

## Office of the Minister of Science and Innovation

Cabinet Economic Growth and Infrastructure

# Callaghan Innovation: Implementation Decisions

## Proposal

1. This paper proposes accountability and performance management arrangements for the new Crown entity, Callaghan Innovation, proposes high-level funding arrangements, clarifies its role in administering business R&D grants schemes, and sets out a model for alignment and coordination of the activities of Callaghan Innovation and New Zealand Trade and Enterprise (NZTE).

## Executive summary

2. In June 2012 Cabinet agreed to establish an advanced technology institute (ATI) with the main objective to support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing and services sectors, to improve their growth and competitiveness. A Bill establishing the organisation as a new statutory Crown entity is currently in the House and is due to be enacted by 20 December 2012. The new organisation, with the permanent name of Callaghan Innovation, will commence operations from 1 February 2013 and will be located in the Auckland, Wellington (including the Hutt Valley) and Canterbury regions.
3. Callaghan Innovation will be a business-facing organisation. Its key functions will be to provide innovation services to business, foster an environment that encourages and supports business innovation, facilitate the transfer of knowledge and technology from Research, Science and Technology (RS&T) providers to business, and administer business R&D grants. Callaghan Innovation will encompass Industrial Research Limited (IRL), currently a Crown Research Institute, as a subsidiary company.
4. Callaghan Innovation will be subject to the standard accountability requirements in the Crown Entities Act 2004 for statutory Crown agents. The Ministry of Business Innovation and Employment (MBIE) will be the monitoring agent. Operating principles in the Callaghan Innovation Act will strengthen its accountability to stakeholders. These cover a requirement to act fairly and transparently in administering and allocating business R&D funding, and provisions for the responsible Minister to appoint a stakeholder advisory group and the chief executive of MBIE as a special adviser to the Board. A programme of evaluation will be led by MBIE and will include ongoing evaluative activity as well as an independent review, after three years of operation, of the capability, operations, financial sustainability and overall contribution Callaghan Innovation has made.
5. In Budget 2012, \$166.1 million in non-departmental funding was appropriated over four years to support ATI implementation. The release of this funding is to be approved by the Ministers of Science and Innovation and Finance (joint ministers) in February 2013, subject to an acceptable business case and revenue model being proposed by the Callaghan Innovation Establishment Board. A high-level funding framework is proposed in this paper to guide funding decisions and encompasses: a set of funding principles;

funding arrangements that specify direct Crown funding for core public good activities, indirect Crown funding for public good research and development activities, and part and full user charges for services; a structure for appropriations; and financial performance expectations.

6. Cabinet agreed in principle that the ATI will administer business R&D grants schemes [CAB Min (12) 22/11] and this paper proposes that all the business-led R&D grants schemes currently administered by MBIE transfer to Callaghan Innovation, along with staff whose primary role is to administer these grants. The transfer of the schemes will be accompanied by some changes to their design to enable them to further increase private investment in business R&D. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
7. An integrated service delivery model is proposed to support alignment and coordination between Callaghan Innovation and NZTE. This will implement a 'no wrong doors' approach, enabling businesses to seamlessly access a range of support from both agencies. This is consistent with the relationship between NZTE and Callaghan Innovation where the two roles are functionally distinct but the services provided are complementary. The current NZTE programme, Better by Lean, is proposed to transfer to Callaghan Innovation by 30 June 2013.

