



## BRIEFING

### Budget 25: Bilateral meeting with the Minister of Finance

|                                 |                    |                         |         |
|---------------------------------|--------------------|-------------------------|---------|
| <b>Date:</b>                    | 28 February 2025   | <b>Priority:</b>        | Medium  |
| <b>Security classification:</b> | Budget - Sensitive | <b>Tracking number:</b> | 0010041 |

| Action sought                                                              |                                                                                                                                                                                                                                                                                                                                                                                                               |              |
|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
|                                                                            | Action sought                                                                                                                                                                                                                                                                                                                                                                                                 | Deadline     |
| Hon Dr Shane Reti<br><b>Minister of Science, Innovation and Technology</b> | <b>Agree</b> to use your Budget 25 bilateral meeting with the Minister of Finance to seek early agreement: <ul style="list-style-type: none"><li>that no further savings will be required from the portfolio in Budget 25.</li><li>on the status of the public research organisations, advanced technology research organisation, Callaghan Innovation and policy capability budget 25 initiatives.</li></ul> | 5 March 2025 |

| Contact for telephone discussion (if required) |                                          |                            |             |
|------------------------------------------------|------------------------------------------|----------------------------|-------------|
| Name                                           | Position                                 | Telephone                  | 1st contact |
| Robyn Henderson                                | Policy Director, Science and Space       | Privacy of natural persons | ✓           |
| Privacy of natural persons                     | Principal Advisor, Science System Policy |                            |             |

| The following departments/agencies have been consulted |
|--------------------------------------------------------|
| n/a                                                    |

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 provide you with information for your meeting with the Minister of Finance where you will discuss your Science, Innovation, and Technology Budget 25 Package and its alignment with Government's Going for Growth plan.

### Recommended action

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

- a **Note** that you will be meeting with the Minister of Finance on 5 March, 12.45pm – 1.15pm, to discuss your Science, Innovation, and Technology Budget 25 Package.

*Noted*

- b **Agree** to use your Budget 25 bilateral meeting with the Minister of Finance to seek early agreement:

- that no further savings will be required from the portfolio in Budget 25.

*Agree / Disagree*

- on the status of the public research organisations, Callaghan Innovation and policy capability initiatives as part of your Science, Innovation, and Technology Budget 25 Package.

*Agree / Disagree*

Robyn Henderson  
**Policy Director, Science and Space**  
Labour, Science, and Enterprise, MBIE

28 / 02 / 2025

Hon Dr Shane Reti  
**Minister of Science, Innovation and Technology**

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## Background

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1. You are meeting with the Minister of Finance to discuss your Budget 25 Package for the Science, Innovation and Technology (SI&T) portfolio. MBIE officials will attend to support your discussion.
2. Treasury has provided the following, suggested agenda for the meeting:

**Agenda Item 1:** Budget constraints for the Science, Innovation and Technology portfolio

Ministers may discuss if savings need to be realised from the SIT portfolio, and how this may impact the delivery of the reforms.

**Agenda Item 2:** Confirming reprioritisation decisions that need to be progressed through Budget 2025

Ministers to discuss which initiatives will need to be progressed through Budget 2025 to ensure the delivery of the reforms is not delayed.

**Agenda Item 3:** Early announcement of the Advanced Technology initiative

Announcing the first investment of the Advanced Technology Public Research Organisation

3. This briefing provides you with information relating to these items and:
  - a. SI&T expenditure responsibilities.
  - b. The Budget 25 SI&T Package and previous SI&T savings exercises.
  - c. The role of SI&T in driving economic growth.
4. Talking points for the meeting are provided in Annex One.

