



BRIEFING

Shifting to a strategy-driven SI&T funding system

Date:	3 July 2025	Priority:	Medium
Security classification:	In Confidence	Tracking number:	BRIEFING-REQ-0016551

Action sought		
	Action sought	Deadline
Hon Dr Shane Reti Minister of Science, Innovation and Technology	Agree in principle to the main features of the new funding system Discuss with officials at your meeting on 7 July 2025	7 July 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Landon McMillan	Manager, Science System Policy	Privacy of natural persons	✓
Lily Li	Principal Policy Advisor, Science System 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☐ Withdrawn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 agreement to the main features of the proposed new funding system to enable the funding system to give effect to system priorities and strategy.

Recommended action

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

- a **Agree in principle** to a shift in the organising framework of the funding system to a pillars model focused on priority areas and outcomes
Agree / Disagree
- b **Agree in principle** to consolidate funding-decision makers into a single decision maker (currently proposed to be the National Research Funding Council).
Agree / Disagree
- c **Agree in principle** that the funding-decision maker will have a key role to play in enabling funding system coordination and coherence
Agree / Disagree
- d **Agree in principle** the National Research Funding Council's (NRFC) key roles will be around operational strategy and implementing Government strategy through the pillars system and making funding decisions. High-level system strategy and big-picture allocation remains the remit of Minister and Cabinet with PMSITAC advice.
Agree / Disagree
- e **Agree in principle** that the form of the funding-decision maker should be an independent council serviced by an MBIE secretariat
Agree / Disagree
- f **Note** the sequence of advice and decisions to get to a September Cabinet paper

Noted

Landon McMillan
Manager, Science System Policy
Labour, Science and Enterprise, MBIE

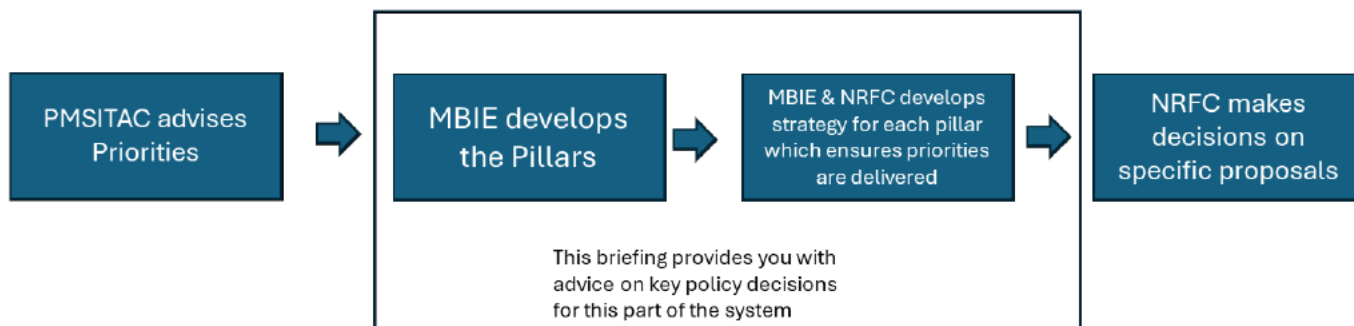
03 / 07 / 2025

Hon Dr Shane Reti
Minister of Science, Innovation and Technology

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Background

1. Cabinet has agreed to reforms that aim to create a strategy-driven Science, Innovation and Technology (SI&T) system with clear priorities that align with Government's goals for growth (CAB-24-MIN-0504 and CAB-25-MIN-0187).
2. We have previously provided you with advice on the roles and responsibilities of the PMSITAC in setting priorities for the SI&T system and Cabinet has now appointed the PMSITAC to perform this role (CAB-25-MIN-0141). This briefing addresses the next steps necessary to ensure priorities are effectively implemented: the design of the funding system, the role and responsibilities of the funding decision maker and how the system will operate in practice.