## Background

8. On 25 June 2012 Cabinet agreed to establish the Advanced Technology Institute (ATI) as a new Crown entity to support firms in the manufacturing and services sectors to improve their competitiveness and growth through science and technology-based innovation and its commercialisation [CAB Min (12) 22/11].
9. On 3 September 2012, the Advanced Technology Institute Bill, seeking to establish the ATI as a new statutory Crown entity, was approved for introduction by Cabinet Business Committee [CBC Min (12) 6/4]. It was introduced to the House on 10 September, referred to the Education and Science Select Committee which reported back on 5 November, and received its second reading on 8 November.
10. On 14 November I announced the ATI will be named Callaghan Innovation, in recognition of the late Sir Paul Callaghan, renowned for his passion for commercialising research. I also confirmed that Callaghan Innovation will have operations in the Auckland, Wellington (including Hutt Valley) and Canterbury regions and that its Establishment Board is preparing for a 1 February 2013 start.
11. The Establishment Board, chaired by Sue Suckling, was appointed on 21 August 2012 and is putting in place the organisational arrangements the institute requires to commence operations on 1 February 2013. These arrangements include the recruitment of a chief executive, day one planning, and the preparation of a detailed business case. Appointments to the Callaghan Innovation Board will need to be made before the end of this calendar year.
12. The initial decisions made by Cabinet in June confirmed the purpose, functions and organisational form for Callaghan Innovation. While these decisions provided the groundwork for its establishment, further policy work was required in a number of areas. Specifically, Cabinet directed officials from MBIE to report to Cabinet Economic Growth and Infrastructure Committee (EGI):

- (a) on the detail of an accountability and performance framework for the ATI in consultation with the Treasury and the ATI Establishment Board;
  - (b) with final advice and recommendations to give effect to Cabinet's in principle decision to transfer from MBIE to the ATI the administration of certain business R&D grants schemes, in consultation with the Treasury; and
  - (c) on how it proposes the activities of ATI and NZTE be aligned and coordinated and which, if any, NZTE initiatives or programmes should be transferred to the ATI, in consultation with the ATI Establishment Board and NZTE.
13. This paper seeks decisions in relation to these matters. In presenting the recommendations in this paper I have been guided by the need to support the rapid establishment of Callaghan Innovation, promote alignment with other government agencies working to support businesses, particularly NZTE, and enhance the overall effectiveness of business-facing services. I have also kept in mind the ambitions we have for the institute in driving economic growth through more competitive and innovative businesses, and the need for us to maintain appropriate strategic oversight of its contribution toward these longer term outcomes.

### **Accountability and Performance Framework**

14. All statutory Crown entities operate under their own Act as well as the framework set by the Crown Entities Act 2004. The Public Finance Act 1989 and the State Sector Act 1988 also apply. The Crown Entities Act is permissive in that it allows Ministers to give directions to, and put in place additional mechanisms for, statutory Crown entities in order to align their activities with government policy and ensure adequate directions and monitoring. In essence though the Crown Entities Act places responsibility with Boards to govern well — in line with their statutory objectives and functions and meeting the expectations of their responsible Minister.
15. In developing the proposed accountability and performance framework for Callaghan Innovation, I have had regard to the need to:
- (a) meet the requirements of the Crown Entities Act
  - (b) promote effective and efficient establishment and operations of the new institute
  - (c) enable performance to be incentivised, monitored and improved, and
  - (d) align the arrangements for Callaghan Innovation and NZTE where that is appropriate.
16. This paper does not reiterate the accountability and performance expectations common to all Crown entities. Instead, I focus on the proposed arrangements and/or mechanisms that are distinctive to Callaghan Innovation.

### **Accountability arrangements**

17. Callaghan Innovation's role is focused on supporting science and technology-related innovation in business and fits within the Science and Innovation portfolio. Links with the Economic Development portfolio will be important and will be enabled through the location of both the science and innovation and economic development policy advisory groups within MBIE. MBIE's Science, Skills & Innovation Group will perform the role of monitoring

agency. This Group will carry out Crown entity monitoring functions for Callaghan Innovation, NZTE and CRIs as well as providing policy advice.

