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Economic Diversification and Investment Strategy consultation

Building Tasmania, Department of State Growth

Re: Submission on the draft Economic Diversification and Investment Strategy

This submission is provided for publication.

Opening argument

Technology is now Australia's second largest contributor to GDP after mining, generating $248.5 billion and 8.9% of national GDP in 2025, and growing 50% faster than the broader economy. Tech workers generate, on average, $50 more per hour of economic value than workers in other industries. Every state is competing aggressively to attract and retain the companies driving this growth, recognising that where a company chooses to base itself has lasting consequences for jobs, investment and innovation capacity. States with far greater resources than Tasmania are running deliberate, well-funded campaigns to win this competition.

Tasmania has already produced two of the clearest proof points in the country that this competition can be won here, without deliberate government investment in the sector. Procreate and Upguard are globally recognised technology companies built and headquartered in Tasmania. Upguard alone employs more software developers than any other private company in the state. Companies engaged with Tasmania's existing startup infrastructure are growing revenue at roughly 55% annually against a state small business average of 3.4%, and export revenue at roughly 73% annually against a state average of 3.2%. Government support for this activity has unlocked roughly three times as much private co-investment and five and a half times as much in-kind support, again with almost no dedicated capital behind it. If globally ambitious founders can build category-leading companies from Tasmania without meaningful state support, a modest and well-targeted investment could multiply that outcome many times over.

Tasmania holds a genuine competitive advantage that other states cannot easily replicate. Quality of life, affordability and lifestyle consistently rank ahead of the rest of the country, and these factors matter increasingly to the founders and senior technical talent that technology companies depend on to grow. Competing on these terms, rather than trying to outspend larger states, is where Tasmania can win.

Artificial intelligence is making it easier than ever to start a business. A founder today can build, launch and scale a product with a fraction of the team, capital and infrastructure that was required even five years ago. This cuts both ways for Tasmania. It means the state's traditional disadvantages, distance

from major markets and a smaller local talent pool, matter less than they used to. It also means the businesses that succeed can be built from anywhere, which makes the deliberate case for building and staying in Tasmania more important, not less. Investment that gives founders a genuine reason to anchor here, rather than build remotely and relocate the moment they scale, is what converts this shift from a risk into an advantage.

This Economic Diversification and Investment Strategy is explicit that public resources should be used strategically, targeted where they unlock the greatest wider benefit rather than spread thinly across every opportunity. Technology is the clearest test case for that principle. No other sector returns this much growth, productivity and export value for each dollar of investment, and no other sector requires as little capital to do it. Measured against the Strategy's own decision-making principles, it is where Tasmania's investment will go furthest.

Realising this advantage requires four things:

1. an independently governed fund of funds that brings venture capital offices and private capital into the state,
2. a period of subsidised coworking for Tasmanian-headquartered businesses that meet clear eligibility criteria,
3. deliberate use of government procurement to give young Tasmanian firms an early, credible customer,
4. and support for a practical, cross-sector model to build AI capability across government, industry and the community.

Response to consultation focus Priority 2: Accelerating growth and innovation

Support for early-stage and scaling Tasmanian businesses to access capital, markets and customers

Recommendation 1: A fund of funds instrument, capitalised at a minimum of $25 million

Tasmania currently has no resident venture capital presence. Founders who reach the point where institutional capital becomes relevant must build relationships interstate, and the absence of local VC creates a chicken-and-egg problem: investors are reluctant to visit without a critical mass of investment-ready companies, and companies struggle to reach investment readiness without access to capital.

We recommend a fund of funds instrument, capitalised at a minimum of $25 million, that invests only into funds with an office and a founding partner based in Tasmania, and that requires each fund to invest a defined minimum share of capital into Tasmanian-headquartered businesses. This follows the model already proven in South Australia and Western Australia. Western Australia's WA Venture Capital initiative committed $45 million on an explicit fund-of-funds basis, matched and surpassed by private co-investment, securing $150 million in new venture capital over six years through seven partner firms. South Australia's Research and Innovation Fund is a further example of a state building its own capital instruments for early-stage ventures.