3. Over the next month we will provide further advice on more detailed options for the funding system to seek your decisions on key areas of design prior to a paper on funding to Cabinet in September (noting you have requested this timing to Cabinet from the earlier November timeline):

Date	Product	Purpose
3 July	Policy briefing 1 (this briefing)	In-principle decisions to the main features of the funding system
Mid July	Policy briefing 2	Decisions on the key building blocks of the system (major funding instruments and pillars), scope of funds and the transition approach
Early August	Policy briefing 3	Advice on approaches to prioritisation and decisions on specific aspects of the funding model including approaches to overheads and infrastructure
Late August	Draft Cabinet Paper	Including agreement to previous in-principle decisions, before going out for consultation with agencies and Ministers
Mid Sep	Final Cabinet Paper (for lodging prior to ECO on 17 September)	Seek Cabinet agreement to the design of the new SI&T funding system

4. These proposals represent a significant change to the funding model which has previously experienced incremental changes. You have scope to make significant changes to the balance of funds and focus of the portfolio following PMSITAC advice on priorities (for example between contestable and stable funds (e.g. Strategic Science Investment Fund) or towards economic outcomes) and these will have impacts on the research workforce and financial sustainability of research organisations.

5. Trade-offs need to be carefully considered especially in a fiscal environment with no additional funding. You will also need to balance maintaining financial sustainability and viability of the Crown Research Institutes (to become Public Research Organisations) and meeting Government's need for essential science services to be delivered within the available fiscal envelope.
6. We recommend you give in principle agreement to these decisions now, with final agreement shortly in advance of the September Cabinet paper. This provides scope to alter any decisions if you come to a view that the consequences or trade-offs are too unpalatable in response to ongoing consultation or more detailed advice, while setting sufficient direction now for the necessary detailed policy work to be undertaken.

Funding system changes are needed to enable reform objectives

7. An overarching objective of the SI&T reforms is to shift our SI&T system to one that is strategy-driven where clear, system-level priorities can guide investment decisions that align with national goals for economic growth.
8. This shift will be difficult to achieve in our current funding system. Key issues that have been identified for our funding research system are:
 - a. it is fragmented and overly complex with many small subscale funds
 - b. it lacks a clear strategy and focus
 - c. decision-making on funding is dispersed with little strategic relationship between funds
9. To address these issues, the following system changes need to occur
 - a. The establishment of PMSITAC to provide advice on system level direction and priorities (CAB-25-MIN-0141)
 - b. A shift to a pillar-based organising framework from a one focused on funding-instruments
 - c. Consolidation under a single funding decision maker¹ to provide coordination and coherence for funding decisions in the system.
10. The remainder of this briefing provides high-level advice on each of these three major system changes.

A more directable and coordinated funding system

11. Establishing the Prime Minister's science, innovation and technology advisory council (PMSITAC) enables priorities to be set for SI&T expenditure and fills a vital gap in setting overarching strategy for the SI&T system. By feeding these priorities through the funding system we can better focus our investments.
12. We envisage moving to a strategy-led system that corresponds to Government's overall priorities, shifting away from the broad and diffuse portfolio of research we currently have.

Changing the organising framework of the funding system

¹ We refer to this funding decision maker in the paper as the National Funding Research Council. This is currently a placeholder and the final name is still to be determined. There are arguments against calling it a Council as this connotes a stand-alone entity within the international context. Another option being considered is Research Funding New Zealand.

