



BRIEFING

Budget 2024 Initial Baseline Exercise: Science, Innovation and Technology portfolio

Date:	24 January 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-1664

Action sought		
	Action sought	Deadline
Hon Judith Collins KC Minister of Science, Innovation and Technology	Either <ul style="list-style-type: none"> agree to the proposed indicative Non-Departmental savings package. OR <ul style="list-style-type: none"> Seek additional information about other potential savings options and funding of priority initiatives with time-limited funding. 	26 January 2024

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Iain Cossar	General Manager, Science, Innovation and International	Privacy of natural persons		✓
Privacy of natural persons	Policy Director, Science, Innovation and International	Privacy of natural persons		

The following departments/agencies have been consulted

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 Withdrawn |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

Budget 2024 Initial Baseline Exercise: Science, Innovation and Technology portfolio

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Purpose

To seek your agreement to savings from the Science, Innovation and Technology portfolio, that could contribute to MBIE's 7.5% savings target for Budget 2024.

Executive summary

MBIE is required to submit information for the Budget 24 process. We have developed a savings package for the Non-Departmental appropriations that aims to reduce the impact on the sector in years 1 and 2, and enable reprioritisation towards initiatives that align to your priorities in years 3 and 4.

The Non-Departmental savings are significant and will negatively impact research organisations already struggling to manage pressures associated with the current fiscal environment and we can expect to see less science, innovation and technology activity in the coming years.

We have included some information about potential savings from in-year payments for the Research and Development Tax Incentive and Callaghan Innovation's business R&D grants, and the potential to fund current, high priority investments whose time-limited funding is coming to an end.

We ask that you:

- **either** agree to the proposed package of Non-Departmental savings as proposed (subject to adjustments based on discussions with Treasury to confirm figures)
- **or** seek additional advice around the other areas for savings before confirming your preferences.

Recommended action

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

a **Note** that MBIE is required to meet a saving target of \$233.9 million per year from 2024/25 or 7.5% across its eligible baseline for Budget 2024.

Noted

b **Note** that for the Science, Innovation and Technology portfolio, savings of 7.5% equals \$355 million over the four-year forecast period.

Noted

c **Note** that MBIE is aiming to reduce its policy capability by 10% across the Science, Technology and Innovation, and all other portfolios by:

- a. confirming existing vacancies, and

b. re-deploying some capability to other areas.

Noted

d **Note** the proposed package of Non-Departmental savings aims to balance least disruption to the sector in the short term, and enable funding to be re-prioritised to support your strategic priorities in the medium term.

Noted

EITHER

e **Agree** to the indicative Non-Departmental savings package as presented in Annex 1.

Agree / ~~Disagree~~

OR

f **Agree** to seek further advice about:

- Potential savings generated by the suspension of the in-year payment scheme for the R&D Tax Incentive.
- Potential savings from Callaghan Innovation Business R&D grants.
- Funding priority initiatives with time-limited funding.

~~Agree~~ / Disagree

g **Note** we will provide a briefing with a final Non-Departmental savings package once you figures have been confirmed with Treasury and you have made decisions on the options outlined in recommendation f.

Noted



Iain Cossar
General Manager, Science, Innovation and International
Labour, Science and Enterprise, MBIE

24 / 01 / 2024



Hon Judith Collins KC
Minister of Science, Innovation and Technology

28 / 01 / 24

Background

1. The Minister of Finance wrote to the Associate Minister of Finance, Hon David Seymour on 22 December 2023, providing details on expectations for Budget 2024, including the Initial Baseline Exercise. This letter confirmed that Minister Seymour is MBIE's lead Minister for the initial baseline exercise, and that options to meet the Ministry's savings target of \$233.9 million per year from 2024/25, or 7.5% of the eligible baseline, are required.
2. Minister Seymour has been asked to write to the Minister of Finance by Friday 16 February 2024 outlining the savings.
3. Our earlier briefing (MBIE 2324-0953) provided advice on the strategic choices involved in assessing different saving options within the Science, Innovation and Technology (SIT) portfolio.
4. On 15 January 2024, we discussed with you a preferred savings scenario that would achieve a 7.5% saving from the SIT portfolio and be broadly consistent with your high-level priorities.
5. Work is underway within MBIE to find savings in its Departmental expenditure. We have been asked to find a 10% saving in policy capability. While the proposals in this paper largely relate to the 7.5% savings target for Non-Departmental appropriations, we have also included our approach for finding Departmental savings for your information.

