

Chair

The Hon Karen Andrews
Minister for Industry, Science and Technology
Parliament House, Canberra

Dear Minister,

On 19 February 2019 you provided Innovation and Science Australia (ISA) with your Statement of Expectations. As Chair of the Innovation and Science Australia Board, I welcome the opportunity to continue leading ISA's work in supporting the Government as it builds Australia's economy and secures Australia's future. This letter forms ISA's Statement of Intent in response to the ISA Statement of Expectations.

The Statement of Expectations asked ISA to deliver two key reports and in doing so engage proactively with stakeholders, including Australian Government departments and agencies. The following outlines ISA's intent for each of these reports.

Increased Business Investment in Innovation

ISA believes that a key component of ensuring Australia has a strong, resilient economy is one where Australian businesses are internationally competitive through their ability to innovate. Research has shown that there is a strong correlation between competitiveness and innovation. A 2009 OECD and World Bank report stated that, "on the whole, framework conditions characterised by competitive product and labour markets are associated with greater innovation" and that "innovation is the cornerstone of sustained economic growth and prosperity... In a globalised world, in which countries and firms compete fiercely to buy and sell their products and services, competitiveness is a key driver of innovation. We see this today in the critical role innovation plays in the rapid growth of emerging economies, as well as lagging growth when innovation is absent."

Traditionally, research and development (R&D) activities have been used as an estimate of innovation, as innovation can be hard to measure. However, innovation is broader than R&D. Further, current measures of innovation are often aggregated for cross country comparisons, and there is very little robust firm-level data on innovation more broadly. Innovation requires knowledge-based capital, the majority of which is not captured in national accounts. Other forms of innovation, such as training and organisational investment, are intangible investments that are crucial to understanding the scope, type and intensity of innovation at the firm level.

You have asked us to provide advice on this matter, and in our report we intend to:

- Undertake a study of the drivers and barriers to increase business investment in research and development and emerging technologies, and in other activities that support innovation including systems, processes and skills;
- Identify the needs and opportunities of businesses in existing and emerging areas of the economy, recognising the rapid changes resulting from digital disruption and the transformation of traditional industry sectors;
- Include advice on issues that businesses predominantly operating within software environments face and potential options for addressing these issues; and

- ISA's advice will not only consider the role of Government including direct and indirect interventions, but also identify opportunities for greater industry-led initiatives.

OISA will use both quantitative and qualitative analyses for this project. The quantitative work will use available data to highlight the implications of Australia's industry mix in the economy, the importance of macroeconomic conditions and their impacts on the trends in innovation investment in Australia. The quantitative analysis will provide insights by industry sector, firm size, emerging business segments and international comparisons. The qualitative work will utilise human-centered designed methodologies and a collaborative design process with business stakeholders from across Australia to produce actionable insight and effective policy options. The report from this project is expected to be provided to you by the end of October 2019.

Government Investment and System Performance

The intent of the second report is to provide high-level advice to the Australian Government on its mix of innovation, science and research (ISR) investments to determine whether there are overlaps, duplications or gaps, and to ensure that Government investment is effective and fit-for-purpose. This project will include a system-level assessment of the degree of overall alignment of the Australian Government's ISR policies and will examine the effectiveness of the investment.

The project will focus on all forms of Government financial support for innovation, science and research. For those programs where the Government's financial support is primarily directed to stimulating business investment, the project will build on the findings from the first report. This project will differ from previous reviews of the Australian Government's spend on innovation, science and research as it will look at the alignment between individual programs through a number of different analytical lenses (eg policy intent, target audience, innovation stage, duration of investment), rather than each lens in isolation.

This analysis will consist of mapping the Government's current investment mix to inform an assessment of investment effectiveness. The report will be supported by the inclusion of a scorecard of the performance of Australia's innovation, science and research system - based on the recommendations of the Innovation Metrics Review. This project is expected to be provided to you by the end of March 2020.

Other activities

In addition to the activities outlined above, we will continue to perform the functions allocated to us by statute, including those relating to oversight of innovation programs. We will also continue to advocate strongly for Australia's science and innovation system in domestic and international fora.

Yours sincerely,



Andrew Stevens
7 August 2019