student can add to their resume, or

2. building relationships with mentors and/or industry partners with whom they would not have been exposed to without the program.

Student startups are not typically funded through loans, as it is unknown when the loan will be repaid. Angel investors are the normal source of capital.

Using a loan mechanism may face barriers. Students will be carrying the risk and cost of this program, along with universities. For many students, $11,300 is a significant addition to their existing debt. Given students and universities are financing the program, it is important that the value proposition is clear, and that success is not counted in the number of startups created.

Refocusing the Startup Year initiative to a short educational program with clear outcomes could be one way to address these potential barriers to uptake.

FUNDING OF THE PROGRAM

The program's ambition is to allow universities to scale up existing accelerator programs to include more students and recent graduates, or to develop an accelerator program. However, through UA's engagement with the Government and the consultation paper, it is not clear how universities will fund the scale-up or development of new programs. This has raised a range of concerns:

- the flow of funds to universities and students is unclear
- $11,300[2] would not be sufficient funding to cover the costs of delivering a full year program, and
- the program may only be an option for universities with existing accelerators.

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[1] McLeod, C. Why are Australian Startups failing? https://pursuit.unimelb.edu.au/articles/why-are-australian-start-ups-failing

[2] $11,800 in 2023.

FLOW OF FUNDS

The consultation paper states that "funding is allocated to higher education providers to cover the cost associated with running the program as an accredited course of education". This indicates that the $11,300 will flow on to the institutions. However, the consultation paper mentions the mechanisms in OS-HELP[3] and the Minister for Industry has mentioned a "layer of capital available for people to draw on", indicating that some of the money may flow on to the student.[4] Further clarification on how funding will flow is needed as this is critical to the sector in understanding how the program can be designed and implemented.

The program needs to be sustainable. If a large proportion of the HELP funding is intended to flow to students as capital to support their startup, it is not clear how universities fund the educational part of the program. In order to make this program sustainable, sufficient funding needs to flow to the institution for delivery of educational aspects of the program.

Furthermore, clarity is needed on what is meant by the funding amount provision in the consultation paper that states "up to maximum student contribution". This implies a variable funding scale, and it is not clear how this might be decided.

The sector would welcome clarification on these matters.

DURATION OF THE STARTUP YEAR

If it is assumed universities receive the full HELP amount, it is far less than the funding required to deliver a one-year program. Universities participating in this program would therefore need to draw on other internal funds to deliver a full-year program. It would be preferable to offer a 3–6-month program, which is in line with the duration of many existing accelerator programs.

If the assumption is that some of the funding will flow onto students, it is unlikely that universities will be able to deliver even a 3-month program without drawing on internal reserves, which could be a risk for program sustainability.

UNIVERSITY PARTICPATION IN THIS PROGRAM

Universities are diverse. Some universities have well-established incubator and/or accelerator programs and may be able to use existing expertise and capacity for the Startup Year program. These universities could expand their existing programs, offering additional places to students and recent graduates through the Startup Year program. For other universities, scaling up will be more problematic. Universities without existing accelerator programs may be unable to develop a program that would make them eligible for Startup Year.

It would be ideal if the program was flexible enough to encourage universities to take part or to collaborate with institutions with existing accelerators, whilst supporting those with established accelerators and incubators.

STARTUP YEAR AND INTERNATIONAL STUDENTS

It is noted that in its current form, non-citizens, such as international students, are precluded from the Startup Year program. International students are a significant part of universities' student cohort. Additionally, there is an array of social, cultural and economic benefits from collaborating with

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[3] Funding flows to the higher education provider who will pay the loan amount directly to the student for them to cover their accommodation and travel cost associated with overseas study.

[4] https://www.minister.industry.gov.au/ministers/husic/speeches/address-launch-startup-year

international students on startup ideas. Knowledge exchange and collaboration across cultures may lead to new ideas, which in turn may generate economic benefits.