This aligns directly with the Tasmanian Liberal Economic Statement, which commits the Tasmanian Development Board to leverage its equity and lending powers to co-invest in and de-risk new industry entrants. We recommend this instrument be structured to grow over time, with a clear pathway

showing how the initial $25 million base can compound through follow-on private investment, consistent with the outcomes achieved in comparable jurisdictions.

Consistent with the evidence from comparable ecosystems internationally, we recommend the fund be run by an independently governed body, supported by government but not governed by it, with salaries and personnel costs funded through a separate stream from the investment capital itself. Iceland's KLAK model and Western Australia's StartupWA both demonstrate that independence from direct government operation is what gives these structures credibility with founders and investors alike, while government funding remains the base layer that makes the model possible.

Recommendation 2: Subsidised coworking for Tasmanian-headquartered businesses

Consistent with this Strategy's goal of helping businesses "establish, expand or relocate in Tasmania," we recommend government support for a period of subsidised coworking for Tasmanian-headquartered businesses that meet clear eligibility criteria. Hobart's office vacancy rate sits at approximately 1.7%, making subsidised access to workspace materially important for early-stage companies at a time when market supply is constrained. Tasmania already has innovation hub infrastructure with the physical capacity to deliver this. We recommend the delivery mechanism be determined through an open market tender, consistent with this Strategy's emphasis on transparent, evidence-based decisions.

South Australia's Landing Pad offers a useful comparator: incoming firms receive up to $80,000 over twelve months toward accommodation and professional services, funded through a dedicated state growth fund. A Tasmanian equivalent, focused on coworking access rather than a cash grant, would give eligible businesses a low-risk runway to establish, hire and commit locally.

Recommendation 3: Government procurement as a first-customer lever

Capital and space address two of the three things an early-stage venture needs. The third, and in our experience the most underused, is a first validated customer. The government is Tasmania's largest single buyer. A deliberate approach to using procurement, including structured pathways for young Tasmanian firms to secure early government contracts, would do more for many ventures than a grant, and requires no additional budget beyond policy intent and operational discipline to implement.

Response to consultation focus: Use of the Tasmanian Development Board's investment functions

The fund of funds instrument set out in Recommendation 1 is a direct, practical application of the Tasmanian Development Board's investment mandate as already committed to in the Economic Statement. Extending this mandate explicitly to early-stage and growth-stage capital, structured as a fund of funds rather than direct government investment, allows the Board to deploy its equity and lending powers in a way that is proven, low-risk relative to direct investment, and designed from the outset to attract and be matched by private capital rather than substitute for it.

Response to consultation focus Priority 5: Growing our capability

Preparing Tasmanian workers, employers and communities to benefit from AI and automation

Recommendation 4: Support a practical, cross-sector AI capability-building model

As AI lowers the barrier to building a business, it simultaneously raises the value of practical, shared capability in using these tools well. Access to AI tools is no longer the differentiator; the ability to apply

them effectively across an organisation is. This matters as much for government and established industry as it does for founders.

The Australian Capital Territory Government has backed a cross-sector model for this, the AI CoLab, built on a collective-impact governance approach that brings government agencies, private enterprise, academia and civil society together in a neutral, practitioner-led space to build practical AI capability outside the constraints of normal agency IT environments. We recommend the government consider supporting an equivalent model in Tasmania. Hobart is a strong candidate location: Public Administration and Safety accounts for 16.0% of Hobart City employment, more than double the Tasmanian state-wide average of 7.3%, giving the city a genuine concentration of public sector capacity that a model of this kind is designed to serve.

Closing

We would welcome the opportunity to discuss any of these recommendations in more detail, and to share the underlying data and comparator analysis behind them.

Yours sincerely,

Brian Collins
Chief Executive Officer
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Sources

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