



COVERSHEET

Minister	Hon Dr Ayesha Verrall	Portfolio	Research, Science and Innovation
Title of briefing	Targeted Business Research and Development Funding Appropriations: Transfer of Funds	Date to be published	3 February 2023

List of documents that have been proactively released

Date	Title	Author
23 November 2022	Targeted Business Research and Development Funding Appropriations: Transfer of Funds	Office of the Minister of Research, Science and Innovation
23 November 2022	Targeted Business Research and Development Funding Appropriations: Transfer of Funds DEV-22-MIN-0283 Minute	Cabinet Office

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.

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Office of the Minister of Research, Science and Innovation

Cabinet Economic Development Committee

Transfer of funds within the Targeted Business Research and Development Funding appropriations

Proposal

- 1 This paper seeks Cabinet approval to allocate \$38.135 million to the Targeted Business Research and Development Funding (TBRDF) Multi-Category Appropriation (MCA) in 2022/23 to fund expenditure relating to R&D Project Grants and R&D Students Grants contracts that were entered into prior to 1 July 2022. Cabinet previously provided for the expenditure under the TBRDF Multi-Year Appropriation (MYA). However, as the MYA expired on 30 June 2022, the funding can no longer be accessed. The amount to be transferred will be fully offset by the underspend in the TBRDF MYA on 30 June 2022. Hence this allocation is fiscally neutral and there will be no impact on net debt.

Relation to government priorities

- 2 Investing in research and development (R&D) is a key contributor towards the Government's objective to grow New Zealand's economy

Background

- 3 Prior to 30 June 2022, Callaghan Innovation entered into contracts with businesses under the R&D Project Grant and R&D Student Grant programmes to support R&D activity. Callaghan Innovation holds the contracts with R&D-performing businesses but the Ministry of Business, Innovation and Employment (MBIE) is responsible for payments and management of appropriations. Callaghan Innovation entered into the contracts in reliance on funding from the TBRDF MYA, which ran from 1 July 2017 to 30 June 2022.
- 4 For the 2021/22 year Callaghan Innovation planned to accrue approximately \$56 million of expenditure against the TBRDF MYA relating to the amount committed in the grant contracts made under the R&D Project Grant and R&D Student programmes. However, Callaghan Innovation's auditors have since advised that it is not able to accrue \$38.135 million of that expenditure because the business R&D activity triggering the obligation to pay had not occurred by 30 June 2022. This means that there is \$38.135 million in the TBRDF MYA that was not spent in the 2021/22 financial year.
- 5 As Callaghan Innovation still has the obligation to pay out on the grants when the R&D activity has occurred, it will need to recognise this expenditure in 2022/23 or future years (when it is claimed by grant recipients). However, as the MYA closed on 30 June 2022, MBIE is not able to charge expenditure relating to the payments by Callaghan Innovation to grant recipients against that MYA.
- 6 The funds relating to the targeted business R&D programmes from 2022/23 onwards are allocated to a newly created TBRDF MCA with \$37.5 million in funding. At our meeting on 4 April 2022 [CAB-22-MIN-0105.01 refers], we agreed that the funding

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in the TBRDF MCA will be used to fund grants issued under the New to R&D Grant programme (\$22.5 million) and the R&D Student Grant programme (\$15 million) in 2022/23. I have instructed Callaghan Innovation to close the R&D Project Grant programme on 30 June 2022 and replace it with the New to R&D Grant programme.

- 7 To meet its obligations under R&D Project Grant and the R&D Student Grant contracted for prior to 1 July 2022, since 1 July 2022 Callaghan Innovation has been charging this expenditure against the TBRDF MCA. However, this appropriation does not contain sufficient funding to both:
 - 7.1 cover commitments entered into under the R&D Project Grant and the R&D Student Grant programmes prior to 1 July 2022; and
 - 7.2 cover new commitments made from 1 July 2022 under the R&D Student Grant programme and the New to R&D Grant programme.
- 8 Without certainty that it will have sufficient funding available, Callaghan Innovation cannot open the New to R&D Grant programme to new applicants.

