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CallaghanInnovation

**Briefing to the Incoming Minister
of Science and Innovation**

October 2014

CALLAGHAN INNOVATION - OUR ROLE

Callaghan Innovation's mission is to accelerate the commercialisation of innovation. We help high value manufacturing and services (HVMS) businesses develop and use cutting-edge technology to create a competitive international market advantage. Working closely alongside New Zealand Trade and Enterprise (NZTE), we contribute to your government's overall effort to drive the growth of more, bigger, smarter businesses, creating higher-wage jobs for New Zealanders and greater export receipts.

Our services are designed to accelerate the rate at which businesses develop new or better internationally marketable products and services. Callaghan Innovation's success will be measured by the contribution we make to business innovation and subsequent business growth.

We are well-placed to support your election priorities around increasing business-led research and development (R&D) through:

- Our role in administering the government's business R&D grant programmes
- Ensuring we have the right R&D infrastructure in place, such as developing a business case for the Gracefield Innovation Precinct
- Providing assistance to the policy to cash out R&D tax losses for R&D intensive start-up businesses.

NEXT 100 DAYS – PENDING DECISIONS OR ACTIONS

- Callaghan Innovation will continue to make decisions on Business R&D Grant applications and your office will be kept closely informed of key dates and developments.
- Callaghan Innovation is assisting Inland Revenue (IR) with the implementation of the policy to cash out the R&D tax losses for R&D intensive start-up businesses. Two Callaghan Innovation staff will be seconded to IR to assist with this work. IR are preparing a paper for your office on the implementation of the policy.
- Callaghan Innovation is continuing to prepare its business case for redevelopment of the Gracefield Innovation Precinct and will keep you fully informed of progress.
- Callaghan Innovation will seek approval from you and the Minister of Finance for some fiscally neutral adjustments between our Output Classes as part of the October Baseline Update process.

MEDIUM-TERM CHALLENGES

This section sets out what we see as some of the important medium-term challenges ahead for Callaghan Innovation.

Service mix consistent with mission

As we move beyond our start-up phase towards full operational delivery, it is appropriate for us to examine the programmes under our remit to ensure we deliver a service mix that is consistent with our mission. Delivering the right mix of services is vital so that we can focus on those areas where our organisation can deliver the most value to businesses.

At the time of our formation, a mix of programmes was transferred to Callaghan Innovation from other organisations. There is a question whether some of these inherited programmes are consistent with our mission as they are not specifically targeted at growing HVMS businesses. In due course you may wish to revisit whether these programmes fit with the purpose of Callaghan Innovation.

Businesses that receive grants

A key activity for Callaghan Innovation is the provision of grants to support and encourage businesses to undertake additional R&D activities. Awarding grants allows government to share with businesses some of the risks associated with higher risk - higher return R&D activities. Grants are a valuable entry point for businesses to Callaghan Innovation. We are developing protocols to ensure that grant applicants, regardless of whether they are successful, are referred to other sources of assistance, be that other Callaghan Innovation services, NZTE services or the services provided by regional Economic Development Agencies.

Callaghan Innovation plays a key role in supporting and encouraging all HVMS businesses who are striving to develop new products, particularly those businesses with more ambitious research initiatives. Ensuring the grant process is as efficient as possible is important. Equally, it is vital to ensure that grant eligibility criteria and co-funding rules promote the right level of innovative R&D activities by businesses. This is an area of interest that we will be monitoring over the short to medium term.

Positioning ourselves as the outsourced provider of R&D services for businesses

Our research and technical services have been restructured to align with and be active members of the seven national technology networks. In future, our research and technical services will in effect become an outsourced R&D department for many businesses.

Callaghan Innovation has commercial revenue targets to meet each year, so the R&D services we provide to businesses will not be free. While our research and technical services are not expected to recover all their costs, businesses will be expected to pay a contribution to the services they use. The depth of market for our R&D services has yet to be tested and price sensitivity for R&D services is unknown. This will be an ongoing topic of conversation as we develop and test the market for commercial R&D services.

Capital Investment

Callaghan Innovation was provided with a capital appropriation of \$76.1 million over three years to support our establishment and development. To date \$12.39 million has been approved, leaving us with \$63.71 million of our establishment capital remaining. We intend to use part of our outstanding capital for the future development of the Gracefield Innovation Precinct. This project will go through a business case development process working closely with Treasury. With respect to any future capital investments, these will continue to be strongly aligned with Callaghan Innovation's strategic priorities.