13. In our previous advice, we have provided a basic heuristic of a pillar-based model for the funding system organised around system priorities (briefing 0012332 refers). This model sees a shift of the organising units of the SI&T funding system from investment instruments to strategy led. The key feature of such a system is that major funding streams are organised into outcomes-based pillars.
14. We envisage pillars as the enduring domains. They represent broad, long-term areas of research activity that provide a stable framework for analysis and investment. In contrast, priorities are more dynamic and flexible. They can range from broad to more granular areas of focus. Priorities are expected to evolve over time and play a key role in guiding the allocation and reallocation of resources both across and within pillars.
15. You have choices on how these pillars are constituted, but the general principle is that pillars within the system will need to be big and broad enough to be flexible but also 'succinct' and focused enough to be meaningful. Confidential advice to Government
As an illustrative example, a four-pillar system could include pillars for:
 - a. Economic growth and resilience
 - b. New economy and advanced technology
 - c. Environment and natural hazards
 - d. Health and Society
16. To ensure research leads to tangible impacts that New Zealanders can see and feel, each pillar will need to have a strategy that includes how best to align funding mechanisms and instruments and where to place more emphasis to achieve a set of objectives, missions or key priorities that fall within the pillar. This would include decisions on the relative weighting between different funding instruments, the investment process, and funding decisions.
17. Within each pillar, there will likely be a mix of different allocation instruments and mechanisms (eg. mission-led, competitive, capability-building, long-term strategic, commercialisation support) to address different types of problems, sector and stakeholder and technological readiness levels.
18. We anticipate that these allocation instruments will shift over time. For example, a nascent area of priority may require more capability-building funding to start with but shift to more mission-focused instruments in time.
19. In practice, we anticipate that MBIE will provide PMSITAC with a draft thematic of current funding mapped against proposed pillars which will support them to advise you on both the weighting of funding between different pillars and specific areas within those pillars where the system should focus. PMSITAC's advice will then enable you to publish investment plans that will transition funding over a period of time to meet Government's objectives. Annex 1 provides an illustrative example of how funding might sit across pillars and how a priority might feed through the pillars to funding outcomes.

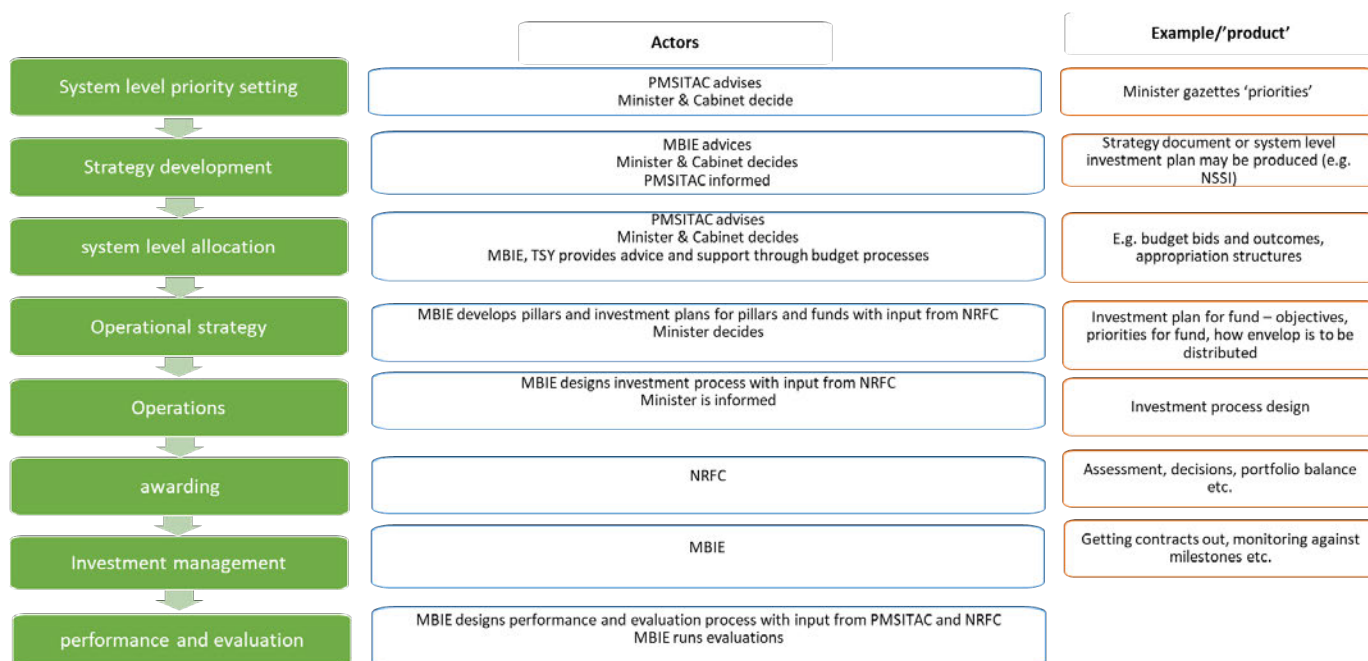
Resourcing essential system functions

20. Under-pinning this model will be some funds that are vital for a high-performing system but do not necessarily align directly with priority areas. These include funding streams for areas such as infrastructure, basic research, international partnerships, workforce development
Confidential advice to Government
21. We need to ensure these cross-cutting factors continue to be funded so that research in priority areas continues to have:

- a. The infrastructure and specialised scientific equipment needed to do the research, including the capability and resources to operate and maintain that infrastructure
 - b. People with the appropriate skills to keep doing the research
 - c. Innovative ideas and new discoveries that feed the research pipeline
22. Related to this is more detailed consideration of how our institutions might best fund their fixed costs and the critical science services that they provide. We will provide further advice on these matters in briefing 3.

