

## **Direction to Callaghan Innovation—Administration of the New to R&D Grant**

Under section 103 of the Crown Entities Act 2004, I direct Callaghan Innovation to give effect to the policy parameters for the New to R&D Grant as specified in this direction.

### **Policy Objective**

The policy objective of this initiative is to increase the number of New Zealand businesses engaging in research and development (R&D) to support long-term economic growth.

The objective will be achieved by providing support to businesses that are new to R&D for a limited period to build the capabilities to perform R&D on a systematic basis over the longer term. The intention is that grant recipients will continue to perform R&D after the end of the grant period but will transition onto the R&D Tax Incentive (RDTI) for ongoing government R&D support.

### **RS&T Funding to be Allocated by Callaghan Innovation**

Pursuant to section 5(2) of the Research, Science and Technology Act 2010, the allocation of Research, Science and Technology (RS&T) funding from the following appropriation administered by the Ministry of Business, Innovation & Employment (MBIE) will be subject to the decision-making process specified in this direction:

- New to R&D Grant category of the Targeted Business R&D Funding multi-category appropriation

Callaghan Innovation will use funds from this appropriation to cover the cost of providing grants and supporting services to businesses under this initiative. Callaghan Innovation will not use funds from this appropriation to cover the costs of administering this initiative.

Callaghan Innovation must allocate funds under this initiative in accordance with the following:

- Public Finance Act 1989;
- The rules specified in this Ministerial Direction; and
- The guidance published by Callaghan Innovation in accordance with this Direction.

### **Defined Terms**

#### *Eligible Entity*

**Eligible Entity** means an entity that is a:

- Company incorporated and registered in New Zealand under the Companies Act 1993 that is not controlled by the government or one or more government agencies; or
- Limited Partnership registered in New Zealand, under the Limited Partnerships Act 2008 that is not controlled by the government or one or more government agencies; or
- Māori Trust or incorporation under the Te Ture Whenua Māori Act 1993, or a similar organisation managing Māori assets under multiple ownership.

Callaghan Innovation will issue and maintain guidance to applicants on the criteria it will use for determining which businesses are not eligible for funding under this initiative.

#### *New to R&D*

**New to R&D** means an entity that:

- has not performed a significant amount of R&D prior to submitting a New to R&D Grant application; and
- does not have the capabilities to perform R&D on a systematic basis over the longer term.

Callaghan Innovation will consider an entity not to be New to R&D if the business:

- Has incurred more than a Minimum Amount of Eligible R&D Expenditure in total in the three years prior to submitting a New to R&D Grant application; or
- Has received government funding intended to support business R&D, including the R&D Tax Incentive, a R&D Growth Grant, a R&D Project Grant, a R&D Student Grant, a New to R&D Grant, a Repayable Grant (under the Technology Incubator Programme), or under a programme administered by another government agency; or
- Can draw on the R&D capabilities of an associated organisation, including a parent or another organisation in the same business group, that is not New to R&D.

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Callaghan Innovation will issue and maintain guidance to potential applicants on the criteria that it will use for determining:

- whether an entity is New to R&D; and
- which entities will be considered associated organisations for the purposes of determining whether the business is able to draw on its R&D capabilities.

Unless I specify otherwise in writing, Callaghan Innovation will set the Minimum Amount of Eligible R&D Expenditure over which an entity will be considered not to be New to R&D. In doing so, Callaghan Innovation will take into account the Policy Objective.

### *Eligible R&D Expenditure*

**Eligible R&D Expenditure** means eligible expenditure under the RDTI, except as provided in this section.

Callaghan Innovation may allow additional expenditure that is not eligible under the RDTI to be eligible for support under this grant if:

- The expenditure is integral to the business's initial R&D project; and
- Callaghan Innovation clearly communicates to the entity that the expenditure is not eligible under the RDTI.

Callaghan Innovation will issue and maintain guidance for potential applicants on the criteria it will use for determining which expenditure does and does not qualify as Eligible R&D Expenditure.

### *R&D Setup Costs*

**R&D Setup Costs** means the costs associated with building the capabilities within the business to perform R&D on a systematic basis over the longer term.

Callaghan Innovation will issue and maintain guidance to potential applicants on the activities that may be covered under R&D Setup Costs.

### *Other Terms*

**R&D** means the set of activities classified as R&D activities under the RDTI.

**Minimum Amount of Eligible R&D Expenditure** means a set amount of R&D expenditure, above which an entity will be no longer considered to be new to R&D.

**Maximum Grant Amount** means the maximum value in dollars that an entity can receive as a recipient of the New to R&D Grant.

### **Authority to Issue a New to R&D Grant**

Callaghan Innovation may only issue a New to R&D Grant to an entity if:

- The entity is an Eligible Entity;
- The entity is New to R&D;
- The entity satisfies the assessment criteria determined by Callaghan Innovation in accordance with this direction; and
- Callaghan Innovation is satisfied that issuing a New to R&D Grant to the entity would not bring the reputation of the R&D grants programme, Callaghan Innovation, or the Government into disrepute.

### **Support to be Provided to a New to R&D Grant Recipient**

Callaghan Innovation will provide the following support under the New to R&D Grant:

- Support for R&D Setup Costs; and
- Funding for Eligible R&D Expenditure.

Callaghan Innovation must be satisfied the applicant intends to perform R&D on an ongoing basis and use the grant to establish R&D capabilities.