## Science, innovation and technology expenditure

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5. You have responsibility for \$1.35 billion of Government expenditure from the SI&T appropriations in Vote Business, Science and Innovation in 2024/25. A further \$0.56 billion is expended via Vote Revenue for the R&D Tax Incentive (Briefing 0009073 refers).
6. You set the priorities for SI&T expenditure. The annual Budget round is particularly important because funding is the main tool for shaping the New Zealand SI&T system.
7. Your SI&T expenditure supports economic, environmental, social and SI&T capability outcomes, including:
  - a. Research career opportunities – Fellowships Tāwhia te Mana, Fellowships Fulbright, Applied Doctorates, Student Grants, Prime Minister's Science Prize
  - b. Business support and commercialisation services – New to R&D Grant, Arohia Trailblazer Grant, Technology Incubator Programme, Preseed Accelerator Fund, and Commercialisation Partner Network
  - c. International collaboration – Catalyst Fund (contestable)
  - d. Investigator-led research – Marsden Fund (contestable)

- e. Medium term mission-led research – Endeavour and Health Research Funds (contestable)
- f. Long term programmes of mission-led research and science infrastructure – Strategic Science Investment Fund (SSIF) Programmes and Infrastructure
- g. Targeted research – Envirolink, Vision Mātauranga Capability Fund, Expanding the Impact of Vision Mātauranga
- h. Targeted industry support – Game Development Fund

## **The SI&T Budget 25 Package is fiscally neutral and will progress the reform work programme**

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8. The previous Minister of Science, Innovation and Technology submitted a package of fiscally neutral initiatives, Confidential advice to Government [REDACTED] for funding agreed reform initiatives within Budget 25. Annex Two provides a summary of this.
9. The Budget 25 package is largely comprised of initiatives that support the SI&T and gene technology reforms agreed in August and November 2024 (CAB-24-MIN-0296 and ECO-24-MIN-0242). These initiatives include:
  - a. Establishing a new Gene Technology regulatory and compliance regime
  - b. Establishing a Prime Minister's SI&T Advisory Council for setting priorities
  - c. Merging the current seven Crown Research Institutes (CRI) into three Public Research Organisations to increase responsiveness to priorities
  - d. Creating an Advanced Technology Public Research Organisation (ATRO) to ensure New Zealand can capitalise on rapidly advancing technologies.
  - e. Establishing Invest NZ as an entity to attract offshore investment.
  - f. Disestablishing Callaghan Innovation and shift its more important functions to other parts of the system and prepare the Gracefield Innovation Quarter (GIQ) for commercial opportunities.
  - g. Ensuring MBIE has sufficient policy capability to deliver on the reforms.
10. While we believe this package is workable, the reprioritisation, coupled with the cost of change and economic downturn, will put considerable pressure on an already under-funded SI&T system.<sup>1</sup>
11. The impact of funding the reforms by reprioritising existing SI&T appropriations means more funding will be spent on research into advanced technologies and attracting offshore investment into New Zealand and less money will be spent on contestable investments and the provision of R&D services for businesses.

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<sup>1</sup> As noted in our Briefing to the Incoming Minister in January 2025, New Zealand's investment in R&D as a percentage of R&D is well under the OECD average – 1.45% compared to 2.70% in 2022 (measured before the funding changes in Budget 2024).

### *Previous savings exercises in the SI&T portfolio*

12. The SI&T portfolio contributed to savings sought by Government via the Rapid Savings exercise and Budget 2024. The table below provides a summary of these savings.

| <b>Savings exercise</b>                                                | <b>Savings<br/>(\$m over 4 years)</b> |
|------------------------------------------------------------------------|---------------------------------------|
| Rapid savings (announced August 2023)                                  | 115.3                                 |
| Budget 2024                                                            | 369.2                                 |
| Reversal of Wellington Science City capital contingency in Budget 2024 | 533.5                                 |

13. The savings were large. While we sought to minimise the impact on specific organisations by phasing the reductions, phasing cannot, mitigate the overall impact of reducing funding for an already underfunded system and its capacity to deliver on New Zealand's economic growth aspirations.
14. Further savings, if sought in Budget 25, will jeopardise the SI&T reforms and require some of the initiatives agreed by Cabinet, and outlined in Government's Going for Growth plan, to be either stopped or be delayed.