Key actors and responsibilities in allocation process

23. The functions and activities of multiple key actors are required to make SI&T investments and to understand the impact of those investments. Currently, responsibility for different parts of the process is often split between different funding streams and decision-makers, resulting in the system being slow to align to priorities and funding directives, ultimately hampering the delivery of system level outcomes and wider research impact.
24. The design of the new system matches strategic direction setting with specific and detailed expert knowledge. The key responsibility proposed is that:
- a. Ministers and Cabinet are best placed to provide national direction and set priorities at the system level following PMSITAC advice (top down)
 - b. MBIE then works with the NRFC to implement the Government's priorities through an operational strategy and specific funding instruments designed by experts and people with detailed knowledge of the system (bottom up)
 - c. the actual awarding of contracts is then conducted through an arms-length process to ensure independence.



25. A more detailed table of roles and responsibilities for each stage of the process in **Annex 2**.

Improving system coordination and coherence through a single decision-maker

26. We have previously provided you with high-level advice on the benefits of consolidating decision-making in the SI&T funding system (briefing 0012332 and briefing 0012846 refers). We consider that this consolidation is key to improving coordination in the funding system and allowing for better strategic alignment between funding streams/pillars to deliver Government outcomes from science.
27. A consolidated decision-maker, the proposed NRFC, will improve coordination of the funding system by providing necessary expertise in the development of pillar strategies and implementation plans and ensuring that alignment between different pillars and funds in the system as well as ensuring that decisions on awards are aligned with strategy across the investment portfolio.
28. You have choices regarding the NRFC's functions, form, scope of funds for decisions and its relationship to other strategic actors in the system, specifically yourself (the Minister for SI&T), PMSITAC and MBIE in our role as system steward, monitor and funding administrator.

Functions of the NRFC

29. The ability of the NRFC to improve coordination and coherence in the system depend on the extent of their functions and the level of independence it has to undertake these functions.
30. You have decisions over both the functions and the form of the NRFC. The interaction of these decisions will set the role of the NRFC. Table 1 and 2 below set out the key policy decisions for both functions and form.'

Table 1. options on functions for the NRFC

Options	Pros	Cons
A) Narrow remit – Assessment and awarding only <ul style="list-style-type: none"> NRFC functions are solely to provide assessment and decisions on proposals received for funding (This is the extent of the Science Board's functions) <i>Minister is decision maker on operational strategy</i>	<ul style="list-style-type: none"> Some minor improvements to coordination and system coherence through provision of cross-portfolio view. 	<ul style="list-style-type: none"> No ability to support greater strategic alignment between funds and pillars through involvement in operational strategy development Less buy-in to the strategy from the NRFC Does not utilise skillset and expertise on NRFC
B) Advisory functions for operational strategy of funds <ul style="list-style-type: none"> NRFC provide advice and expertise at the operational strategy level will provide a truer ability to coordinate and provide coherence for investments. 	<ul style="list-style-type: none"> Better able to support strategic alignment of funding streams across system Buy-in and better understanding by NRFC of Minister's directions and desired outcomes 	<ul style="list-style-type: none"> Will require more MBIE effort to enable input and involvement into operational strategy design.