18. The Crown Entities Act requires statutory Crown entities to prepare a Statement of Intent (SOI) and an Annual Report. These will be the principal accountability documents for Callaghan Innovation. As a new Crown entity, Callaghan Innovation will be required (under s140 of the Crown Entities Act) to prepare an SOI 'as soon as practicable' after establishment for the part-year commencing 1 February 2013. Given this date is close to the time it would need to be preparing an SOI for the following 2013/14 year, I intend to direct the institute to prepare a single SOI, by the end of May 2013, covering the period 1 February 2013 to 30 June 2014 (noting that some elements of this will be retrospective). Treasury administers that part of the Crown Entities Act and agrees with this approach.
19. In addition to these standard accountability documents, I intend to put in place a performance contract for Callaghan Innovation with the aim of facilitating the delivery of Crown-funded outputs to agreed performance standards. While output agreements are optional under the Crown Entities Act, I consider there is a role for a mechanism that clarifies the results expected from the institute in return for Crown funding. The scope of the contract will:
  - (a) clarify or agree the institute's output expenses, grant programmes, and their costs
  - (b) agree the scope of activities in each output class and associated performance measures and standards
  - (c) agree any performance improvement actions and associated deliverables
  - (d) clarify the respective roles of MBIE and Callaghan Innovation in monitoring and agree how performance information will be reflected in the institute's strategy and used to improve operations.
20. As is usual practice between responsible Ministers and Crown entity boards, I intend to issue Callaghan Innovation with an annual letter of expectation. This will cover both my short- and medium-term priorities as well as the government's enduring expectations for the institute. It will be shared with NZTE, and is likely to have some elements in common with my letter of expectations to them. The enduring expectations component will reinforce the objectives, functions and operating principles specified in the anticipated Callaghan Innovation Act and supplement this with more detail on:
  - (a) the institute's enduring role in the science and innovation system
  - (b) the alignment and nature of engagement that I will be seeking between Callaghan Innovation, NZTE and MBIE, the need for the three organisations to work together to create collective impact on business innovation
  - (c) key performance expectations I have for Callaghan Innovation, and
  - (d) my intentions for participating in the Board's process of strategy setting process and for monitoring and evaluating the entity's performance.
21. The Callaghan Innovation Bill includes a number of provisions that recognise the unique context and functions of the new institute and are intended to strengthen its accountability to stakeholders. These were agreed by Cabinet when it made decisions on the introduction of the Bill [CBC Min (12) 6/4] and include:

- (a) a set of operating principles that Callaghan Innovation must adhere to in performing its functions, including a requirement that Callaghan Innovation act fairly and transparently in administering and allocating business R&D funding
  - (b) provision for the responsible Minister to appoint a stakeholder advisory group to advise the board on matters relating to the performance of its functions
  - (c) provision for the responsible Minister to appoint the chief executive of MBIE as a special adviser to the board, to assist it in aligning its strategies and activities with government policy
  - (d) restrictions on the Board's power to delegate certain important matters, including in relation to borrowing or lending money, the acquisition or disposal of real property and securities, setting up a subsidiary and appointing a chief executive.
22. I intend to exercise the powers in b) and c) above, appointing both a stakeholder advisory group for Callaghan Innovation and the chief executive of MBIE as a special adviser, upon the establishment of the institute.

### **Performance monitoring and evaluation**

23. The success of Callaghan Innovation will ultimately be measured by the contribution it makes to supporting manufacturing and services firms to innovate and increase productivity, whether through enabling increased exports, reducing the cost structure of industry, or expanding the productive capacity of the economy. Cabinet has previously agreed that 'while the ATI's financial performance will remain a key performance measure, the more important measures of performance relate to its contribution to the economy' [CAB Min (12) 22/11].
24. This means that performance expectations will need to be set at the level of impacts (eg in the manufacturing and services sector) as well as for the production of outputs (eg institutional performance).
25. At the level of impacts, in June 2012 Cabinet agreed a set of aims or outcomes for the ATI that contribute to its main objective. These are that the ATI will aim to:
- (a) broaden the base of technologically aware and innovation-ready companies
  - (b) stimulate existing businesses to increase their expenditure on R&D
  - (c) build firms' innovation and commercialisation capability, including by putting firms in touch with the right expertise and capability
  - (d) improve information about and access to the science, engineering, design and technology development capability that exists within public research organisations
  - (e) improve the transfer of knowledge and technology in the innovation system by facilitating improved connectivity and networks between firms and knowledge institutions
  - (f) encourage greater mobility of workers between knowledge institutions and business [CAB Min (12) 22/11].
26. Additional work on the performance measurement framework, including development of performance measures for the vote appropriations and development of a monitoring

schedule, will be progressed by MBIE officials and the Callaghan Innovation Establishment Board, and agreed with me as part of the SOI and performance contract processes. Callaghan Innovation will be required under the Crown Entities Act to report annually against these measures as part of its Annual Report, and I will require the entity to provide me with quarterly progress reports.