### **The role of SI&T in driving economic growth**

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15. The link between a country's investment in SI&T and its productivity is well documented.
16. While we are not able to increase SI&T investment in the current, fiscally constrained environment, we can make better use of the resources we currently deploy to generate greater impact from investment and capture the benefits of rapidly developing advanced technologies, such as AI, synthetic biology, and quantum research. These efforts also support the diversification of our economy and our ability to attract overseas investment into R&D intensive projects.
17. The SI&T Budget 25 Package as currently defined enables the actions included in the Going for Growth plan Government announced on 13 February to be advanced. The fourth of the five pillars is focussed on innovation, technology and science and sets out Government's intention to:
- a. reform and modernise the innovation, technology and science system.
  - b. update regulatory settings to enable more timely decision making, free up innovators to test their technology and ideas, and support businesses to demonstrate the integrity of their products so they can access export markets, and
  - c. accelerate uptake of automation, artificial intelligence, data analytics and better technology across both the public sector and the wider economy.
18. The innovation, technology and science pillar aims to:
- a. use new ideas, knowledge and technology to develop better ways of doing things to help the New Zealand economy grow.
  - b. have more businesses investing in technology and innovation to create higher-paying jobs for New Zealanders and diversify the economy into new industries and markets.
  - c. make smarter use of advanced technologies and more investment in capital will enable New Zealand businesses to be internationally competitive.

## Early confirmation of some Budget 25 decisions is important for progressing the SI&T system reforms

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19. We recently briefed you on parts of your Budget 25 Package that require early confirmation, including:
- a. **Public Research Organisations:** The CRIs are working towards mergers as a pre-emptive step towards being constituted as public research organisations. The CRI boards cannot fulfil their statutory obligation to complete financial due diligence until they have an assurance about future revenue from the Crown. As such, we are looking to confirm their funding envelope by March.
  - b. **Callaghan Innovation:** The Callaghan Innovation Board requires certainty of funding available to support the costs arising from the disestablishment process, and to ensure appropriate funding available for continuing operation of Gracefield Innovation Quarter. Ongoing uncertainty over the next few months will hamper progress in advancing this work, and potentially increase costs overall.
  - c. **Policy capability:** The SI&T Policy Capability appropriation has reduced by over 25 per cent since 2023/24. This was caused by time-limited funding for policy capability coming to an end and savings exercises across all MBIE policy appropriations. Without additional funding for 2025/26 onwards, we will need to downsize MBIE's SI&T capability by a further 15 to 20 FTEs. This would equate to over 50 per cent decrease in the overall FTEs supporting the reforms. The process to release those resources would need to start in March to ensure our FTE count matches the level of funding for 2025/26 onwards.

*We have information from The Treasury on their advice to the Minister of Finance*

20. We understand that The Treasury supports the intent of the Confidential advice to Government to enable the SI&T system reforms to be advanced in a fiscally neutral way. However, they are signalling that some of the funding transfers between appropriations for the public research organisations, including the Advanced Technology Research Organisation, Callaghan Innovation, and InvestNZ should occur following the Budget, via Joint Minister decisions.
21. This may be possible for the Advanced Technology Research Organisation changes (aside from the planned investment into the Robinson Research Institute which can be funded under existing arrangements), assuming that no savings are required from the portfolio. We do need to look at the consequence of this approach in relation to Callaghan Innovation appropriation changes in terms of the implications for the Callaghan Innovation Board.
22. We have agreed that transfers relating to the Gene Technology regulator, SI&T policy capability, the Prime Minister's Science, Innovation and Technology Advisory Council, and the 2024/25 disestablishment costs for Callaghan Innovation should be included in Budget 2025. MBIE has signalled that transfers for Invest NZ should also be included, which is subject to decisions made in Briefing 0010034.
23. We want to provide funding certainty to the current CRIs, as they undertake plans to merge towards becoming new public research organisations. Confidential advice to Government
24. Confidential advice to Government

25. New Zealand's SI&T funding system contains a mix of funding mechanisms that are administered by various agencies and funding decision making bodies (e.g. the Science Board, the Marsden Fund Council, and the Health Research Council.
26. The Science System Advisory Group has recommended that the various funding decision making bodies are consolidated under a single funding decision-maker, a National Research Council. More recently, we have also responded to the Minister of Finance and Economic Growth's requests for information about Health Research Fund investments.

