

## **Direction to Callaghan Innovation—Criteria for Assessing Proposals for Funding Growth Grant Funding**

Under section 103 of the Crown Entities Act 2004, I direct Callaghan Innovation to give effect to Government policy as specified in this direction.

### **Introduction**

In this direction I set criteria for Callaghan Innovation to adhere to for assessing proposals for research, science and technology (R,S&T) funding under section 7 of the Research, Science and Technology Act 2010. This notice uses the following format:

- R,S&T Funding decided by Callaghan Innovation.
- Criteria to be applied.
- Administrative processes.

### **R,S&T Funding Decided by Callaghan Innovation**

Funding allocated by Callaghan Innovation may be allocated from the following multi-year appropriation:

- Research and Development Growth Grants.

### **Criteria to be Applied**

Callaghan Innovation must make funding decisions in accordance with the:

- Public Finance Act 1989;
- parameters specific to this business-led research and development (R&D) tool;
- criteria specific to the initiative, which are:
  - eligibility criteria; and
  - parameters specific to the initiative.

### **Administrative Processes**

Callaghan Innovation will:

- market the tool and provide easy to access public information explaining its features;
- seek out applicants from inside and outside the group of businesses it currently works with where appropriate;
- develop and implement processes for vetting and auditing businesses to ensure that claimed research and development is legitimate;
- ensure that applicants and recipients of grants have access to complementary advice and services where appropriate;
- gather data on applicants during and following the grant period to support programme evaluation; and
- monitor funded businesses' activities during and after the grant period and seek to clawback (recover) funding as appropriate. Callaghan Innovation is expected to implement clawback mechanisms.

### **Revocation of Previous Notice**

The notice entitled Direction to Callaghan Innovation—Criteria for Assessing Proposals for Funding, published in the [New Zealand Gazette, 3 December 2015, No. 132, page 1](#), is revoked.

### **Criteria Specific to the Business-led R&D Tool**

#### **Overall Policy Objective**

The objective of this tool is to increase New Zealand business investment in research and development to support long-term economic growth.

#### **Initiatives**

The following initiative sits within this business-led R&D tool:

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- Research and Development Growth Grants.

### **Business Eligibility Criteria**

To be eligible for funding under this tool the following criteria must be satisfied together with the eligibility criteria relevant to the specific initiative:

- Only businesses are eligible to receive funding via this tool. A business or group of businesses may nominate a representative to receive funding.
- The business must be one of the following entities:
  - a company registered under the Companies Act 1993;
  - a limited partnership registered under the Limited Partnerships Act 2008; or
  - a Māori incorporation or a trust established under Te Ture Whenua Maori Act 1993, a trust established on behalf of Māori claimants to receive and manage assets as part of the settlement of a claim under the Treaty of Waitangi, a Māori statutory body, or a business that is controlled by one or more of these types of Māori entities.
- Businesses may not be an entity listed in schedule 1 of the State Owned Enterprises Act 1986 or listed in schedule 4A of the Public Finance Act 1989 or an entity established under or governed by the Education Act 1989, Crown Research Institutes Act 1992, Local Government Act 2002, Local Government (Auckland Council) Act 2009, the New Zealand Public Health and Disability Act 2000, or the Crown Entities Act 2004; or an entity that is 50 percent or more owned by one or more of those types of entities.
- Callaghan Innovation must be satisfied that providing an R&D grant to the business would not bring the reputation of Callaghan Innovation, the Government, or the R&D grants programme into disrepute.

### **Clawback Provisions**

Businesses may be expected to return some or all grant funding, during or following a grant agreement, to Callaghan Innovation, if:

- the business breaches any grant agreement, misappropriates funding, provides incorrect information to Callaghan Innovation, or claims ineligible expenditure;
- the business enters into a contract or arrangement (including change of ownership) that materially reduces the current or future planned research and development activity in New Zealand; or
- the grant fund is unspent and for which contractual liabilities have not yet been incurred.

Criteria relating to the initiative are set out in the following sections.