Proposed indicative savings package

A phased approach, balancing savings in the short-term with supporting your strategic direction in the medium-term

6. A target of 7.5% of the SIT, Non-Departmental baseline equates to \$93 million in 2024/25, reducing to \$85 million in 2027/28, and equalling a total of \$355 million over the four-year forecast period.
7. Our recommended indicative package of Non-Departmental savings for Budget 2024 is provided in the table below and in Annex 1. The proposed savings approach involves:
 - a. Year 1 and 2: using most of the uncommitted National Science Challenge appropriation to fund the majority of savings and to take a relatively small slice to the contestable funds (Marsden, Endeavour and Health Research Funds).
 - b. Year 3 and 4: reducing the portion of savings from the former National Science Challenge appropriation and increasing savings from the Strategic Science Investment Fund and large contestable funds.
8. This phased approach reduces the impact on the sector in years 1 and 2 and enables funding to be re-prioritised in years 3 and 4 to support new initiatives to support your priorities.

	2024/25 \$ million	2025/26 \$ million	2026/27 \$ million	2027/28 \$ million
Qualifying baseline¹	1,236	1,194	1,160	1,136
Savings target (7.5% baseline)	93.0	90.0	87.0	85.0
Savings sources	Confidential advice to Government			

* "Other" savings is comprised of small, one-off underspends from various programmes as discussed in the section "Other short-term savings options".
 ** Health Research, Endeavour and Marsden Funds
 *** The appropriation where the funding previously used for National Science Challenges will be updated in the final estimates document.

9. The figures in the above table are indicative and could shift because:
 - a. We need to confirm the qualifying baseline with Treasury, and the treatment of the National Science Challenge funding in the appropriations.
 - b. You have an opportunity to explore the potential to stop the in-year payment scheme for the R&D tax incentive or reduce Callaghan Innovation business R&D grants, but further advice would be needed to support those decisions.
 - c. We have several current investments that are well aligned to your priorities but have time limited funding.
10. The figures associated with the in-year payment scheme and initiatives with time-limited funding are provided in the table below.

Initiatives requiring decisions before being incorporated into savings figures	2024/25 \$ million	2025/26 \$ million	2026/27 \$ million	2027/28 \$ million
In-year payments, R&D Tax Incentive – potential savings	40.6	29.3	0	0
Callaghan business R&D grants – appropriation where savings could be made (extent not yet tested)	■	■	■	■
Confidential advice to Government	■	■	■	■

The approach

11. Our proposed savings approach aims to limit the amount of disruption to the sector in the short-term, while aligning available funding in the medium term towards your priorities for the SIT portfolio.
12. These priorities could include a mix of public good science system needs that only a government could be expected to fund (e.g. earthquake monitoring, pandemic resilience), as

¹ Note, this is our estimate of the qualifying baseline, more work is needed with Treasury to confirm the figure.

well as areas of focus that support a specific strategic direction (e.g. building national capability in a particular area, such as advanced technologies).

13. While we have sought to protect funding supporting commercialisation and business-facing research and development given its alignment with your strategic goals for the portfolio, you do have the option to make relatively small savings to the business R&D grants to lessen the impact on public good research capability.

The savings have implications

14. A key reason that our science system is under-delivering for New Zealand is the limited level of government investment (MBIE 2324-0953). New Zealand invests 1.5% of GDP into research and development, against an OECD average of 2.7%. Reducing an already low level of Government investment will exacerbate what is already a suboptimal level of research activity for a modern economy.
15. The government has a process underway to set public sector targets that could include an increase in Government Expenditure on Research and Development (GERD). If GERD is accepted, the savings proposed in this paper would be counter to that target.
16. The implications for specific funds are discussed below.

National Science Challenges

17. Using the National Science Challenge appropriation from 2024/25 is the least disruptive option for identifying immediate savings. This appropriation is baselined at \$79 million per year and has funded 11 Science Challenges over the past ten years, all of which are ending in June 2024. The appropriation continues into outyears and had been previously earmarked to support new National Research Priorities.
18. While the National Science Challenges have always had a finite life, with no expectations set around continuation or extensions, the issues addressed by the Challenges are enduring and could have reasonably been expected to be picked up, to some extent, as national priorities.
19. We are near to completing a stocktake of the potential risks around stopping the research funded by the Challenges. Our preliminary finding is that there is a strong case to fund activity currently supported by the *Resilience to Nature's Challenges* Challenge.
20. Relevant Government agencies have confirmed this research is highly relevant to their work and is an area of increasing importance given recent extreme weather events. While more work is needed to confirm this finding, for the purpose of this savings exercise, we have held \$10 million per year back from the National Science Challenge appropriation for 2024/25 to provide funding in some form for research in this area. We are looking to finalise our stocktake within the next two weeks so we can provide you with advice and confirm final savings figures for the National Science Challenge funding in the budget process.
21. The remaining \$69 million of the National Science Challenge appropriation is available to provide savings in 2024/25 and 2025/26. The trade-off is that using that will remove the opportunity to support further mission orientated research in the short-term.