27. Confidential advice to Government

28.

29. The Science System Advisory Group is preparing further advice on the SI&T funding system. Our expectation is that we will provide you with further advice on the options for a future SI&T funding system, that will address both the Health Research Fund and Council.

## Next steps

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30. We are available to discuss the content of this briefing and the Budget 25 package for the SI&T portfolio prior to your 5 March bilateral meeting.

## Annexes

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Annex One: Talking points to support your bilateral meeting with the Minister of Finance

Annex Two: Overview of SI&T Budget 25 package

## Annex One: Talking Points

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### Agenda Item 1: Budget constraints for the Science, Innovation and Technology (SIT) portfolio

#### *Budget 25 Package*

- My SI&T Budget package reprioritises on average Confidential advice to Government per year to support the SI&T and gene technology reforms.
- These reforms have significant alignment to our government's economic ambitions and represent pillar four in your Going for Growth plan.
- Reprioritising existing SI&T appropriations means that more funding will be spent on research and industry activity around advanced technologies and attracting offshore investment.
- This Budget package provides the best chance of delivering on the reforms and our economic ambitions. We are looking to boost our focus on advanced technologies. This funding is also the means to create the new InvestNZ organisation to increase activity on FDI attraction, and international connections across the SI&T system.

#### *Early confirmation that there will be no further savings in Budget 25*

- Confirmation that no further savings will be required as part of Budget 25 is important to continue momentum within the reform work programme.
- While this package is workable, the reprioritisation, the cost of change and economic downturn, and previous savings exercises will put considerable pressure on an already under-funded SI&T system.
- Any further savings will jeopardise the SI&T reforms and require some of the initiatives agreed by Cabinet, and outlined in Government's Going for Growth plan, to be either stopped or be delayed.

#### *Early confirmation on some Budget 25 initiatives*

- I am also keen to get early confirmation on the status of the Public Research Organisations, Callaghan Innovation, and policy capability initiatives.
- The CRIs are working towards mergers as a pre-emptive step towards being constituted as Public Research Organisations. Operating under the Companies Act, the CRI boards cannot fulfil their statutory obligation to complete financial due diligence until they have an assurance about future revenue streams, including from the Crown.
- The Callaghan Innovation Board requires certainty of funding available to support the costs arising from the disestablishment process, and to ensure appropriate funding available for continuing operation of Gracefield Innovation Quarter. Ongoing uncertainty over the next few months will hamper progress in advancing this work, and potentially increase costs overall.
- This reprioritisation Confidential advice does provide for these Budget lines, so understanding your position on this would be a useful input into maintaining the current momentum on these two pieces of work.
- Without additional funding for SI&T policy capability, we will need to downsize MBIE's SI&T capability by 15 to 20 FTEs. This would equate to over 50 per cent decrease in the overall FTEs supporting the reforms. The process to release those FTE would need to start in March to ensure our FTE count matches the level of funding for 2025/26 onwards.