<ul style="list-style-type: none"> • NRFC provides assessment and decisions on proposals <p><i>Minister is decision maker on operational strategy</i></p>		
<p>C) Responsibility for operational strategy of funds</p> <ul style="list-style-type: none"> • NRFC make decisions on matters of operational strategy rather than just contribute to the development of it. • NRFC provides assessment and decisions on proposals <p><i>NRFC is decision maker on operational strategy</i></p>	<ul style="list-style-type: none"> • Enables alignment of funding streams through NRFC coordination 	<ul style="list-style-type: none"> • Minister loses decision power on operational strategy • Less alignment to system strategy • More stringent legislative requirements if NRFC holds these responsibilities

31. We consider option B to be the best approach. Within this option there are degrees to which the NRFC could be involved in operational strategy, from co-design of investment plans and process to where they are consulted at a high-level by MBIE on operational strategy development. Under this option, the Minister still makes the final decision, including signing off on the investment plan.

Form

32. We have previously provided some high-level options on the form of the NRFC (briefing 0012849 refers). Distance from government is the key variable here with a separate entity providing more independence in decision-making but less ability to direct and ensure alignment with system strategy.

Table 2. Options for form of NRFC

Options	Pros	Cons
<p>A) NRFC is autonomous entity with secretariate and administration functions serviced by MBIE</p> <p>This draws on MBIE's existing resources and business structure.</p>	<ul style="list-style-type: none"> • Simple and fast to set up and makes use of existing provisions in RST Act. • Maintains link between policy and operations of funding processes. • Reduces number of entities within the system – aligns with PM's direction for simplified and efficient SI&T system. 	<ul style="list-style-type: none"> • Perceived lack of independence from Government
<p>B) NRFC is a Crown entity</p>	<ul style="list-style-type: none"> • Perceived stronger independence in decision- 	<ul style="list-style-type: none"> • Costly and more time consuming to set up and

Existing MBIE resources for funding administration and operations are transferred to this entity.	<p>making with further distance from Government</p> <ul style="list-style-type: none"> • Comparable to other OECD countries 	<p>operate – Cabinet decision and legislative changes will be required to set up a new Crown Entity</p> <ul style="list-style-type: none"> • Separation of funding operations from policy development
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33. We consider option A to be the best approach and right mix of independence on decision making whilst still maintaining vital connections between policy and system strategy development and funding operations & awarding decisions.

Scope and transition

34. You have options on the scope of funding that comes under the decision-making remit of the NRFC and the sequence and speed of transitioning funding from the current system. There are trade-offs and risks to consider in terms of overall system alignment once the new system is in operation and the impacts on the system during transition.
35. At an in-principle level, the NRFC need to be making decisions on a significant portion of SI&T funding to realise the benefits of coordination and coherence we are seeking. On this basis, we recommend that most of MBIE's SI&T funding should come under the remit of the NRFC, however you may wish to retain greater direct control over some aspects of SI&T funding.
36. We will provide further advice on scope of funds for the NRFC, the sequencing of transitioning these funds and the risks and trade-offs of different choices in our next briefing.

Next steps

37. Discuss these proposals with officials at your meeting on 7 July 2025.
38. We will provide you with further advice on the following areas over the next month:
- Further details on system building blocks, scope of funds for NRFC and transition of funds
 - Further details on approaches to prioritisation and reallocation of resources and preliminary views on what the model means for overheads, critical science service and infrastructure.
39. Your decisions on this package of advice will inform the draft Cabinet paper which you are preparing to take to ECO on 17 September 2025.