Contestable funds – Marsden, Endeavour and Health Research

22. These three funds operate annual contestable investment rounds that invest in multi-year research projects. The funds are highly contested with the value of applications far

exceeding the amount of funding available.² As contracts end, funding becomes available for re-investment, meaning that savings can be found without having to break existing contracts.

23. Confidential advice to Government
24. The large contestable funds are an important source of revenue supporting research capability and activity within universities and Crown Research Institutes. Reduced funding means less research activity on top of the contraction already observed as research institutions respond to financial pressures linked to inflation, reduced commercial funding streams, reduced funding from other Government departments and pressures within the tertiary education system.
25. Applicant success rates for these funds will fall given the shrinking size of funds available for re-investment and as research institutions struggling with contracting budgets vie funding. We can expect the efficiency of the processes to fall, and applicant cost and frustration to rise.
26. While more work is needed to explore other sources of savings to offset the impact on the contestable funds, for the purposes of this exercise, these funds do provide an assured source of savings. We anticipate the figures will need to be adjusted at other points in the budget cycle as new information comes to hand.

Strategic Science Investment Fund

27. This appropriation funds strategic investment in research programmes and scientific infrastructure that have long-term beneficial impact on New Zealand's health, economy, environment and society.
28. The fund (SSIF) has two components – Programmes and Infrastructure. SSIF Programmes are structured around science platforms (a combination of people, facilities, information and knowledge that provide a particular, ongoing science and innovation capability for New Zealand). SSIF Programmes support platforms of research hosted by Crown Research Institutes (CRIs) and Independent Research Organisations (IRO).
29. SSIF also funds access to and development of large-scale research infrastructure that is needed to undertake research in priority areas. Examples include the Australian Synchrotron; Genomics Aotearoa, the Mission Operations Control Centre at the University of Auckland; and nationally significant collections and databases.
30. Confidential advice to Government
31. Confidential advice to Government

² For example, the Health Research Council receives up to 900 applications for research funding each year, but are only able to invest in 20-30% of these. For the Marsden Fund, 13% of applications were successful in the 2023 funding round, while the success rate for the Endeavour Research Programmes is around 15%.

32. Confidential advice to Government [REDACTED]
 [REDACTED]
 [REDACTED] Given the potential materiality of the impact of reduced funding, it is important that impacted institutions have a reasonable lead-time to enable planning.

Other short-term saving options

33. We have included programmes forecasting underspends in the current year in the savings package, as this will reduce the immediate impact on research institutes and their collective research capacity.
34. A one-off saving of \$8.0 million can be found from Callaghan Innovation grants, and residual funds from the Digital Technologies ITP and Wellington Science City. The savings have minimal implications and have been included in the “other” line of savings in the table with the proposed savings package.
35. A summary of those savings along with other potential savings is provided in the table below.

Programme	Saving (\$ million)	Comment	Certainty
Callaghan R&D Project Grants	2.0	Will sit in multi-year appropriation to 2027/28 – could be returned sooner	Yes
Callaghan Student Grants	3.0	Contracted 2023/24 grants won't be paid until 2024/25 and this sum could be taken from that year's funding and 2023/24 funding offered back	Yes
Digital Technologies ITP (KiwiSaaS)	1.0	Outyear funding previously tagged to KiwiSaaS (ending under ITP stop work notice and not captured in mini budget)	Yes
Wellington Science City (opex)	2.0	Residual balance from opex funding to support Wellington Science City initiative	Yes

Confidential advice to Government

[REDACTED]

36. The largest source of potential additional savings is the appropriation for anticipated loan write-offs associated with the In-Year Payment scheme for the R&D Tax Incentive. We have separately advised you of increasing complexity arising around this scheme and that we are monitoring issues that could create additional risk to the Crown.
37. We are now considering whether we have reached the point where we should be advising you to suspend the scheme (MBIE 2324-1290). While this would be met with some

disappointment in the sector, especially in younger R&D performing firms, it would provide for around \$70 million to be included in the savings proposal in 2024/25 and 2025/26.

