



## COVERSHEET

<b>Minister</b>	Hon Dr Megan Woods	<b>Portfolio</b>	Research, Science and Innovation
<b>Title of Cabinet paper</b>	<b>Research and Development Loan Scheme: Implementation Matters</b>	<b>Date to be published</b>	21 September 2020

### List of documents that have been proactively released

<b>Date</b>	<b>Title</b>	<b>Author</b>
5 August 2020	<i>Research and Development Loan Scheme: Implementation Matters</i>	<i>Office of the Minister of Research, Science and Innovation</i>
5 August 2020	<i>Cabinet minute DEV-20-MIN-0161</i>	<i>Cabinet Office</i>
17 July 2020	<i>R&amp;D loan scheme implementation and draft Cabinet paper</i>	<i>MBIE</i>

### Information redacted

### YES / NO

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reasons of:

- Privacy of natural persons
- Free and frank advice



## BRIEFING

### R&D loan scheme implementation and draft Cabinet Paper

<b>Date:</b>	17 July 2020	<b>Priority:</b>	Urgent
<b>Security classification:</b>	In Confidence	<b>Tracking number:</b>	2021-0123

Action sought		
	Action sought	Deadline
Hon Dr Megan Woods <b>Minister of Research, Science and Innovation</b>	<b>Agree</b> to establish two new categories in the Research, Science and Innovation: Callaghan Innovation – Operations Multi Category Appropriation for the R&D loan scheme  <b>Agree</b> to seek agreement from the Minister of Finance to the above  <b>Agree</b> to consult your colleagues on the draft Cabinet paper once you are happy with it	20 July 2020

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Kirsty Hutchison	Manager, Innovation Policy	04 901 4131	Privacy of natural persons	✓
Mary Mulholland	Senior Policy Advisor, Innovation Policy	Privacy of natural persons		

The following departments/agencies have been consulted
Callaghan Innovation, the Treasury, and the Department of Prime Minister and Cabinet have been consulted on the draft Cabinet Paper.

**Minister's office to complete:**

- |   |  |
|---|--|
| <input type="checkbox"/> Approved             | <input type="checkbox"/> Declined            |
| <input type="checkbox"/> Noted                | <input type="checkbox"/> Needs change        |
| <input type="checkbox"/> Seen                 | <input type="checkbox"/> Overtaken by Events |
| <input type="checkbox"/> See Minister's Notes | <input type="checkbox"/> Withdrawn           |

**Comments**



## BRIEFING

### R&D loan scheme implementation and draft Cabinet Paper

<b>Date:</b>	17 July 2020	<b>Priority:</b>	Urgent
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### Purpose

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To provide you with a draft Cabinet Paper seeking decisions on changes needed to the appropriations for the R&D loan scheme in line with recently received accounting advice, and on reallocating funding to meet the operational costs of the scheme. Additionally, we have provided at Annex Three, a proposed response to Mr Pete Hodgson's letter of 3 July 2020 regarding the implementation of the R&D Loan Scheme (the Scheme).

### Recommended action

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The Ministry of Business, Innovation and Employment recommends that you:

- a **Agree** to establish two new categories – *R&D short term loan scheme fair value write-down* and *R&D short term loan scheme subsequent impairment of loans* in the *Research, Science and Innovation: Callaghan Innovation – Operations* Multi Category Appropriation for the R&D loan scheme
- Agree/Disagree*
- b **Agree** to send the attached letter to the Minister of Finance seeking his agreement to establish two new categories in the *Research, Science and Innovation: Callaghan Innovation – Operations* Multi Category Appropriation for the R&D loan scheme
- Agree/Disagree*
- c **Agree** to take the final Cabinet Paper on R&D loan scheme implementation matters either:
- i. directly to Cabinet for the meeting on 27 July 2020 (**preferred to minimise implementation delays**)
- Agree/Disagree*
- ii. to the Cabinet Economic Development Committee meeting on 29 July 2020, and then to Cabinet on 3 August 2020
- Agree/Disagree*
- d **Agree** to lodge the final Cabinet Paper in time for it to be considered at the relevant meeting indicated at recommendation c above.
- Agree/Disagree*
- e **Note** that we have provided at Annex 3 a proposed draft response to Pete Hodgson's, Chair of the Callaghan Innovation Board, letter to you dated 3 June 2020.
- Noted*



Kirsty Hutchison  
**Manager, Innovation Policy**  
Labour, Science and Enterprise, MBIE

17 /07 / 2020

Hon Megan Woods  
**Minister for Research, Science and  
Innovation**

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## **Draft Cabinet Paper on R&D loan scheme implementation matters**

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1. As advised, we have been working with Callaghan Innovation to ensure that the accounting treatment for the R&D Loan Scheme accurately reflects the substance of the policy as agreed by Cabinet [RSI Weekly Report 10 July 2020 refers].
2. Callaghan Innovation's advisors, MBIE finance and the Treasury agree that the appropriate accounting treatment, consistent with the policy intent for the R&D loan scheme, is to treat Callaghan Innovation as an agent.<sup>1</sup> This means that, for financial reporting purposes;
  - Callaghan Innovation record only revenue and expenses related to their loan administration activity, and
  - MBIE, acting on behalf of the Crown, records the actual lending transactions associated with the loan scheme within its non-departmental accounts.
3. In order for the loan to sit in MBIE's non-departmental accounts the following changes are required:
  - a new appropriation for the initial fair value write-down; and
  - a new appropriation for any subsequent impairment of the loans.
  - amendment the scope statement of the existing capital appropriation
4. Cabinet's agreement is required to make these changes.
5. Ahead of seeking Cabinet agreement for the new appropriations listed above, it is necessary for you and the Minister of Finance to approve establishing two new categories in the *Research, Science and Innovation: Callaghan Innovation – Operations* Multi-Category Appropriation. We are seeking your agreement to this through this briefing, and have provided a draft letter (at Annex 2) to seek agreement from the Minister of Finance.