27. In addition to regular reporting against agreed performance measures, it is appropriate that there be an independent programme of evaluation, to be managed by MBIE. Programme evaluations have been instrumental within votes Economic Development and Science and Innovation in improving and refining programme design and improving delivery of services. The proposed approach is consistent with the current approach to evaluation of NZTE programmes. I have directed MBIE to report back to me with an evaluation framework and plan for Callaghan Innovation, developed in consultation with Callaghan Innovation and Treasury, by 31 March 2013. This programme of evaluation should include ongoing evaluative activity by MBIE, as well as an independent review, after three years of operations, of the capability, operations, financial sustainability and overall contribution Callaghan Innovation has made to the aims noted in paragraph 25 above.

## High-Level Funding Framework

28. In Budget 2012, \$166.1 million in non-departmental funding was appropriated over four years to support ATI implementation. In June 2012, Cabinet agreed that the release of that funding be approved by the Ministers of Science and Innovation and Finance (joint ministers), subject to an acceptable business case and revenue model being proposed by the Establishment Board [CAB Min (12) 22/11].
29. Joint ministers wrote to the Chair of the Establishment Board on 19 October 2012 setting out expectations for the business case, including with regard to the funds potentially available, the required scope of the business case, and the timetable for ministerial consideration and approval of the business case.
30. While the Minister of Finance and I have delegation from Cabinet to approve the release of funding for the institute, there are a number of outstanding matters relating to the funding arrangements for Callaghan Innovation that Cabinet should consider. These include: the funding principles that should apply when making final funding decisions for Callaghan Innovation; the proposed structure of Crown appropriations; access by the institute to the science investment processes operated by MBIE; and general financial performance expectations for Callaghan Innovation. These matters are discussed further below.

## Funding principles

31. In developing advice on the proposed funding arrangements, the overriding considerations are that the funding model:
- (a) drives the right behaviours for the institute, in particular strong engagement with industry, a focus on adding value to firms and industries, and a collaborative business model that supports the development of critical mass of capability and facilities and avoids unnecessary duplication across the science system
  - (b) maintains to the extent possible a level playing field for scientific research and innovation service providers, to avoid compromising the institute's neutral broker

and facilitator roles and to preserve competition in the marketplace for commercial services, and

- (c) is compliant with Public Finance Act requirements and consistent with Treasury guidelines on Appropriations and Setting Charges in the Public Sector.

32. Consistent with these overall aims, I propose the following funding principles should apply when making final funding decisions for Callaghan Innovation:

- (a) the funding model should reinforce the behaviours sought from Callaghan Innovation and other RS&T providers, in particular strong engagement with firms and industry, a focus on adding value to firms and industry, and a collaborative approach that seeks to harness the capabilities and facilities of other RS&T providers to develop critical mass and minimise unnecessary duplication
- (b) with respect to Callaghan Innovation's commercial activities, the funding model should create incentives for the institute to grow commercial revenue and reduce its overall reliance on government funding over time
- (c) the funding model for contestable services should be consistent with the principle of competitive neutrality, to avoid crowding out other (public and private) providers
- (d) funding sources for Callaghan Innovation functions, and their associated services or activities, should recognise the different blend of public/club/private good characteristics associated with those functions
- (e) the funding model should be consistent with the on-going financial viability of the institute, including with respect to building and maintaining capability to deliver services into the future
- (f) experimental or pilot initiatives should be funded on a temporary basis, with on-going funding subject to external review and evaluation and/or an exit strategy.