Annexes

Annex one: strawman of the make-up of pillars

Annex two: detailed roles and responsibilities in the funding process

Annex One: Strawman of pillar make-up

Annex two: Detailed roles and responsibilities in the funding process

Annex 2. Funding Process RASCI

Key



- Decision-maker

Activity	Detail	PMs SI&T Advisory Council	Cabinet	Minister	MBIE	Funding Council (NRFC)	Key Agencies MPI, DoC, MFE, MoH, NEMA, TSY	PROs/Unis/IROs	Industry +
System level priority setting	System priorities are about ‘what’ is the most important. This is about identifying the most important areas to pursue and the types of impacts that we would like to see from the system in those areas.	<ul style="list-style-type: none"> Identifies priorities Identifies key new tech Advises Minister & PM 	<ul style="list-style-type: none"> Appoint PMSITAC 	<ul style="list-style-type: none"> Decides Priorities Issues Gazettes 	<ul style="list-style-type: none"> Secretariate Steering, providing info, context Drafting response, Gazette 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Feed input via MBIE secretariate Consulted by PMSITAC 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> consulted via PMSITAC relationships
Strategy development	System strategy development is the ‘how’ of achieving goals. How will we be able to achieve the outcomes and objectives set out in system level priorities.	<ul style="list-style-type: none"> Consulted (lightly) on the strategy 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Publishes strategy document Aligns PRO’s Statement of Purpose (May align Unis) 	<ul style="list-style-type: none"> Developing strategy Writes strategy document Consulting – PMSITAC, Agencies, sector Advising Minister 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Consulted by MBIE (RS&T Act provisions) 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> informed
System level allocation	System allocation is the big picture resourcing decisions. For example, what is the overall envelope we are working with, how are votes and budget allocation and broader splits between types of investments eg. Stable vs competitive, long term vs. fast fails and pivots, basic vs. applied.	<ul style="list-style-type: none"> Identifies macro allocation (% of total) Advises Ministers 	<ul style="list-style-type: none"> Cabinet decision on budget allocation 	<ul style="list-style-type: none"> Agrees split Sets up & directs some funds (eg infrastructure) Agree portfolio allocations/budget 	<ul style="list-style-type: none"> Manages budget process Consulting Advising Minister Developing bespoke funds & policy 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Consulted by MBIE (RS&T Act provisions) TSY budget 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> informed
Operational strategy	Operational strategy gets down to the programme, platform or fund level. What are fund objectives, priorities, intervention logics & How the fund/envelop is distributed. <ol style="list-style-type: none"> Pillars are developed Pillar strategy set out in the investment plan objectives and priorities for the fund and outlines how the funding envelope is to be distributed Operational strategy & development of investment plan (at fund level) Determining mix of investment mechanisms, types & amount of funding to deliver on outcomes 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> Agrees Pillars Agrees and publishes investment plan Consults with colleagues 	<ul style="list-style-type: none"> MBIE develops the Pillars Developing/writing investment plan Stewardship – critical science etc Ensuring alignment with PROs (SoP) and other orgs/ policies Consulting Advising Minister 	<ul style="list-style-type: none"> Consulted (spectrum of involvement in the development yet tbd) on the investment plan, mix and pillar strategy Endorse 	<ul style="list-style-type: none"> Consulted by MBIE 	<ul style="list-style-type: none"> Consulted (light) 	<ul style="list-style-type: none"> Consulted (no formal process – relies on NRFC’s relationships and knowledge of sectors and domains)
Operations	Operations – Design of the investment process and running the investment process <ul style="list-style-type: none"> Rules of fund/contest, application requirements, timing, Ballot, two stage, impact assessment etc Running the process; call for proposals, maintaining panels & assessors, websites, due diligence (e.g. eligibility) etc 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Leads design, publishes Runs process, gazette, timing, Pitau, First vetting, due diligence Inform Minister 	<ul style="list-style-type: none"> Consulted on design Informed on process 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Informed of process Part of process (applicants) 	<ul style="list-style-type: none"> informed
Awarding	Awarding – assessment and decision making on proposals; including the panels (1 or 2 stage), cut offs, portfolio balancing. If Platform – could renegotiation, agreeing contract conditions to meet policy objectives	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> n/a 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Leads administration Set up panel with NRFC Represented on negotiations Inform Minister (or advises where 	<ul style="list-style-type: none"> Makes award decisions for contest Chairs Panels? Leads renegotiation for platform on details 	<ul style="list-style-type: none"> informed 	<ul style="list-style-type: none"> Participants informed 	<ul style="list-style-type: none"> informed

					agreement is required)				
Investment management	Investment management – contracting and getting investments out the door, investment monitoring	• n/a	n/a	• informed	• Runs it	• Informed mostly • May be consulted on details, variation	• n/a	• participants	• n/a
Performance and evaluation	Performance and evaluation – evaluating outcomes of funds and fund performance	• Gets data for next iteration of Priorities	informed	• informed	• Collects and distributing data • Responds to data requests • Performs Evaluation • Advising Minister • Advising PMSITAC, NRFC, other (Agencies)	• Consulted on • Will receive data for assessment against plans	• informed	• Participants (Survey respondents) • informed	• informed