



BRIEFING

Government support for innovation

Date:	17 October 2024	Priority:	High
Security classification:	In Confidence	Tracking number:	REQ-0004411

Action sought		
	Action sought	Deadline
Hon Judith Collins KC Minister of Science, Innovation, and Technology	Agree that the innovation-support activities currently provided by Callaghan Innovation will be stopped as Callaghan Innovation is disestablished. OR Indicate your preferences for which government supports for innovation you wish to continue.	24 October 2024

Contact for telephone discussion (if required)				
Name	Position	Telephone		1st contact
Gina Williamson	Manager, Innovation Policy	04 901 8203	Privacy of natural persons	✓
Dr Simon Wakeman	Principal Policy Advisor, Innovation Policy			

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☐ Withdrawn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



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Purpose

This briefing seeks your direction as to whether you wish to continue any of the existing government innovation-support activities within the new SI&T system structure, rather than these stopping as Callaghan Innovation is disestablished.

Recommended action

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

- a **Note** following your meeting with the Prime Minister regarding the recommendations of the Science System Advisory Group, you have confirmed the Government's intention to:
 - i. establish the Prime Minister's Science, Innovation and Technology Advisory Council (PMSITAC),
 - ii. establish four Public Research Organisations (PROs), including a new Advanced Technology Research Organisation (ATRO),
 - iii. establish Invest NZ to attract people, businesses, and investment into New Zealand across all industries and technologies,
 - iv. refocus NZTE on export growth through international trade and export; and
 - v. likely disestablish Callaghan Innovation and not replace it with another form of innovation agency.

Noted
- b **Note** you and the Minister for Trade indicated the Government's intention is that Invest NZ and NZTE are to be tightly focused on their respective mandates of attracting foreign investment and export facilitation.

Noted
- c **Note** your Cabinet paper on "Driving Economic Growth Through Science, Innovation and Technology" notes the likely disestablishment of Callaghan Innovation but is silent regarding whether any activities it currently delivers might continue via another entity.

Noted
- d **Note** that RDTI eligibility assessments, which are currently provided by experts at Callaghan Innovation, are mandated by legislation and responsibility for these assessments would need to be reallocated to another entity, independent of any changes to the RDTI scheme.

Noted

- e **Agree** that all innovation-support activities currently performed by Callaghan Innovation (except RDTI eligibility assessments) will be stopped as Callaghan Innovation is disestablished.

Agree / Disagree

OR

- f **Indicate** your preferences for which of the activities currently provided through Callaghan Innovation are to stop or for which you would like to receive further advice as to options for transfer:

Funding for business R&D and innovation

- | | |
|---------------------------------------|------------------------------|
| i. Business R&D and innovation grants | <i>Stop / Further advice</i> |
| ii. Technology Incubator Programme | <i>Stop / Further advice</i> |

Business advisory and capability development

- | | |
|--|------------------------------|
| iii. Business innovation advisors | <i>Stop / Further advice</i> |
| iv. Activators (currently Health Tech, AI) | <i>Stop / Further advice</i> |
| v. Founder and Start-up Support programme | <i>Stop / Further advice</i> |
| vi. Innovation skills and investor readiness courses | <i>Stop / Further advice</i> |

System networking and connection

- | | |
|--|------------------------------|
| vii. New Zealand Food Innovation Network | <i>Stop / Further advice</i> |
| viii. New Zealand Product Accelerator | <i>Stop / Further advice</i> |
| ix. Bioresource Processing Alliance | <i>Stop / Further advice</i> |
| x. Research-to-industry | <i>Stop / Further advice</i> |
| xi. Business-to-business | <i>Stop / Further advice</i> |

- g **Note** the decisions regarding Callaghan Innovation's Research and Development Solutions (RDS) division, Measurement Standards Laboratory (MSL), and Gracefield Innovation Quarter (GIQ) involve complex interdependencies, and MBIE will provide advice on these in due course.

Noted

- h **Agree** not to transfer ownership and management of the GIQ to Invest NZ or the future PROs.

Agree / Disagree


Gina Williamson

Manager, Innovation Policy

Labour, Science and Enterprise, MBIE

21 / 10 / 2024

Hon Judith Collins KC

**Minister of Science, Innovation, and
Technology**

..... / /

Background

1. At your meeting with Science, Innovation and Technology (SI&T) officials on 26 September 2024, following your meeting with the Prime Minister on 19 September, you confirmed the Government's intention to:
 - a. establish the Prime Minister's Science Innovation and Technology Advisory Council (PMSITAC)
 - b. establish four Public Research Organisations (PROs), including a new Advanced Technology Research Organisation
 - c. establish Invest New Zealand, which will be focused on attracting people, businesses, and investment into New Zealand across all industries and technologies
 - d. refocus New Zealand Trade and Enterprise (NZTE) on driving export growth through international trade and exports
 - e. likely disestablish Callaghan Innovation and not replace it with another form of innovation agency.
2. At your meeting on 26 September, you had an initial discussion with officials about whether existing innovation-support activities might be redistributed within the new structure for the SI&T system, rather than stopping these when Callaghan Innovation is disestablished.
3. This briefing seeks your direction on which, if any, existing innovation-support activities you wish to continue.