38. Inland Revenue are due to offer in-year payments to RDTI applicants within the tax system from April 2025. Removing MBIE's contribution to in-year payments could generate cashflow issues for small R&D businesses over the next 18 months. We estimate that between 100 and 180 businesses would be impacted.
39. We are planning to seek approval for expense transfers into 2024/25 for \$14.5 million currently uncontracted in the Catalyst fund. This relates to eight planned international investments which have been slower to finalise with international partners (outside of MIBE's control). **Confidential advice to Government**

Programmes with time-limited funding

40. There are some investments within the portfolio of high priority that are nearing the end of time-limited funding. We recommend that these are factored into the calculations supporting the savings proposal and are presented in the table below.
41. On-going funding for these initiatives has not yet been included in the proposed savings package. We will adjust the figures in the savings package once you have signalled your preferences around the future of these investments. We can provide further advice if needed.

Initiatives with time limited funding	2023/24 (\$ million)	2024/25 (\$ million)	2025/26 (\$ million)	2026/27 (\$ million)	2027/28 (\$ million)	Comment
Infectious diseases Platform – Under negotiation	12.5	14	-14.0	-14.0	-14.0	High priority area, platform starting to deliver against objectives.
Product Accelerator	2.0	-0.8	-0.8	-0.8	-0.8	Reviewed recently. Aligned with priorities. Additional \$0.8 million needed per year
MedTech Translator	2.7	-2.7	-2.7	-2.7	-2.7	Aligned with priorities.
HealthTech Activator	0.5	-0.5	-0.5	-0.5	-0.5	Aligned with priorities.
PM's Chief Science Advisor	1.5	-1.5	-1.5	-1.5	-1.5	
Confidential advice to Government						

Departmental savings

42. The departmental budget for the SIT portfolio is provided in the table below.

	2024/25 (\$ million)	2025/26 (\$ million)	2026/27 (\$ million)	2027/28 (\$ million)
Departmental funding	36,233	35,758	35,758	35,758

43. MBIE is aiming to reduce policy capability by 10% across all portfolios. Your SIT portfolio is supported by approximately 63 FTEs of policy and other analytical capability. We anticipate that we will be able to meet the 10% savings target by confirming current policy vacancies and making some savings to our analytical capability. Some of our personnel will be re-

deployed to other areas within MBIE, while the remaining capability will focus on work to support your priorities.

44. Reductions to operational FTEs (e.g. contract management) are difficult to make unless decisions were made to merge or end specific funds. While we are not looking to reduce our operational capability as part of this savings exercise, cost pressures mean we have to reconfigure our processes to ensure we can meet our current budgets. Some of the changes will require Ministerial approval and we expect to brief you on those within the next month.

Next steps

45. This topic is on the agenda for discussion at your meeting with SIT Officials' on 26 January 2024. We will respond to your requests for further information to support your decision-making early next week.
46. We provide you with a briefing confirming the final figures for the savings package once:
 - a. You have confirmed where savings should be taken.
 - b. You have confirmed whether priority initiatives with time-limited funding should be funded.
 - c. We have confirmed figures and other technical matters around the appropriations with Treasury
 - d. We have finalised our stocktake of implications from stopping research supported by National Science Challenges.
47. Once you have agreed to the package of savings, probably through a follow-up paper, we will submit the material for Minister Seymour's response to the Minister of Finance, and the Budget 2024 process.

Annexes

Annex One: 7.5% Non-Departmental savings package

Annex One: 7.5% Non-Departmental savings package

Approach

Years 1 and 2 Savings taken from uncontracted funding in National Science Challenges. Shortfall made up with top-slice of large contestable funds (Marsden, Endeavour, Health Research)

Years 3 and 4 Shift and re-balance savings focus from National Science Challenges to Strategic Science Investment Fund.
Some savings from top slice of large contestable funds.
Enable reprioritisation within Vote for new initiatives, for example, Advanced Technology Institute

Plus 10% reduction in Policy capability from 2024/25

		2024/25	2025/26	2026/27	2027/28	Appropriated funding 2024/25	Outyear impact ***
		\$ million	\$ million	\$ million	\$ million	\$ million	%
Baseline		1,236	1,194	1,160	1,136		
Savings target	7.5% of baseline	93	90	87	85		
Savings sources							
Confidential advice to Government		Confidential advice to Government				79	Confidential
	Incl CRI and IRO programmes					223	
		8.0	0	0	0		
	Confidential advice to Government					440	
Total savings							
Available to reprioritise within Vote**							

Notes

Confidential advice to Government