**Agenda Item 2:** Confirming reprioritisation decisions that need to be progressed through Budget 2025

- My preference remains to use Budget 25 as a vehicle to reprioritise money towards the new initiatives that are in the reform work programme.
- Further adjustments will be required following the Budget for some of the initiatives, especially relating to Callaghan Innovation changes.
- We may want to work through each of the initiatives:

| Initiative                                                                                                                                                                                | MBIE view                                                                                                                    | Treasury view                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Establishing a new Gene Technology regulatory and compliance regime                                                                                                                       | Give effect to transfers in B25                                                                                              | Give effect to transfers in B25                                                                                      |
| Establishing a Prime Minister's SI&T Advisory Council for setting priorities                                                                                                              | Give effect to transfers in B25                                                                                              | Give effect to transfers in B25                                                                                      |
| Merging the current seven Crown Research Institutes (CRI) into three Public Research Organisations (PRO) to increase responsiveness to priorities                                         | Give effect to transfers in B25 to signal future funding for new PROs                                                        | Give effect to transfers for \$20m establishment costs over 2025/26 and 2026/27<br>Confidential advice to Government |
| Creating an Advanced Technology Public Research Organisation (ATRO) to ensure New Zealand can capitalise on rapidly advancing technologies.                                               | FNA after Budget e.g. June could work<br>Investment in RRI can be actioned within existing appropriations                    | FNA post Budget once costs are known                                                                                 |
| Establishing Invest NZ as an entity to attract offshore investment.                                                                                                                       | Give effect to transfers in B25<br>Important to signal future funding and support recruitment of Board and senior leadership | Delay until post Budget                                                                                              |
| Disestablishing Callaghan Innovation and shift its more important functions to other parts of the system and prepare the Gracefield Innovation Quarter (GIQ) for commercial opportunities | Give effect to transfers in B25 noting adjustments after Budget will likely be required                                      | Give effect to 2024/25 costs only. Transfer rest as FNA once costs are finalised                                     |
| Ensuring MBIE has sufficient policy capability to deliver on the reforms.                                                                                                                 | Give effect to transfers in B25                                                                                              | Give effect to transfers in B25                                                                                      |

### **Agenda Item 3: Early announcement of the Advanced Technology initiative**

- Officials have confirmed that the proposed investment towards the Robinson Research Institute (RRI) can be contained within current appropriations (in the Strategic Science Investment Fund) which will allow us to announce it without any changes.
- This announcement is an early step towards the vision of the new Advanced Technology Organisation and it will also create financial certainty for RRI to retain important capability and expertise in cryogenics, superconductors and magnets.
- It's a great contribution to our Going for Growth plan, by increasing focus on the industry application of these areas of research.

#### *If asked about future work to consolidate SI&T Funds*

- The Science System Advisory Group has recommended the consolidation of funds such as the Marsden, Endeavour and Health Research. This would entail disestablishing the Health Research Council, for example, subject to the views of the responsible Minister.

Confidential advice to Government

## Annex Two: Overview of SI&T Budget 25 package

### Moving SI&T funding to ...

| Initiative                                 |                                                                     | 2024/25<br>\$000                  | 2025/26<br>\$000                  | 2026/27<br>\$000                  | 2027/28<br>\$000 | 2028/29<br>\$000 | Funding sources                                                    |
|--------------------------------------------|---------------------------------------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|------------------|------------------|--------------------------------------------------------------------|
| PM's SIT Advisory Council                  | Establishment                                                       | Confidential advice to Government | -                                 | -                                 | -                | -                | Wider reprioritisation SIT appropriations                          |
|                                            | Operation                                                           | -                                 | Confidential advice to Government |                                   |                  |                  |                                                                    |
| Public research organisations              | Bio-econ, earth sci, health and forensics (Operation)               | Confidential advice to Government |                                   |                                   |                  |                  |                                                                    |
|                                            | Advanced technology (Establishment)                                 |                                   |                                   |                                   |                  |                  |                                                                    |
|                                            | Advanced technology (Operation) + Project Tāwhaki (Space Portfolio) |                                   |                                   |                                   |                  |                  |                                                                    |
|                                            | Advanced technology (Pillars)                                       |                                   |                                   |                                   |                  |                  |                                                                    |
| Invest NZ (Trade and Investment portfolio) | Establishment                                                       | -                                 | 5,000                             | Confidential advice to Government | -                | -                | NZTE (\$11.15m) and Callaghan Innovation operational appropriation |
|                                            | Operation                                                           | -                                 | 16,000                            | Confidential advice to Government |                  |                  |                                                                    |
| Callaghan Innovation                       | Disestablishment of Callaghan Innovation                            | 29,462                            | 23,033                            | -                                 | -                | -                |                                                                    |
|                                            | Gracefield (Operations)                                             | -                                 | 20,000                            | 20,000                            | -                | -                |                                                                    |
|                                            | Gracefield (Capex for building remediation)                         | -                                 | 10,000                            | 10,000                            | -                | -                |                                                                    |
| Other                                      | Gene technology (regulator & compliance regime)                     | 1,500                             | 6,700                             | 5,880                             | 5,440            | 4,850            | Wider reprioritisation                                             |
|                                            | SIT policy capability                                               | -                                 | 6,000                             | 6,000                             | 6,000            | 6,000            |                                                                    |
|                                            | Total costs                                                         | 33,462                            | 106,833                           | 365,003                           | 352,763          | 390,173          |                                                                    |