33. Applying the above principles, I propose a set of funding arrangements with the following key elements:

- (a) Direct Crown funding for core Callaghan Innovation public good functions (excluding R&D). There are a number of core functions and associated services/activities to be funded that have public good characteristics including: services aimed at building innovation potential; activities aimed at realising the benefits of innovation; responsibilities in relation to national measurement standards; and administration of business R&D schemes. The most appropriate form of funding for these functions is through non-departmental output expense appropriations. Direct Crown funding represents a stable form of funding and would therefore contribute to financial stability of Callaghan Innovation's revenue model. I propose an output class structure for Callaghan Innovation that balances the need for accountability and ministerial oversight against the need for flexibility of financial management for the Board (refer to paragraph 37). As noted earlier, I will agree a performance contract with Callaghan Innovation clarifying the amount and purpose of this Crown funding, and specify the associated deliverables and performance standards.
- (b) Direct Crown funding for Callaghan Innovation to maintain the strategic capabilities it requires to perform its functions effectively. A separate output class for strategic investment activities will provide transparency and assurance that the new entity will

maintain an appropriate level of science, engineering, technology, design and other strategic capabilities (i.e., neither too much nor too little). This will enable Callaghan Innovation to undertake long-horizon research and related activities, develop and improve its services to firms, keep up-to-date with on-going technological developments, lend credibility to and help support effective relationships with firms and RS&T providers, and enable Callaghan Innovation to support firms to think beyond immediate needs to medium- and longer-term opportunities. It provides clarity that scientific research and technological development capability will be an integral element of the Callaghan Innovation delivery model. The forthcoming business case will clarify the nature and extent of the science, engineering, technology and design capability Callaghan Innovation requires.

- (c) Indirect Crown funding for public good R&D activities, consistent with the current approach to funding research and its applications within Vote Science and Innovation. I consider that Callaghan Innovation should be subject to the same disciplines as other RS&T providers in how it accesses contestable and negotiated science investment processes operated by MBIE. Indirect funding for public good R&D activities will complement and add to direct funding for developing and maintaining science, engineering, technology, design and other strategic capabilities. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
- (d) Application of part and full user charges for services, reflecting that some services will have club, industry and/or private good characteristics. I will ask the Callaghan Innovation Board to consider the scope for charging for services such as training, brokerage and information provision. In general, I consider that the commercial services offered by Callaghan Innovation (e.g., contract R&D, product testing and analysis, support for prototype development) should be provided on a full cost recovery basis, to avoid crowding out other public and private providers. Any subsidies for these types of activities should be delivered directly to business by way of grant or voucher. This approach will facilitate contestability in the market for services, avoid distorting make or buy decisions by Callaghan Innovation, and make it easier to monitor its financial performance.

### **Structure of Appropriations**

34. The main considerations in proposing a structure for appropriations are that:

- (a) each output class must have an external focus, describing the final goods and services to be produced, not the intermediate goods and services or inputs used to create them
- (b) each output class should cover goods and services that are similar in nature<sup>1</sup> and distinct classes of outputs should be funded through separate appropriations
- (c) output class appropriations should be mutually exclusive with all other appropriations so that expenditure can fall into only one output class
- (d) appropriations must be comprehensive, to include all goods and services that will be supplied, to avoid risk of unauthorised expenditure
- (e) the scope statement for each class of output should be informative to those administering the output class and to the general public.

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<sup>1</sup> Unless a Multi Class Output Appropriation has been approved by the Minister of Finance.



35. Where Crown entities are involved in the delivery of a range of inter-related or complementary functions, as in the case of Callaghan Innovation, it is desirable that there be an appropriate degree of financial management flexibility so that the board can reallocate and reprioritise resources without recourse to Parliament.
36. Taking the above into account, I propose the following five Callaghan Innovation-specific non-department output expense appropriations be established in the 2013/14 Estimates of Appropriations.

