



COVERSHEET

Minister	Hon Dr Megan Woods	Portfolio	Research, Science and Innovation
Title of Cabinet paper	Transfer of Funds to Support Business Research and Development	Date to be published	21 July 2022

List of documents that have been proactively released

Date	Title	Author
March 2022	Transfer of Funds to Support Business Research and Development	Office of the Minister of Research, Science and Innovation
30 March 2022	Transfer of Funds to Support Business Research and Development DEV-22-MIN-0061 Minute	Cabinet Office

Information redacted

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.

In Confidence

Office of the Minister of Research, Science and Innovation

Cabinet Economic Development Committee

Transfer of funds to support business research and development

Proposal

1. This paper seeks Cabinet approval to allocate \$17 million to the *Targeted Business Research and Development* multi-year appropriation for 2021/22.

Relation to government priorities

2. Investing in research and development (R&D) is a key contributor towards the Government's objective to accelerate New Zealand's economic recovery from the impact of COVID-19.

Background

3. When we introduced the R&D Tax Incentive in 2018, we closed the R&D Growth Grants programme to new applications but allowed existing Growth Grant recipients to remain on the Growth Grant programme until 31 March 2021. When the Growth Grant programme finally closed on 31 March 2021, those recipients with active contracts had a period in which to claim their final payment.
4. In the 2020/21 year-end accruals \$127.501 million was reported against the *Research and Development Growth Grants* multi-year appropriation. However, some Growth Grant recipients did not claim their final payment within this accounting period, and actual payments were \$17 million less than the amount that had been accrued. Under the Public Finance Act, this \$17 million is considered to have been spent for the purposes of the appropriation and will be returned to the centre without being used to make actual payments to businesses.
5. Meanwhile, due to a combination of factors, demand for Project and Student Grants, which sit alongside the R&D Tax Incentive, has greatly exceeded the *Targeted Business Research and Development Funding* multi-year appropriation, which funds those two mechanisms. For the past two years, Callaghan Innovation has been projecting a potential deficit in the *Targeted Business Research and Development Funding* multi-year appropriation when it expires on 30 June 2022.
6. When Callaghan Innovation originally brought the potential deficit in the *Targeted Business Research and Development Funding* multi-year appropriation to my attention in May 2020, I agreed to using the unspent funds in the *Research and Development Growth Grants* multi-year appropriation to cover the potential deficit. Callaghan Innovation has since proceeded on the basis that the entirety of those funds not needed to fund Growth Grants would be available for Project Grants and/or Student Grants.
7. The Minister of Finance and I have previously approved fiscally neutral adjustments from the *Research and Development Growth Grants* appropriation to the *Targeted Business Research and Development Funding* appropriation at the October 2020, March 2021, and October 2021 baseline updates. \$19 million was transferred at the October 2021 baseline

update, but the other \$17 million of funds was not available and could not be transferred as it had already been recorded against the appropriation.

Request

8. I am seeking approval to increase the *Targeted Business Research and Development Funding* multi-year appropriation for spending on Project and Student Grants by an amount equivalent to the \$17 million over accrual in the *Research and Development Growth Grant* multi-year appropriation. This will allow Callaghan Innovation to continue to issue R&D grants between now and when the appropriation expires in June 2022, and thereby continue to support business with their R&D programmes.

9. This will correct an accounting technicality that has reduced the funding available to support R&D-performing businesses. An over accrual situation should not occur in future as the Growth Grants programme is now closed, final payments have been made, and no more payments will be made from the *Research and Development Growth Grant* multi-year appropriation.

10. Meanwhile, in a separate paper that I am bringing to Cabinet, I am seeking approval to refresh the suite of innovation funding mechanisms that sit alongside the R&D Tax Incentive. This includes changes to Project Grants that will reduce the possibility of demand exceeding available funds in future.

Financial Implications

10. The request will result in an increase of \$17 million to the *Targeted Business Research and Development Funding* appropriation in 2021/22. However, this amount is equivalent to the \$17 million over accrual in the *Research and Development Growth Grants* multi-year appropriation in 2020/21 which was not used for actual payments of funds.

Other Implications

11. This paper has no legislative, regulatory impact, climate, or human rights implications, and does not result in a negative impact on any population groups.

Consultation

12. The following ministries and agencies have been consulted: the Treasury and Callaghan Innovation.

Communications

13. I do not intend to make any public announcements about this proposal.

Proactive Release

14. I propose that this paper is proactively released within 30 days of Cabinet decisions having been made, with any redactions in line with the provisions of the Official Information Act 1982.

Recommendations

1. **note** that in the 2020/21 year-end accruals \$127.501 million was reported against the *Research and Development Growth Grants* multi-year appropriation;

2. **note** that Callaghan Innovation over accrued \$17 million in the *Research and Development Growth Grants* multi-year appropriation in 2020/21, that is, actual payments were \$17 million less than the amount that had been accrued;
3. **note** as a result of the over-accrual, \$17 million from the *Research and Development Growth Grants* multi-year appropriation was not used to make actual payments to R&D-performing businesses in 2020/21 and will be returned to the centre;
3. **note** that, due to excess demand for Project and Student Grants, Callaghan Innovation has projected a potential deficit in the *Targeted Business Research and Development Funding* multi-year appropriation, and the Minister of Finance and I had previously agreed to reprioritise unspent funds in the *Research and Development Growth Grants* multi-year appropriation to cover this potential deficit;
4. **agree** to allocate \$17 million to the *Targeted Business Research and Development Funding* multi-year appropriation;
5. **approve** the following change to give effect to the policy decision in recommendation 4, with a corresponding impact on the operating balance;

Vote Business, Science and Innovation Minister of Research, Science and Innovation	\$m – increase/(decrease)				
	2021/22	2022/23	2023/24	2024/25	2025/26 & Outyears
Non-departmental Output Expenses: Research, Science and Innovation: Targeted Business Research and Development Funding MYA	17.000	-	-	-	-

6. **agree** that the proposed changes to the appropriations for 2021/22 above be included in the 2021/22 Supplementary Estimates and that, in the interim, the increases be met from Imprest Supply;
7. **note** that the impact of the expenses incurred under recommendation 5 above is too large to be charged against the between Budget contingency established as part of Budget 2021;
8. **agree** that the expenses incurred under recommendation 5 above be charged as a pre-commitment against the Budget 2022 operating allowance;
9. **authorise** the Minister of Research, Science and Innovation and the Minister of Finance to jointly make decisions to transfer any remaining funds in the *Targeted Business Research and Development Funding* multi-year appropriation, which expires at the end of 2021/22, to the new annual appropriation that will fund similar grants from 2022/23.

Authorised for lodgement

Hon Dr Megan Woods

Minister of Research, Science and Innovation