

Direction to Callaghan Innovation—Criteria for Assessing Proposals for Funding Project and Student 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:

- Targeted Business Research and Development Funding.

Criteria to be Applied

Callaghan Innovation must make funding decisions in accordance with the:

- Public Finance Act 1989;
- Parameters specific to the business-led research and development (R&D) tool;
- Criteria specific to each initiative within the tool, which are:
 - Policy objectives;
 - Eligibility criteria;
 - Judgement criteria; and
 - Parameters specific to the initiative.

In addition to the criteria listed above, Callaghan Innovation must take into account the overall mix of relevant investments. Detailed criteria specific to each initiative are set out in more detail in the following pages.

Administrative Processes

Callaghan Innovation will:

- Market the tool and provide easy to access public information explaining its features.
- Actively seek out applicants from inside and outside the group of businesses it currently works with.
- 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.
- 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.

Callaghan Innovation may issue standing or periodic calls to generate proposals for consideration. The calls for proposals will be consistent with the criteria in this direction, and will provide guidance for applicants. This guidance may include, where applicable:

- the area(s) of investment in which a funding decision is required;
- more detail as to how the criteria in this notice apply to the area of investment;
- the tool (or initiative within the tool) to be used;
- the amount of funding available;
- specific outcomes sought for a given investment process or decision; and

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- other timeline and process information.

Calls for proposals will be published on the Callaghan Innovation website:

<http://www.callaghaninnovation.govt.nz>.

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, Issue No. 132, Notice No. 2015-go7129](#) is revoked.

Criteria Specific to the Business-led R&D Tool

Overall Policy Objective

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

Initiatives

The following two initiatives sit within this business-led R&D tool:

- Research and Development Project Grants.
- Research and Development Student 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 each initiative are set out in the following sections.

Research and Development (R&D) Project Grants

Policy Objectives

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The objectives of this initiative, in addition to the overall policy objective of the business-led R&D tool, are to:

- support greater investment by businesses in R&D activities and generate wider benefits to the New Zealand economy; and
- develop businesses with less established R&D programmes into stable and substantial R&D performers.

Eligibility Criteria

In addition to the Business Eligibility Criteria stated earlier, to be eligible to receive funding under this initiative, the general rule is that a business must not currently be receiving an R&D Growth Grant or must not be eligible to receive an R&D Growth Grant (under the non-transitional eligibility criteria).

Judgement Criteria

Callaghan Innovation must assess proposals against the following criteria:

A. Private Investment Returns	B. Pathway to Market (Commercial Outcomes)
<u>Key question:</u> Assuming the project is successful, what are the potential commercial returns to the business?	<u>Key question:</u> Assuming the technical aspects of the project are successful, how capable will the business be at successfully commercialising or implementing the results?
C. Ability to Deliver (R&D Outputs)	D. Develop R&D Programme
<u>Key question:</u> How capable will the business be at successfully delivering on the technical aspects of the project?	<u>Key question:</u> To what extent will the project be a technical stretch for the business and/or contribute to the development of a more stable and substantial New Zealand-based R&D programme within the business?
E. Grant Impact	F. Benefits Outside the Business
<u>Key question:</u> How strong will the impact of grant funding be on the delivery, scale, quality or commercial success of the project?	<u>Key question:</u> How much potential is there for benefit to accrue outside the business to other New Zealand businesses or society?

Criteria A-F must be the basis upon which Callaghan Innovation determines whether to provide a grant for a project.

Parameters Specific to This Initiative

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

R&D Project Grants fund research and development using the following definitions:

- **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.

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.

R&D undertaken outside of New Zealand is not eligible for co-funding, except in limited cases where Callaghan Innovation expressly permits it. In deciding whether to co-fund R&D undertaken outside New Zealand, Callaghan Innovation will consider the benefits to New Zealand and whether similar expertise or facilities are available in New Zealand. A Project Grant holder will not receive co-funding for any expenditure that has been used to attract other sources of government funding or the R&D Tax Incentive.

Co-Funding Rates

Callaghan Innovation will determine the co-funding rate according to the following rules:

- R&D Project Grants will typically provide funding for up to 40 percent of the eligible R&D expenditure of a project.
- Any eligible R&D beyond the first \$800,000 of eligible R&D expenditure of a project (or projects if the

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business is receiving multiple R&D Project Grants simultaneously) will be funded at 20 percent.

- If a business has previously received an R&D Growth Grant then they will receive 20 percent funding of eligible R&D expenditure for the entire Project Grant.
- If a business has previously received R&D Project Grants totalling more than \$800,000 of funding they will receive 20 percent co-funding for the entire Project Grant.

Information Specific to This Initiative

- R&D Project Grants are targeted at businesses with smaller research and development programmes and businesses new to R&D.
- A business may receive multiple R&D Project grants (each grant for a distinct project).

Research and Development Student Grants

Policy Objective

The objective of this initiative, in addition to the overall policy objective of the business-led R&D tool, is to support New Zealand undergraduate and postgraduate students to gain and develop their technical skills in a commercial research environment, while bringing capability into New Zealand businesses.

Eligibility Criteria

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

- Have an active R&D programme.
- Ensure that the student(s) that the grant relates to:
 - is a science, technology, engineering, design or business student from a tertiary education institution;
 - is studying a degree at NZQA levels 7-10 or equivalent; and
 - has appropriate immigration status at the time of application (or an application in progress that is subsequently approved).

Judgement Criteria

Callaghan Innovation must assess proposals against the following criteria:

A. Student Exposure to R&D	B. Student Professional Development	C. Benefit to the Business
<u>Key question:</u> How will the involvement of the student within the business expose them to technical work that is relevant to their degree? This should be in the form of a defined R&D project.	<u>Key question:</u> Does the business have a credible plan for the professional development of the student, and what resources has the business committed towards this?	<u>Key question:</u> How will the involvement of the student within the business support the business's internal capability development?

Parameters Specific to This Initiative

Definition of Eligible Research and Development Expenditure for R&D Student Grants

The eligible expenditure that may be incurred is limited to the wages and salary of the student, a tax-free stipend for the student, a tertiary administration fee and, when the business is located a significant distance from the tertiary education institute, a travel allowance for the student.

Dated this 3rd day of October 2018.

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