



BRIEFING

Options for innovation institutions

Date:	28 August 2024	Priority:	High
Security classification:	In Confidence	Tracking number:	2425-0809

Action sought		
	Action sought	Deadline
Hon Judith Collins KC Minister of Science, Innovation, and Technology	Indicate preferred options for the structure of innovation institutions for further detailed advice. Direct officials to prepare advice on options for residual functions.	9 September 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Gina Williamson	Manager, Innovation Policy	Privacy of natural persons	✓
Mary Mulholland	Principal Policy Advisor, Innovation Policy		
Lana Stevenson	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☐ Withdrawn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

To seek your direction on options to pursue the Science System Advisory Group's (SSAG) recommendations for New Zealand's innovation institutions.

Recommended action

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

- a **Note** the SSAG recommends two innovation-focused entities delivering domestic innovation support and investment attraction activities. **Noted**
- b **Note** we agree with the SSAG's assessment of issues and objectives for the innovation system and have built on their analysis to consider the options for the form of innovation institutions. **Noted**
- c **Indicate** your preferred options for further detailed advice:
- i. The SSAG report recommendation of two innovation entities, one focused on the domestic ecosystem and one on international investment attraction. **Yes/No**
- ii. One innovation-focused entity focused on both the domestic ecosystem and international investment attraction, with trade promotion and export being separate. **Yes/No**
- iii. A single merged entity providing domestic innovation support, investment attraction and broader trade promotion and export activities. **Yes/No**
- d **Direct** officials to prepare advice on options for residual current functions including Gracefield Innovation Quarter and the Measurement Standards Laboratory. **Yes/No**



Gina Williamson
Manager, Innovation Policy
Labour, Science and Enterprise, MBIE

28 / 08 / 24

Hon Judith Collins KC
Minister of Science, Innovation and Technology

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Background

1. You have received the report from the Science System Advisory Group (SSAG) which recommends redesign of the institutions delivering government support for the innovation system. The SSAG states redesign is necessary to bring greater strategic alignment across activities and provide efficient access for innovators and businesses to the right support.
2. You have previously requested options to strengthen efforts to attract and channel foreign investment into SI&T in New Zealand. As discussed, more could be done to focus investment attraction activities to realise greater commercial value from the SI&T system (2324-2524 refers), and to align innovation and internationalisation supports across the ecosystem (2324-2732 refers). The options in this briefing provide avenues to address these matters.

SSAG's recommendation for innovation institutions

3. The SSAG recommends establishing a National Innovation Advisory Committee (NIAC) and two new entities:
 - **Innovation New Zealand (INZ)** focused on international-facing innovation functions (including attracting R&D activity of multinational corporations and foreign direct investment).
 - **Enterprise New Zealand (ENZ)** focused on start-up and scale-up of New Zealand companies.
4. Subsequent conversations with Professor Sir Peter Gluckman have indicated that the recommendation to have two separate innovation-focused agencies was finely balanced. It appears the key factor was ensuring foreign investment attraction was recognised as a distinct activity requiring specialist capability not currently provided in existing entities.
5. The SSAG also recommends:
 - Disestablishing Callaghan Innovation and redistributing its valued activities to the proposed new entities or the proposed Public Research Organisation.
 - Separating the innovation-focused activities from the trade promotion and export assistance functions of New Zealand Trade and Enterprise (NZTE).
 - New Zealand Growth Capital Partners (NZGCP) remain outside of but connected with this new entity structure, though noting it could in future be incorporated.
6. Other aspects of the SSAG's recommendations will be essential to these new institutions, most notably the setting of a system strategy and priorities through the proposed Prime Minister's Science Innovation and Technology Advisory Council.
7. We agree with the SSAG's assessment of current issues and future direction in terms of objectives. However, policy goals need to be balanced with deliverability. We are concerned that having two separate innovation-focused agencies would not provide closely aligned entities of sufficient scale to deliver desired outcomes.
8. The choice of institutional structure should ensure complementary functions and activities are housed together as far as possible and that overarching objectives for all entities are consistent, not conflicting. Lessons from the formation and experience of Callaghan Innovation over the past 10 years emphasises the importance of this.

