



BRIEFING

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

Date:	30 January 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-1784

Action sought		
	Action sought	Deadline
Hon Judith Collins KC Minister of Science, Innovation and Technology	Agree to a Non-Departmental savings package that either includes or excludes savings from the in-year payment scheme for the R&D tax incentive.	31 January 2024

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Robyn Henderson	Acting General Manager, Science, Innovation and International	Privacy of natural persons		✓
Privacy of natural persons	Policy Director, Future Research System	Privacy of natural persons		

The following departments/agencies have been consulted

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



BRIEFING

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

Date:	30 January 2024	Priority:	High
Security classification:	Budget - Sensitive	Tracking number:	2324-1784

Purpose

To agree to an updated Non-Departmental savings package that includes options around either stopping or retaining the in-year payment scheme for the Research and Development Tax Incentive.

Recommended action

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

a **Note** the relationship between this briefing and the decision you make on continuing the in-year payment scheme for the Research and Development Tax Incentive [briefing 2324-1748].

b **Agree to:**

Either

a. The Non-Departmental savings package in **Table One**, if you decided to **stop** the in-year payment scheme for the Research and Development Tax Incentive, noting that advice about phasing the savings will follow.

Agree / Disagree

OR

b. The Non-Departmental savings package in **Table Two**, if you decided to **retain** the in-year payment scheme for the Research and Development Tax Incentive.

Agree / Disagree

c **Note** the figures provided in Tables One and Two provide for initiatives with time-limited funding (Annex One) to be funded.

Noted

d **Note** the figures may need to be adjusted as we move through the budget process given the complexity of calculating MBIE's overall savings.

Robyn Henderson
Acting General Manager, Science, Innovation and International
Labour, Science and Enterprise, MBIE

Hon Judith Collins KC
Minister of Science, Innovation and Technology

30/01/2024

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Noted

Background

1. On Friday, 26 January you agreed in principle for a savings package for the Science, Innovation and Technology portfolio [Briefing 2324-1664] but noted the figures would need to be updated to include:
 - a. Continued funding for initiatives with time-limited funding that aligned with your priorities.
 - b. An option of the in-year payments scheme for the Research and Development Tax incentive being stopped.
2. We have provided you with advice on stopping the in-year payment scheme in Briefing 2324-1748. Your decision on that advice will inform your response to this briefing.
3. At that meeting, you also noted the impact the proposed savings could have on the science, innovation and technology sector including:
 - a. **Reduced contribution to economic growth:** Reducing an already low level of Government investment will exacerbate what is already a suboptimal level of research activity for a modern economy. New Zealand invests 1.5% of GDP into research and development, against an OECD average of 2.7%.
 - b. **Institutional strain:** Universities and Crown Research Institutions are already under considerable financial pressure given inflation, reduced commercial funding, reduced funding from other Government departments within the tertiary system.
 - c. **Reduced research activities addressing New Zealand's big challenges and opportunities:** The savings are coming from funds that would ordinarily be used to address Government priorities around significant systemic issues such as climate change, water quality and use, biodiversity, land management, housing, and health research.
 - d. **Reduced research capability:** Research institutions are making hard choices about the capability they retain given their financial pressures. These savings will compound the capability reductions we are already seeing in the public science system.

The proposed savings package

4. We have updated the Non-Departmental savings package, as presented in briefing 2324-1664, based your discussion with officials on Friday, 26 January.
5. The updated savings package provides for funding of:
 - a. initiatives with time-limited funding that align with your priorities (Annex 1)
 - b. an internal cost pressure around a new IT system being rolled out to support the management of our investment processes and management of contracts
 - c. your decision to either:
 - i. **stop** the in-year payment scheme for the Research and Development Tax Incentive (Table One).
 - ii. **retain** the in-year payment scheme for the Research and Development Tax Incentive (Table Two).
6. A total saving of \$147.0 million will be realised if you agree to stop the in-year payment scheme. Although the saving is a one-off and not baselined, it will have a significant impact

on the savings needed from other appropriations over the forecast period and delay research institutions and research activities feeling the full impact of the savings package.