Decisions regarding Callaghan Innovation's existing activities

4. Your Cabinet paper on "Driving Economic Growth Through Science, Innovation and Technology" notes that Callaghan Innovation will likely be disestablished but is silent as to whether any of the functions or specific activities currently delivered by Callaghan Innovation are intended to continue by some other means.
5. If all these activities are to stop, it significantly reduces the overall level of government support for business R&D and innovation. As noted in previous advice, in New Zealand, the market alone does not provide sufficient resources, information, or connections to enable businesses to bridge the gap from idea to private investment. We have previously provided you advice on the role of government in supporting an effective and efficient innovation ecosystem [2425-0809 refers]. Ceasing innovation-support activities could slow the process of commercialising new ideas and creating new highly innovative and globally focused businesses.

6. Confidential advice to Government

7. We are seeking your direction as to whether you wish to continue any of the current innovation-support activities as Callaghan Innovation is disestablished. These decisions on which activities will cease, and which are likely to continue, will allow you to provide more specific information upon announcement of the impacts of disestablishing Callaghan Innovation. This would provide clarity and reduce disruption to businesses who are current or potential near-term users of impacted services.
8. Based on your initial direction, and subject to upcoming Cabinet decisions, we will provide you with specific advice as to where retained activities are best redistributed to within the future

structure of the SI&T system. It is our view that activities should align with the mandate and core functions of the receiving organisation, and where they best enable businesses to access necessary support. The following paragraphs provide our initial view of where particular activities might be redistributed. A summary of these potential options is provided in **Annex One**.

9. **If Invest NZ and NZTE are tightly focused on their specific mandates** of attracting foreign investment and international trade and export respectively, there are limited options for where retained activities could be housed.
10. Funding for innovation (e.g., allocation of grants) and/or business capability development (programmes contracted from third-party providers) could be administered by MBIE, contingent on the resources to do this also being reallocated. However, there are distinct differences between administering grants directly to businesses and MBIE's existing funding administration activities, most notably in being accountable and answerable for individual grant decisions.
11. Some specific activities could be delivered by other Ministries (eg, RDTI-eligibility assessments by Inland Revenue) or an appropriate PRO (eg, sector-specific initiatives to facilitate connections between researchers and businesses).
12. There are some innovation-support activities that would not easily fit within the core functions of these entities (eg, business innovation advisory services) and would need to stop. Industry bodies or other associations may step into this gap, or qualifying businesses may be able to access support through the Regional Business Partner Network. However, from the perspective of businesses, we anticipate this would result in a more fragmented system of support.
13. **If the mandate of Invest NZ were broadened to include complementary activities** that help develop the pipeline of innovative, investment-ready, globally oriented businesses to match to foreign investment, Invest NZ could house some of these activities. Under this mandate, responsibility for support to start-ups, including business advisory and capability development, would align with Invest NZ's core function, as would support for building connections between businesses in emerging tech-based industries. Invest NZ could also administer funding for business R&D and innovation.
14. We note that this option would be inconsistent with a direction of having no innovation agency, as it would effectively establish an innovation and business support unit within Invest NZ.
15. **If the mandate of Invest NZ were to remain tight, but NZTE's mandate expanded** to explicitly include providing support for early-stage (pre-export but export-oriented) businesses, in addition to its existing international business support, NZTE could provide business capability development for startups, networking, and navigation services. This would provide a single point of contact for any globally oriented business for some aspects of innovation and investment support, alongside international business development support. If this were your preference, you would need to engage with the Ministers for Trade and Economic Development as the responsible Ministers for NZTE.
16. However, it may not be appropriate for NZTE to take responsibility for funding for business innovation as this would potentially expand its mandate too far in the direction of being a joint innovation and export agency and may overly narrow the eligibility of businesses for these programmes to only those that are globally oriented. In that case, the options revert to MBIE administering those programmes or to close them.
17. There is currently limited support for networking and connection between system players, beyond a small number of sector or technology specific programmes including, for example, the

New Zealand Product Accelerator (NZPA) or the Health Tech Activator. Under the proposed new structure, the PROs could take a more active role in promoting research-to-industry connections in their mandated spheres of research, replicating initiatives such as the NZPA. Invest NZ or NZTE would be better placed to support innovating businesses build connections with other participants in the SI&T system (including other businesses and international partners).