The total value of support to the grant recipient will be no more than 40% of total Eligible R&D Expenditure incurred by the grant recipient during the grant period or the Maximum Grant Amount, whichever is smaller.

Unless I specify otherwise in writing, Callaghan Innovation will set the Maximum Grant Amount at a level that it considers both enables grant recipients to build the capabilities to perform R&D on a systematic basis over the longer term and achieves the Policy Objective of increasing the number of New Zealand businesses engaging in R&D.

The Support for R&D Setup Costs will comprise half of the total grant with the other half comprising Eligible R&D Expenditure. Callaghan Innovation may specify that a portion of the Support for R&D Setup Costs include further funding for Eligible R&D Expenditure if it considers that incurring Eligible R&D Expenditure will best enable the grant

recipient to build the capabilities to perform R&D on a systematic basis over the longer term.

The total value of support for Eligible R&D Expenditure will comprise at least half of the total value of the grant, ensuring businesses receive R&D support equivalent to what they would receive from the RDTI.

Callaghan Innovation will specify to the grant recipient the set of activities that will be covered under the Support for R&D Setup Costs. In specifying the set of activities, Callaghan Innovation will select those activities that it considers will best enable the grant recipient to build the capabilities to perform R&D on a systematic basis over the longer term.

Callaghan Innovation may provide the support for R&D Setup Costs in cash co-funding, as a voucher for services provided by a specific third-party provider or providers, or as services provided directly by Callaghan Innovation or its nominated provider.

In addition, Callaghan Innovation will provide support to a New to R&D Grant recipient to help it make a smooth transition to the RDTI at the end of the period of the grant. This includes educating the grant recipient on how the RDTI activity-based approach would apply to the activities supported under this grant.

Callaghan Innovation will not provide support to an entity under a New to R&D Grant for a period longer than two years. It may in exceptional circumstances extend this time period if the grant recipient's ability to perform the specified activities covered under the Support for R&D Setup Costs is significantly disrupted by events out of the grant recipient's control.

If a grant recipient exceeds the level of R&D activity eligible for support available under the New to R&D Grant before the end of two years, Callaghan Innovation will take all reasonable steps to assist the grant recipient to transition to the RDTI as soon as possible after that point.

### **Constraining Measures**

Callaghan Innovation will put in place additional measures, if necessary, to ensure expenditure on the New to R&D Grant does not exceed the funds allocated to this initiative.

Any constraining measures must be consistent with the Policy Objective and the overall design of the initiative described in this direction.

### **Consideration of Government Priorities**

I may, at my discretion, specify to Callaghan Innovation in writing specific Government priorities that Callaghan Innovation must consider when assessing grant applications and selecting grant recipients. If I specify Government priorities to be considered, Callaghan Innovation will publish the document setting out those priorities on its website.

For the avoidance of doubt, if I have not specified Government priorities to be considered, Callaghan Innovation will not infer any Government priorities to be considered as a factor in decision making.

### **Administrative Processes**

Callaghan Innovation must make sure it has processes in place to:

- Market and call for proposals on the initiative;
- Carry out appropriate due diligence on grant applicants;
- Refer grant applicants to other complementary advice and services;
- Capture data insights to evaluate the initiative;
- Monitor grant recipients to ensure that the funding is used appropriately; and
- Seek to recover funding as appropriate and in line with clawback provisions.

Callaghan Innovation must inform MBIE prior to making any material changes to guidance and constraining measures or making changes to the Minimum Amount of Eligible R&D Expenditure and Maximum Grant Amount.

For the avoidance of doubt, I do not expect Callaghan Innovation to apply the RDTI activity-based approach to determining Eligible R&D Expenditure when assessing grant applications. The application process should be simple and not create a deterrent to business from applying for support under this initiative.

### **Clawback of Funding**

To ensure the appropriate use of public funding, Callaghan Innovation will require a grant recipient to return some or all grant funding during or following a grant agreement if:

- the entity breaches any term of a grant agreement, misappropriates funding, provides incorrect information to Callaghan Innovation, or claims ineligible expenditure; or
- the entity enters into a contract or arrangement (including change of ownership) that materially reduces the grant recipient's current or future planned R&D activity in New Zealand; or
- the grant funding is unspent and the entity has not yet incurred contractual liabilities for that funding.

Callaghan Innovation may specify additional conditions under which the entity will be required to return some or all of the funding. These conditions must be consistent with the Policy objective or significantly improve Callaghan Innovation's ability to administer the initiative.

Callaghan Innovation must ensure that grant recipients agree to clawback provisions that provide for the return of grant funding to Callaghan Innovation in the circumstances described above or in other circumstances prescribed by Callaghan Innovation in accordance with this direction.

**Collection and Provision of Information**

Callaghan Innovation will collect information relevant to the monitoring and evaluation of this initiative, policy development more generally, analysis of business performance, and other related research, including business-level information on all applicants for funding under this initiative.

Callaghan Innovation will make the information described above, and any other information collected or generated as consequence of administering the initiative, available:

- To MBIE, upon request, for the purposes of monitoring and evaluation of the initiative and policy development more generally;
- To Statistics New Zealand, on an annual basis, for the purpose of making it available to researchers on a de-identified basis through the Longitudinal Business Database (for business-level information) or the Integrated Data Infrastructure (for individual-level information).
- To other Government Departments or Agencies for the purposes of achieving wider Government policy objectives.

Callaghan Innovation will ensure that it obtains the necessary consent from all applicants to collect and share the information described above.