Desired functions are mutually reinforcing

9. Informed by the SSAG report and our own analysis, there are four functions required in our innovation institutions. These four functions are mutually supporting in achieving an overall goal of attracting, retaining and growing R&D activity and innovative businesses, to accelerate pathways for new to world ideas through to commercial value, and to drive productivity and diversification of the New Zealand economy.
10. **Financial innovation support** is to incentivise and de-risk business investment in R&D and innovative activity at critical points in the commercialisation journey where the level of risk means private sector support is not readily available in the market. This includes grants, loans, equity and tax incentives, direct government seed investment (e.g. Aspire), pre-seed funding (e.g. accelerator funds) and co-funding (e.g. Technology Incubators).
11. **Networking** serves to inform and connect actors across the innovation system to increase knowledge transfer and resource flows into R&D and innovative activity. This activity includes integrating offshore actors into New Zealand networks and vice versa. This also includes navigation of services, network co-ordination (e.g. connecting businesses to researchers or pilot facilities) and information (e.g. guides).
12. **Capability development and human capital attraction** increases the availability of skills (through development and attraction) that underpin R&D and innovative activity including the capabilities to commercialise new ideas. This includes providing business and entrepreneurship training, information and support (e.g. incubator and accelerator programmes), and student work placement (e.g. R&D student grants).
13. **International connection and investment attraction** aims to attract capital and capability into New Zealand and facilitate connection to international markets for innovative businesses to do market validation and to scale-up globally. An investment attraction function should provide a 'single front door' for foreign investors to invest in the New Zealand SI&T system. It would focus on attracting multinational corporations and large-scale investors to New Zealand, including locating R&D activities here, green or brownfields investment adding to local research and innovation infrastructure, and/or investing or partnering with New Zealand companies either directly or through local intermediaries. It would also include attracting venture capital into innovative businesses and industries.
14. NZTE is currently the primary agency for delivering the international connection and investment attraction functions. However, its objectives are broader than SI&T and the SSAG's view is their current capability is insufficient for attracting investment into SI&T.
15. The following functions (which are currently aspects of Callaghan Innovation) should not be delivered through future innovation institutions. These functions are not well aligned to core objectives, require different capabilities to effectively manage and govern, and divert focus and critical resources from supporting innovation.
 - Fee for service R&D activities (i.e. R&D Services division of Callaghan Innovation)
 - Ownership and management of significant research and/or property assets (i.e. Gracefield Innovation Quarter)
 - Specialist functions not aligned with broader innovation functions e.g. Measurement Standards Laboratory (MSL).

16. We can provide you advice regarding options for future management of Gracefield and options for how MSL and capabilities within R&D Services may best be included within the future Public Research Organisation structure. The SSAG proposed that R&D into advanced technology for industry will be undertaken by a new Futures Technology Initiative, a virtual organisation. We agree with this proposal and will provide you further advice shortly.

We recommend a single innovation-focused agency

17. Our initial view is the most appropriate structure is a single innovation-focused agency with a scope that covers start-up and scale-up of New Zealand businesses and international investment attraction. It would be separate to NZTE's export and trade promotion functions. We seek your response to this and direction on options you would like further detail on.
18. Having more than one innovation-focused entity would provide clear focus, but risks sub-scale entities, misalignment between entities over time, and being less efficient in providing services to businesses (i.e. being a customer of three different organisations).
19. There is a case for bringing together domestic facing and internationally facing innovation functions into the same organisation. This would ensure that domestic innovation activities are informed by global market context and that investment attraction is able to fully leverage domestic networks. Earlier this year we advised of the value of exploring a merger of Callaghan Innovation and NZTE to achieve this outcome (2324-2732 refers).
20. However, since that time, it has become apparent that to meet the Government's export goals, a focus both on increasing exports from existing industries *and* emerging industries is necessary. That dual focus means within a merged organisation there is a risk of insufficient attention to distinctive innovation functions. A merger of this nature could also be complex.
21. We are preparing more detailed analysis of the specific activities of an innovation agency, including forming greater clarity of the SSAG's view of the 'innovation-related' activities of NZTE. We will also consider transition pathways, including cost and implementation timeframe for each option, such as the extent of legislative change required. We will provide fuller advice on these matters with a final recommendation in mid-September.
22. Where related functions sit across multiple institutions, for example capability and networks to help innovative businesses scale globally, there will be a need for an appropriate co-ordinating mechanism. The SSAG recommends a National Innovation Advisory Committee. We will provide further advice on this also in September.