Request

- 9 I am seeking approval to allocate \$38.135 million in additional funding to the TBRDF MCA in 2022/23. This amount is equivalent to the amount that was remaining in the TBRDF MYA when it closed on 30 June 2022.
- 10 This will allow Callaghan Innovation to continue to meet its commitments made under the R&D Project Grant and R&D Student Grant programme prior to 1 July 2022 without using funds that were intended to fund commitments incurred under the New to R&D Grant and R&D Student Grant programmes from that date. This will also allow provide Callaghan Innovation with the certainty of funding necessary for it to open the New to R&D Grant programme to applications.
- 11 I am proposing that the funding be allocated to a new “R&D Project Grant” category in the TBRDF MCA for 2022/23. The Minister of Finance has agreed to create a new category for this purpose.
- 12 Some of this funding will need to be reallocated to the New to R&D Grant category of the TBRDF MCA to reimburse for R&D Project Grant expenditure that has been charged against the New to R&D Grant category of the appropriation since 1 July 2022. A further amount will need to be reallocated to R&D Student Grant category to cover commitments incurred under that programme incurred prior to 30 June 2022. As appropriation Minister, I will approve the reallocation of the funding to these other categories once the correct distribution between the different categories has been determined.

Financial Implications

- 13 The request will result in an increase of \$38.135 million to the TBRDF MCA in 2022/23. This amount will be fully offset by the underspend in the TBRDF MYA on 30 June 2022. Hence there will be no impact on net debt.

Other Implications

- 14 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

- 15 The Treasury and Callaghan Innovation have been consulted in the preparation of this paper.

Communications

- 16 As this is merely a technical correction of the accounts, I do not intend to make any public announcements about this proposal.

Proactive Release

- 17 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

The Minister of Science, Research and Innovation recommends that the Committee:

- 1 **note** that for 2021/22 Callaghan Innovation expected to accrue \$56 million of expenditure against the Targeted Business Research and Development Funding (TBRDF) MYA relating to commitments it had incurred under the Project Grant and R&D Student Grant programmes;
- 2 **note** that, following engagement with its auditors, Callaghan Innovation has determined that \$38.135 million of the expenditure associated with the R&D Project Grant and R&D Student Grant programmes cannot be recognised in 2021/22 and instead must be recognised in 2022/23 and future years;
- 3 **note** that as the TBRDF MYA closed on 30 June 2022, the Ministry of Business, Innovation and Employment is not able to charge expenditure relating to the payments by Callaghan Innovation to grant recipients in 2022/23 and future years against that MYA;
- 4 **note** that without an increase in appropriations for 2022/23, the Ministry of Business, Innovation and Employment will not be able to cover both the commitments entered into by Callaghan Innovation under the R&D Project Grant and the R&D Student Grant programmes prior to 1 July 2022 and new commitments under the New to R&D Grant and the R&D Student Grant programmes from 1 July 2022;
- 5 **agree** to increase appropriations in Vote Business, Science and Innovation in 2022/23 to enable Callaghan Innovation to enable the full delivery of the Project Grant, R&D Student Grant and New to R&D Grant programmes;
- 6 **note** that the Minister of Finance and the Minister of Research, Science and Innovation have agreed to add the following category to the “Targeted Business Research and Development Funding” multi-category appropriation:

Title	Type	Scope
R&D Project Grant	Non-Departmental Output Expenses	This category is limited to funding for private businesses to undertake research and development activity under the R&D Project Grant programme.

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- 7 **approve** the following changes to appropriations to enable the full delivery of the R&D Project Grant, R&D Student Grant, and New to R&D Grant programmes, with a corresponding impact on the operating balance and no impact on net debt:

	\$m – increase/(decrease)				
	2022/23	2023/24	2024/25	2025/26	2026/27 & Outyears
Vote Business, Science and Innovation Minister of Research, Science and Innovation Multi-Category Expenses and Capital Expenditure: Targeted Business Research and Development Funding MCA Non-Departmental Output Expenses: R&D Project Grant	38.135	-	-	-	-
Total Operating	38.135	-	-	-	-

- 8 **agree** that the proposed changes to the TBRDF MCA for 2022/23 above be included in the 2023 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;
- 9 **note** that the fiscal implications from the decision in recommendation 7 will be offset by an improvement in the operating balance in the 2021/22 financial year so this expenditure will not be managed against Budget allowances;
- 10 **note** that some reallocation between the categories will be required to reimburse for R&D Project Grant expenditure that has been charged against the New to R&D Grant category since 1 July 2022 and to cover commitments incurred under the R&D Student Grant programme incurred prior to 30 June 2022;
- 11 **note** that, as appropriation Minister, the Minister of Research, Science and Innovation will approve the reallocation of the funding between categories once the correct distribution has been determined.

Authorised for lodgement

Hon Dr Ayesha Verrall

Minister of Research, Science and Innovation