Startups are not necessarily an individual endeavour. Most incubators and accelerator programs in Australia are for startup companies, not individuals. In situations where a group of students have a good startup idea, but one member of the group is ineligible for SY-HELP, the group may collectively not participate in the program, leading to missed business and educational opportunities.

Assuming that Startup Year will be delivered as an educational program, UA proposes it be available to international students who are willing to pay the cost upfront to gain the training and skills from the program.

MICROCREDENTIALS

UA notes that the consultation paper suggests microcredentials as qualifications the student will be required to complete as part of Startup Year. UA supports, in principle, the use of microcredentials, but notes that they are relatively new to the sector and their impact is yet to be tested across various employer sectors. Furthermore, the Government's Microcredentials Pilot has also not started, which, when reviewed at the various milestone periods, will shed light on the use of university microcredentials (which will include the creation, teaching, review and outcomes of a microcredential).

UA suggests any consideration of including microcredentials in Startup Year should be made after the completion of the Government's Microcredentials Pilot, which will operate from 2023-26, or as part of the Stage 3 Microcredentials Pilot grant.[5] Due to the complex nature of accelerators, incubators and the like, it is important to test the proposed pilot within a context of stability, without bringing in additional programs that are untested.

By not including microcredentials in the pilot, UA understands that students who are not enrolled in a course, such as recent graduates, are prevented from participating in Startup Year. While universities, as self-accrediting providers, can create microcredentials, alignment with other government initiatives will help aid the success of pilot programs and lead to a better integrated system in the long-term, which is the foundation of each of these pilots. Therefore, waiting for the results of the Microcredentials Pilot will coincide with the outcomes and review of the proposed Startup Pilot.

Given the uncertainty around microcredentials, UA suggests focusing the pilot on enrolled students. This will maximise the efficacy of the program without introducing other factors that may obscure the program's effectiveness. Furthermore, keeping the pilot focused on currently enrolled students within a course of study will help to evaluate the scaffolding mechanisms necessary for the success of the pilot. This latter position will help inform further considerations of the pilot, including the use of microcredentials, as well as the context in which this pilot needs to operate effectively and equitably.

CONCLUSION

UA understands and supports the policy intent of adding to Australia's stock of entrepreneurs and giving student entrepreneurs support as they plan and launch their early startup ideas. Boosting knowledge about launching an entrepreneurial career is important and worthwhile.

However, there are still a number of questions about how to translate the idea into a practical program that provides students with value for their additional HELP debt, that provides them with real

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[5] Stage 3 grants made under the Higher Education Support (Other Grants) Amendment (Microcredentials Pilot) Guidelines 2022 enable eligible higher education providers, from July 1 2023, a grant to deliver a microcredential course developed independent of the Microcredential Pilot program, as long as it achieves the objectives of the program

outcomes regardless of whether their startup succeeds or not, and that is sustainable for universities to deliver.

UA strongly recommends that an expert working group be established that could quickly focus on these key issues and provide useful advice to government to set the program up for success. UA would be pleased to propose nominees for this expert group.

Attachment A includes a detailed response to some of the questions outlined in the Consultation Response Document.

ATTACHMENT A: CONSULTATION RESPONSE DOCUMENT

As outlined in UA's submission, defining the purpose of the program is a crucial starting point, and should be agreed upon before designing the program guidelines. UA's response to the Consultation Response Document below assumes that Startup Year is a practical educational program rather than a program aiming to create new firms.

DEFINITION

Does the proposed definition appropriately reflect higher education accelerators?

Based on what the program is aiming to achieve, 'incubator' may be a more appropriate term. Incubators encompasses a broad range of support, spaces and programs, such as accelerator programs, mentoring, management training, coworking and makerspace access are often available.

SELECTION CRITERIA

UA is of the view that the provider's experience and success in delivering similar programs is key to maximising the benefit to the student. However, the selection criteria in its current form will mean that universities without accelerator programs are ineligible for the program. UA suggests broadening the selection criteria to allow for submissions of similar evidence, such as 'demonstrated experience fostering strong industry, research and professional relationships to create innovative change for the wider community'.