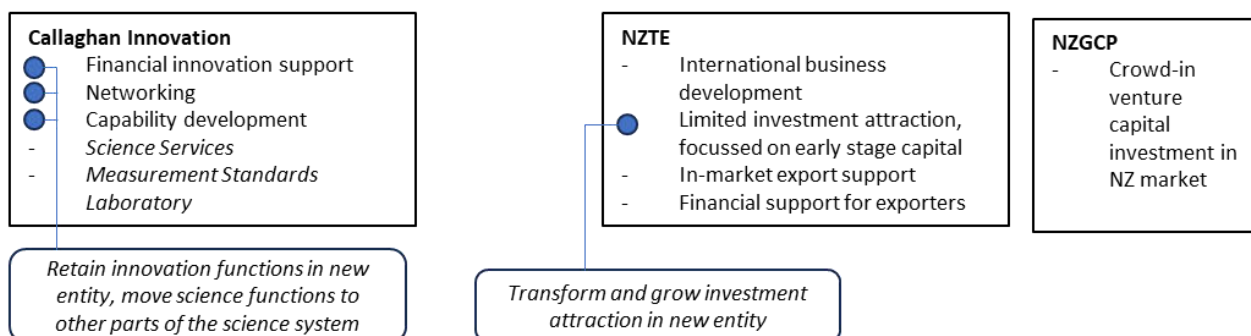
Next steps

23. Officials will be available to discuss these options with you at an upcoming SI&T Officials meeting. We will continue to prepare more detailed advice on the proposed options and provide you final advice and a draft Cabinet paper on 18 September.
24. The three proposed options consider moving responsibility for some functions that currently sit with NZTE and will require engagement with Ministers for Trade and Economic Development. We can provide further information as required to support your engagement.
25. We have not engaged the relevant entities in preparing this advice. Discussion with leadership in the entities will inform the next phase of our analysis and advice.

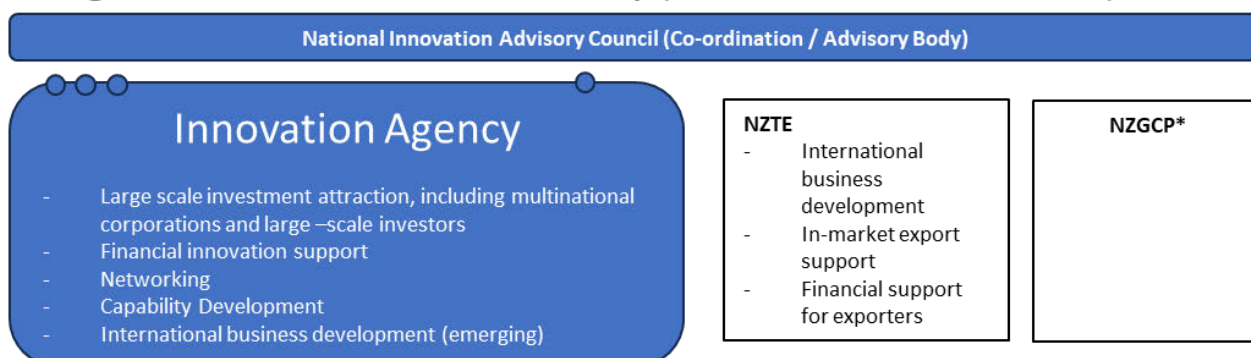
Annex One: Visualisation of options for innovation institutions

Current State

No active MNC attraction
Weak coordination and alignment



Single innovation –focused entity (MBIE recommendation)



Two innovation entities (SSAG recommendation)



Third option: Single Merged Entity



* Entity and activities require further consideration