### **Research and Development (R&D) Growth Grants**

#### **Eligibility Criteria**

In addition to the Business Eligibility Criteria stated earlier, to be eligible to receive funding a business must:

- have had at least \$300,000 in eligible R&D expenditure (stated below), excluding any R&D funded by Callaghan Innovation, the Ministry of Business, Innovation and Employment, and other New Zealand central and local government funding sources, in each of the two most recent years;
- have had eligible R&D expenditure of at least 1.5 percent of revenues in each of the two most recent years;
- meet financial and management due diligence requirements sufficient to justify funding for the duration of the grant; and
- provide Callaghan Innovation with an R&D plan including an estimate of R&D expenditures for the duration of the grant. The business must compile the R&D plan to a level of detail and clarity sufficient to assess progress in the business's R&D programme over time.

Alternatively, a business that has not previously received an R&D Growth Grant may be eligible under the transitional eligibility criteria (stated below).

For R&D projects that were partially funded by government grants, the funding for the project that came from non-government sources is considered eligible R&D expenditure for the purpose of determining business

eligibility.

While eligibility requires that applicants submit an R&D plan, the merits of the R&D programme described in the plan will not influence eligibility.

Entities that conduct or commission R&D activities mainly for other persons or businesses are likely to be ineligible due to insufficient eligible R&D expenditures.

#### **Parameters Specific to the Initiative**

##### ***Conclusion of the R&D Growth Grants Tool and Final Growth Grant Application Dates***

Callaghan Innovation will not award new R&D Growth Grants after 31 March 2019.

A business can commence a Growth Grant application in Callaghan Innovation's online portal no later than 20 December 2018 and submit it for assessment by Callaghan Innovation no later than 31 January 2019. Callaghan Innovation is not required to consider an application that fails to comply with these dates.

A business that seeks to apply for a Growth Grant after this date should be directed to the R&D Tax Incentive.

##### ***Extensions of Expiring Growth Grants***

An existing Growth Grant holder with a grant that ends on or before 31 March 2019 will have the option to extend its grant to 31 March 2021 if:

- the business's reported expenditure over the previous two years is found to meet the definition of eligible R&D expenditure (stated below);
- the business continues to meet the eligibility criteria; and
- the business has maintained or increased eligible R&D expenditure over the most recent two years of the grant period as compared to the two years prior to that period.

While eligibility for an extension requires that applicants submit an R&D plan, the merits of the R&D programme described in the plan will not influence eligibility.

An existing Growth Grant holder with a grant that ends on or after 19 April 2018 and on or before 31 March 2019 that does not meet the criteria because:

- the business's eligible R&D expenditure has reduced;
- the business's eligible R&D expenditure has fallen below 1.5 percent of revenues; and/or
- the business's eligible R&D expenditure has fallen below \$300,000;

but which meets the other requirements (listed above), will have the option to extend its grant to 31 March 2019 or the end of the business's 2018/19 tax income year (whichever is later).

A Growth Grant holder can elect to have their grant end early. It should notify Callaghan Innovation at least two months prior to the end of its contract if it wants to do so. The Growth Grant of a business that fails to qualify for, or elects not to receive, an extension will end as per the existing end date set in its contract. This business will not be eligible to apply for another Growth Grant in the period up to 31 March 2019.

##### ***Growth Grant End Dates***

New Growth Grants will have an end date of 31 March 2021.

Existing Growth Grants that are active on 1 April 2019 will be amended to have a grant end date of 31 March 2021, unless the holder's previous Growth Grant expired between 19 April 2018 and 31 March 2019 and it did not meet the criteria for an extension until 31 March 2021 at that time.

A Growth Grant holder can elect to have its grant end prior to 31 March 2021.

##### ***Growth Grant Co-Funding Rates***

A Grant holder will receive up to 20 percent of all eligible R&D expenditures incurred over the grant period up to a maximum of \$25 million of eligible expenditures per business per year (i.e., maximum grant funding of \$5 million per business per year).

A Grant holder is required to submit an annual update to its R&D plan and estimates. The plan must continue to be sufficiently detailed and clear to assess progress in the business's R&D programme over time.

A Grant holder that is found to be willfully misreporting R&D expenditure at any point will be immediately removed from the initiative.

##### ***Eligibility Criteria (Transitional)***

The same final application commencement, submission and grant award dates as stated above apply.

Transitional eligibility criteria will only apply for a business that has not previously received an R&D Growth

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Grant. No funding is payable by Callaghan Innovation unless the business actually reaches both the intended spend levels of at least \$300,000 per year on eligible R&D expenditure and at least 1.5 percent of revenues per year on eligible R&D expenditure within the first year of the grant.