Decisions regarding Callaghan Innovation's other activities

18. In addition to its innovation-support functions, Callaghan Innovation also operates the RDS division, is host of the MSL, and owns and manages the GIQ. We recommend that these responsibilities are not transferred into either Invest NZ or NZTE. There are complex interdependencies between RDS and MSL with GIQ that need to be further investigated before we can offer advice regarding how each should be managed.
19. RDS has a range of science capabilities that may be aligned with future science needs and the Government may wish to retain these within the SI&T system as Callaghan Innovation and RDS are wound up. We anticipate that the current RDS capabilities could be assessed and matched to future needs before they are transferred to another part of the science system (if appropriate). The alternative would be to close RDS and allow the market to reallocate the scientists to a new home (including overseas). We will return with more detailed advice on this matter, noting that this analysis will require close working with Callaghan Innovation to understand the current capabilities within RDS.
20. Our initial view is that MSL should be transferred to the new Earth Science PRO, once it is established, being the PRO to which MSL is most closely aligned. We will provide further advice on what is required to complete such a transfer, including organisational arrangements, financial implications, and property / asset management arrangements.
21. You are aware of the range of issues and challenges related to the GIQ site, relating both to its financial viability and the management of aging property assets. We recommend the GIQ site is not transferred to any of the new entities (Invest NZ, NZTE, or any of the new PROs) as it would place an excessive burden on the new entity and distract from their core mandate.
22. We need to determine both the appropriate arrangement for managing GIQ in the short term and the optimal arrangement for its future state, the options for which include a public-private partnership, government property management or sale. Due to its lease arrangements with Victoria University, MSL, and start-ups, the decision regarding GIQ is also interdependent with decisions being made elsewhere in the system. We will return with more detailed advice.

Next steps

23. We are available to discuss this material at your SI&T Officials meeting on 22 October. We will provide further advice regarding options for transfer of activities consistent with core mandates of future entities after Cabinet decisions have been made. We will also return with detailed advice regarding GIQ, MSL and RDS.

Annexes

Annex One: Summary of options for re-allocation of current innovation-support activities

Annex One: Options for redistributing of current innovation-support activities

(Options in bold denote our initial recommendations if you wish to redistribute the activities to other agencies, rather than stopping them.)

Function / Activities	Baseline funding (\$million/year)		If Invest NZ and NZTE mandates remain tight	If Invest NZ were given a broader mandate	If NZTE were given a broader mandate
	Programme	Administration			
<u>Funding for business R&D and innovation</u>					
• RDTI (R&D assessments, engagement)	~\$400*	\$5.0	MBIE or IR	... or Invest NZ	
• New to R&D Grant	\$22.5*	\$7.0	Stop or MBIE	... or Invest NZ	
• R&D Student Grant	\$15.0*		Stop or MBIE	... or Invest NZ	
• Innovation Trailblazer Grant	_*	-	Stop or MBIE	... or Invest NZ	
• Technology Incubator programme	\$14.9*	\$0.77	Stop or MBIE	... or Invest NZ	
<u>Business advisory and capability development</u>					
• Business innovation advisors ("Grow")	NA	NA	Stop	... or Invest NZ	... or NZTE
• Innovation skills courses (Beyond IP, Lean)	NA	NA	Stop or MBIE	... or Invest NZ	... or NZTE
• Investor readiness course (Capital Education)	NA	NA	Stop or MBIE	... or Invest NZ	... or NZTE
• Activators (currently Health Tech and AI)	\$1.00	NA	Stop or MBIE	... or Invest NZ	... or NZTE
• Founder and Start-up Support programme	\$2.72*	\$0.14	Stop or MBIE	... or Invest NZ	... or NZTE
<u>System networking and connection</u>					
• New Zealand Food Innovation Network	\$4.5	NA	Stop or MBIE or PRO		
• New Zealand Product Accelerator	\$2.3	NA	Stop or MBIE or PRO		
• Bioresource Processing Alliance	\$2.4	NA	MBIE or PRO		
• Research-to-Industry**	-	-	none or PRO		
• Business-to-business**	-	-	none	... or Invest NZ	... or NZTE

Initiatives with asterisk (*) have their own individual appropriations. Initiatives without baseline funding are indicated with "-". All other activities in the table are funded from the *Callaghan Innovation - Operations* appropriation, which has baseline funding of \$79 million per annum in total (including for Callaghan Innovation's general operations). Where funding is allocated for a specifically directed initiative, the amount is stated. Otherwise, it is marked "NA" (i.e., not available).

** Beyond what is currently delivered by Callaghan Innovation