7. We will provide you with advice on how the savings can be phased and the impact on other appropriations once we have received advice from Treasury and the wider MBIE baseline exercise. However, we expect to see:
 - a. Significantly fewer savings needed from the:
 - i. large contestable funds (Endeavour, Health Research, and Marsden Funds)
 - ii. Strategic Science Investment Fund.
 - b. Funding available from 2025/26 onwards to support your priorities.
8. The “other savings” line in Tables One and Two are one-off savings from various sources, as presented in Annex One.
9. The “new contract management system” line is a short-term cost pressure within MBIE that needs to be covered while the system is being embedded and the efficiency gains from having a new system are realised.

Table One: Savings package for the Science, Innovation and Technology portfolio if in-year payment scheme for the Research and Development Tax Incentive is **stopped**. Total figures over four year forecast period. Advice on phasing to follow.

	TOTAL Over 4-year forecast period \$ million
Savings target (7.5% baseline)	355.0
Savings sources	
In-year payment scheme	147.0
National Science Challenges Strategic Science Investment Fund Contestable funds	267.0
Other savings	8.0
Initiatives to be funded	
Time limited initiatives (Annex One)	-64.0
New contract management system	-3.0
Total	355.0

Table Two: Savings package for the Science, Innovation and Technology portfolio if in-year payment scheme for the Research and Development Tax Incentive is **retained**.

	2024/25 \$ million	2025/26 \$ million	2026/27 \$ million	2027/28 \$ million	TOTAL \$ million
Qualifying baseline¹	1,236	1,194	1,160	1,136	-
Savings target (7.5% baseline)	93.0	90.0	87.0	85.0	355.0
Savings sources					
Active consideration					
[Redacted]					
[Redacted]					
[Redacted]					
[Redacted]					
[Redacted]					
Initiatives to be funded					
Time limited initiatives (Annex One)	-5.5	-19.5	-19.5	-19.5	-64.0
New contract management system	-1.5	-1.5	0.0	0.0	-3.0
Total	93.0	90.0	87.0	85.0	355.0

10. Note, the figures may need to be adjusted as we move through the budget process given the complexity of calculating MBIE’s overall savings.

Next steps

11. We have been directed to provide information to portfolio Ministers, copied to Ministers Seymour and Lee, with our response to the Baseline Exercise. You can expect to receive that briefing on Friday, 2 February. It will:
- Include the Non-Departmental savings package you agree here.
 - Inform your bilateral meeting with Minister Seymour in the week starting 5 February.
12. We must submit the line-by-line savings initiatives to Treasury by Friday, 16 February.

Annexes

Annex One: Time-limited initiatives and other savings

¹ Note, estimate of the qualifying baseline. Treasury needs to confirm figure.

Annex One: Time-limited initiatives and one-off savings

At your meeting with officials on Friday, 26 January, you agreed that the Non-Departmental savings package:

- provide for on-going funding of initiatives that aligned with your priorities and had time-limited funding (Table Three).
- One-off savings in 2024/25 (Table Four).

Table Three: Initiatives with time limited funding that align with your priorities and associated funding shortfalls from 2024/25 onwards.

Initiatives with time-limited funding	2023/24 (\$ million)	2024/25 (\$ million)	2025/26 (\$ million)	2026/27 (\$ million)	2027/28 (\$ million)	Comment
Infectious diseases Platform – <small>Under negotiation</small>	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	
Total shortfall	-	-5.5	-19.5	-19.5	-19.5	

Table Four: Overview of one-off savings in 2024/25 contributing to savings package.

Programme	2024/25 (\$ million)	Comment
Callaghan R&D Project Grants	2.0	Will sit in multi-year appropriation to 2027/28 – could be returned sooner
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
Digital Technologies ITP (KiwiSaaS)	1.0	Outyear funding previously tagged to KiwiSaaS (ending under ITP stop work notice and not captured in mini budget)
Wellington Science City (opex)	2.0	Residual balance from opex funding to support Wellington Science City initiative