## Moving SI&T funding from ...

| SI&T Appropriation                                     | 2024/25<br>\$000s                 | 2025/26<br>\$000s | 2026/27<br>\$000s | 2027/28<br>\$000s | 2028/29<br>\$000s | Total | Impact |
|--------------------------------------------------------|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------|--------|
| Strategic Science Investment Fund MCA - Infrastructure | Confidential advice to Government |                   |                   |                   |                   |       |        |
| Strategic Science Investment Fund MCA - Programmes     |                                   |                   |                   |                   |                   |       |        |
| Partnered Research Fund                                |                                   |                   |                   |                   |                   |       |        |
| Endeavour Fund                                         |                                   |                   |                   |                   |                   |       |        |
| Health Research Fund                                   |                                   |                   |                   |                   |                   |       |        |
| Marsden Fund                                           |                                   |                   |                   |                   |                   |       |        |

| SI&T Appropriation                                                                                                                              | 2024/25<br>\$000s                 | 2025/26<br>\$000s | 2026/27<br>\$000s | 2027/28<br>\$000s | 2028/29<br>\$000s | Total    | Impact                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-------------------|-------------------|-------------------|-------------------|----------|------------------------------------------------------------------|
| Contract Management MCA                                                                                                                         | Confidential advice to Government |                   |                   |                   |                   |          |                                                                  |
| Callaghan Innovation - Operations MCA - Building Business Innovation                                                                            |                                   |                   |                   |                   |                   |          |                                                                  |
| Callaghan Innovation - Operations MCA – R&D Services and Facilities for Business Industry                                                       |                                   |                   |                   |                   |                   |          |                                                                  |
| Public Sector Pay Adjustment                                                                                                                    |                                   |                   |                   |                   |                   |          |                                                                  |
| Innovation Trailblazer Grant 2023-2028 (MYA Expense)                                                                                            |                                   |                   |                   |                   |                   |          |                                                                  |
| New to R&D Grant 2023-2028 (MYA Expense)                                                                                                        |                                   |                   |                   |                   |                   |          |                                                                  |
| Technology Incubator Programme 2023-2027 (MYA Expense)                                                                                          |                                   |                   |                   |                   |                   |          |                                                                  |
| Economic Development: Sector Strategies and Facilitation                                                                                        |                                   | (1,204)           | (1,204)           | (1,204)           | (1,204)           | (4,816)  | Transfer of some activities and funding from NZTE into InvestNZ. |
| Economic Development: Support the Growth and Development of New Zealand Firms, Sectors and Regions MCA - International Business Growth Services |                                   | (9,946)           | (9,946)           | (9,946)           | (9,946)           | (39,784) |                                                                  |
| Confidential advice to Government                                                                                                               |                                   |                   |                   |                   |                   |          |                                                                  |