Alternatively, different selection criteria for universities without accelerator programs could be developed to enable uptake from those institutions.

ALLOCATION PROCESS

With places being limited to 2,000 per year, what are some key factors to prioritise allocation? For example, links to priority areas, industry and regional connections, market value and commercialisation opportunities, social and community impact, diversity metrics.

The allocation of only 2,000 places across multiple universities means it is harder for institutions to create economies of scale in their new accelerator program (unless they are extending their current offerings). A reasonable cohort is needed within one institution to support the viability of the program.

In the allocation process, consideration should be given to the institution's current offerings and size to ensure a feasible program.

PROGRAM DESIGN TO MEET INTENDED OUTCOMES

Is there a clear value proposition for students and higher education providers?

Based on feedback from UA's members, there is an appetite among students to participate in more entrepreneurial activities. As UA's submission highlights, the value proposition to the students must be at the centre of the program, and it is essential that the students gain something from this program that existing accelerators would not offer them. Feedback from members suggest this may be a formal recognition of completion of the program and access to networks and 'on-demand' business and technical coaching.

What other design elements could be considered to ensure quality, a positive student experience and outcomes?

UA understands that there is funding allocated in the latest federal budget to extend social services to students participating in this program. Extending such funding mechanisms will allow students to participate in the program, especially students from disadvantaged backgrounds.

Our members also highlighted the benefits to promoting and creating awareness of Startup Year early on in students' academic journeys. That way, students can start thinking about ideas and design their elective courses and extracurricular activities towards a more enterprising and entrepreneurial track.

What data is required to measure the success of participating in university-based accelerator programs? How do we measure the success of the Startup Year initiative and the participating students?

Assuming it is an educational program, success should be measured based on number of students completing the program. Students could be surveyed during and after the program to determine whether the program was beneficial to them and was value for money. While it is likely their business will not succeed during the program, they may become an employee at a startup after completing the course, or succeed with a second, third or fourth startup idea. Success along these types of pathways could be attributed to the program.

Due to the nature of startups, there will be a delay until the real success of startups can be measured.

Given the failure rate of startups, UA strongly suggests that success should not be measured by number of startups created as a direct part of the program. However, measuring some aspects of startup activity could be useful in developing the program further, and could be based on:

- number of startups active 1, 3, 5 years after graduating (either established during the program or subsequent to it), and
- quantum of funding (any sort) received by graduate startups 1, 3, 5 years after graduating.

STUDENT ELIGIBILITY REQUIREMENTS

What are the benefits and risks in expanding the program to recent graduates?

As highlighted in UA's submission, UA recommends focusing on current students during the pilot phase. Microcredentials are still under development and would be required as the mechanism for SY-HELP for students not enrolled in a university.

UA recommends potentially including recent graduates at a later stage, and suggests recent graduates are defined as students who have graduated from a university within the past three years.

UA's members have raised concerns over designing a program with clear value propositions for students and recent graduates at different stages in their lives and careers. By limiting participation from recent graduates to three years post-graduation, the participants are more likely to benefit from the program.

STARTUP YEAR PILOT

What are the benefits and risks for undertaking a first-year pilot?

UA is supportive of a first-year pilot, which will:

- allow to for testing of assumptions about what works

- only be offered to current students, and

- allow universities without existing accelerators to develop an accredited program as this may not be possible by July 2023.

The pilot will not focus on the number of startups created but instead on design strengths, flaws and implementations.

UA suggests including microcredentials after or as part of the pilot process. As an example, the pilot could be run in a staged process following the periodic reviews outlined in the Microcredentials Pilot. This would enable trialling of the Startup Pilot within a more grounded space, which would better support introduction of other groups (recent graduates) and outcomes (microcredentials) following necessary milestone reviews. This staged process should match other government initiatives concerning microcredentials to ensure consistency and applicability of data to inform future policy and program directions. In particular, Stage 3 grants made under the Microcredentials Pilot in 2023 may provide opportunity for the development of these microcredentials in a supported way that encourages successful implementation of both pilot programs.