## **Operating funding for administering the R&D loan scheme**

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6. Callaghan Innovation have now provided an updated estimate of the costs to implement the scheme over the 10-year life of the loan scheme of \$4.9 million (\$3.9 million in addition to the funding already provided). This includes the costs of expert advice (financial and legal) on the set up of the scheme, personnel costs for process design and application assessment, and operating a compliance and audit function. We have reviewed the estimate and consider it reasonable at the current time, but expect better information will be available as implementation proceeds.
7. Callaghan Innovation were allocated \$6.3 million for 2020/21 from the COVID Response and Recovery Fund (CRRF) to meet cost pressures resulting from an anticipated COVID-related drop in commercial revenue. Updated forecasts from Callaghan Innovation indicate that the full funding allocated for 2020/21 will not be required for this purpose as commercial revenue has not been as badly affected as anticipated.
8. We propose to use the Cabinet Paper to seek agreement to reallocate \$1 million Callaghan Innovation's CRRF cost pressure funding for 2020/21 to meet the costs of administering the R&D loan scheme.
9. Seeking agreement from Cabinet for this rather than a decision by joint Ministers is advised because CRRF underspends are required to be returned to the Crown. In this case we

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<sup>1</sup> While officials are comfortable that the accounting proposals represents the substance of the scheme, the agent/principal accounting treatment is still subject to auditor confirmation as treating Callaghan Innovation as an agent for financial reporting purposes is a judgment made under accounting standards.

consider that the reallocation is appropriate because it is transferring funds from one CRRF initiative to another. We recommend seeking delegated authority for you and the Minister of Finance to make further such transfers in the future if needed.

10. We will continue to work with Callaghan Innovation to firm up the cost estimates and report back to you on options for meeting the residual costs including from existing resources.

## **Next steps**

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11. If you agree to the proposal to establish two new categories in *the Research, Science and Innovation: Callaghan Innovation – Operations* Multi Category Appropriation for the R&D loan scheme, we suggest you also seek agreement to this proposal from the Minister of Finance.
12. If you are comfortable with the draft Cabinet paper, you may wish to start consulting your Cabinet colleagues on the proposals.
13. We suggest lodging the paper for the next available Cabinet meeting date of Monday 27 July. This would require the paper to be lodged by 10am on Thursday 23 July.

## **Annexes**

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Annex One: Draft Cabinet Paper R&D loan scheme implementation matters

Annex Two: Draft letter to the Minister of Finance seeking approval to establish two new categories in a Multi-Category Appropriation

Annex Three: Draft letter responding to Pete Hodgson, Chair of the Callaghan Innovation Board, on the R&D loan scheme

**Annex One: Draft Cabinet Paper – R&D Loan Scheme implementation matters**

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[Sent as an attachment]

## **Annex Two: Draft letter to the Minister of Finance seeking approval to establish two new categories in a Multi-Category Appropriation**

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Hon Grant Robertson  
Minister of Finance  
Parliament Buildings  
Wellington

Dear Minister Robertson

I am writing to seek your approval to establish the follow new categories in the multi category appropriation “Research, Science and Innovation: Callaghan Innovation – Operations” MCA:

- R&D short term loan scheme initial fair value write-down and
- R&D short term loan scheme subsequent impairment of loans

I attach a draft Cabinet Paper, which my officials have prepared, in consultation with the Treasury, setting out the reasons for requesting these changes to the appropriations.

Section 7B of the Public Finance Act 1989 requires the approval of the Minister of Finance to establish a multi-category appropriation.

Specifically I seek your agreement to the following:

**Approve** the establishment of a new category *R&D short term loan scheme initial fair value write-down*, in the multi category appropriation “Research, Science and Innovation: Callaghan Innovation – Operations” MCA:

<b>Title</b>	<b>Type</b>	<b>Scope</b>
R&D short term loan scheme fair value write down	Non–departmental Other Expense	This category is limited to the initial fair value write-down of loans granted through the short-term research and development (R&D) loan scheme.

**Agree/Disagree**

and

**Approve** the establishment of a new category *R&D short term loan subsequent impairment of loans*, in the multi category appropriation “Research, Science and Innovation: Callaghan Innovation – Operations” MCA:

<b>Title</b>	<b>Type</b>	<b>Scope</b>
R&D short term loan scheme subsequent impairment of loans	Non–departmental Other Expense	This category is limited to the subsequent impairment of loans granted through the short-term research and development (R&D) loan scheme, including write-downs and write-offs.

**Agree/Disagree**



Yours sincerely,

Hon Dr Megan Woods

**Minister of Research, Science and Innovation**

## **Annex Three: Draft letter responding to Pete Hodgson, Chair of the Callaghan Innovation Board, on the R&D loan scheme**

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Free and frank opinions



Free and frank opinions



Yours sincerely

Hon Dr Megan Woods

**Minister of Research, Science and Innovation**