Notwithstanding the above Eligibility Criteria for R&D Growth Grants, and in addition to the Business Eligibility Criteria stated earlier, a business may be eligible to receive funding if the business:

- intends to spend at least \$300,000 per year on eligible R&D expenditure (stated below);
- has the necessary finance to spend at least \$300,000 per year on eligible R&D expenditure;
- intends to spend at least 1.5 percent of revenues per year on eligible R&D expenditure;
- meets financial and management due diligence requirements sufficient to justify funding for the duration of the grant; and
- provides Callaghan Innovation with an R&D plan including an estimate of R&D expenditures for the duration of the grant.

Businesses must compile the R&D plan to a level of detail and clarity sufficient to assess progress in the businesses' R&D programme over time; and commit to and provide 3-monthly progress reports to Callaghan Innovation against the R&D plan for the first two years. If the business does not achieve the intended spend levels within the first year of the grant, it will receive no funding and exit the initiative. The business will not be eligible to apply for another Growth Grant in the period up to 31 March 2019.

### ***Definition of Eligible Research and Development Expenditure for R&D Project Grants***

Eligible R&D expenditure is defined as those meeting the New Zealand Equivalent to International Accounting Standard 38 (NZ IAS 38) definition of research and development and expensed under that standard.

The NZ IAS 38 definitions of R&D are:

- Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
- Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.

### ***Clarifying Principle***

If necessary, when seeking to distinguish R&D from non-R&D, the further advice provided by the New Zealand Financial Reporting Standard 13 (NZ FRS 13) should be applied:

- R&D is distinguished from non-R&D by the presence or absence of an appreciable element of innovation. If the activity departs from routine and breaks new ground it is normally R&D; if it follows an established pattern it is normally not R&D.

### ***General Exclusions***

The following types of expenditure are not eligible for the R&D Growth Grants initiative:

- Any expenditure that is capitalised as an intangible asset under NZ IAS 38;
- R&D undertaken outside of New Zealand;
- R&D funded through an enforceable levy paid by another entity;
- enforceable levies for R&D paid to another entity; and
- any R&D funded by a grant or other payment provided by an entity that is not part of the same consolidated group of entities as the applicant.

However, R&D funded by the R&D Growth Grant, an R&D Project Grant that the business receives for a collaborative R&D Project or an R&D Student Grant is eligible. Expensed funding for R&D contracted out by the applicant to another entity is also eligible.

### ***Specific Exclusions***

To provide further clarification on the definition, some specific activities are excluded. This list is not exhaustive. Activities not specifically excluded are only eligible provided they meet all other features of the definition. Specific activities excluded are:

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- Engineering follow-through in an early phase of commercial production.
- Activities related to the construction, relocation, rearrangement or start-up of facilities or equipment other than facilities or equipment solely used for the businesses' R&D (which may be included).
- Routine, on-going efforts to refine, enrich, or otherwise improve on the qualities of an existing product or process, or to make cosmetic or stylistic changes to it.
- Routine design of tools, jigs, moulds and dies, or seasonal or other periodic design changes to existing products. However, expensed design activities involved in developing a new product or process are eligible.
- Activities involved in ensuring that existing products or processes comply with statutory requirements or standards, and quality control, routine testing or trouble-shooting during commercial production. However, testing in search of significant product or process improvements is eligible.
- Adapting an existing product or process to a particular customer's need or site.
- Supporting, de-bugging or making minor improvements to existing computer software.
- Market research or surveys, market testing, market development or sales promotion, management studies, efficiency surveys or the routine collection of information.
- Any costs involved in protecting, licensing, selling or defending intellectual property or of acquiring or using external intangible assets (e.g. patent licences).
- Interest expenses or lease payments of any kind, and any overheads that are not closely linked to R&D activities. Eligible overheads include finance, personnel, training, travel, administration and library activities associated with R&D, and reasonable R&D-related transportation, storage, cleaning, repair, maintenance and security activities.
- Prospecting or exploring for minerals, petroleum, natural gas or geothermal energy.
- Research in the social sciences, arts or humanities.

Dated this 3rd day of October 2018.

HON MEGAN WOODS, Minister of Research, Science and Innovation.

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