Appropriation Title	Scope statement
Building innovation potential	This appropriation is limited to activities which build innovation potential through providing or enhancing access to information, training, mentoring, foresighting, networking and leadership across the innovation system and facilitating human capital mobility, for both businesses and RS&T providers.
Realising the benefits of innovation	This appropriation is limited to activities that build the level of, and returns from, science and technology-driven innovation through providing tailored brokerage and access to advice, technical services and facilities, and creating linkages, projects and collaborations between business or industry and RS&T providers.
National Measurement Standards	This appropriation is limited to providing specified standards to satisfy the needs for traceable physical measurement in New Zealand.
Business R&D Contract Management	This appropriation is limited to selection of businesses or individuals for either the provision of RS&T outputs, or the award of grants; and to negotiate, manage and monitor appropriate contracts with those businesses or individuals.
Callaghan Innovation Strategic Investment	This appropriation is limited to Callaghan Innovation for the development and maintenance of science, engineering, technology, design and other strategic capabilities required to develop, deliver, improve and evaluate its services and activities to meet the immediate and future needs of business and industry, and to facilitate its interactions with RS&T providers.

37. Further information on the rationale for the above non-departmental output expense appropriations, including examples of the services and activities that would be funded through each, is provided in Annex One. While I expect the above operating appropriations will be sufficient, I seek Cabinet's agreement to approve, jointly with the Minister of Finance, any modifications to the appropriation titles and scope statements necessary to ensure all services and activities proposed in Callaghan Innovation's business case and consistent with its statutory functions, can be lawfully funded.

38. In addition to the proposed operating appropriations, I propose retaining the current non-departmental capital appropriation to meet the capital requirements associated with Callaghan Innovation establishment.
39. I note that the amount of each proposed appropriation cannot be determined at this point, as the amounts need to reflect the underlying cost structure of Callaghan Innovation which is still under-development through the business case process. The Minister of Finance and I have previously been authorised by Cabinet to approve the release of non-departmental funding already appropriated for the institute, subject to an acceptable business case and revenue model being proposed by the Establishment Board. I will be making final decisions on Callaghan Innovation funding jointly with the Minister of Finance in February 2013 following approval of the business case. Decisions will then be reflected in the 2013/14 Estimates of Appropriations and associated accountability documents (e.g., performance contract).

### **General financial performance expectations**

40. Cabinet previously agreed that 'while the ATI's financial performance will remain a key performance measure, the more important measures of performance relate to its contribution to the economy' [CAB Min (12) 22/11]. To achieve its purpose, it is important that Callaghan Innovation be financially viable, both in terms of operating as a going concern and generating an adequate surplus to maintain and build its capability in support of its main objective. Further, as a provider of commercial services to business, it will earn commercial revenue and my expectations are that this will grow as a share of revenue over time as the market as a whole grows.
41. As with CRIs, I do not propose a formulaic return on equity (ROE) objective for Callaghan Innovation. Instead, I intend to discuss and agree an acceptable net surplus and net cash-flow from operating activities for the institute through its SOI process. In setting financial expectations for Callaghan Innovation, I propose to consider:
  - (a) the institute's ability to deliver on its mandate in the short- and long-term
  - (b) its ability to support innovation and its commercialisation in the New Zealand manufacturing and services sector through continued investment in new assets, capability and engagement with firms and industry
  - (c) how to deliver benefit to New Zealand in the most efficient manner, for example using debt to invest in physical assets that generate returns over time
  - (d) the capital charge rate applied to Crown entities and the cost of borrowing (if any)
  - (e) the entity's financial risk profile and its ability to absorb risk and unexpected shocks.

### **Administration of Business-led R&D Grants Schemes**

42. MBIE currently administers four grants to support business investment in R&D: the technology development grant, project grants, capability grants and the technology transfer voucher. Together these schemes cover one-off projects as well as long term research and development programmes of work. The level of government co-funding varies: 20% (technology development grant); 50% (project grants); up to 100% capability grants). \$115 million is available for the schemes in this financial year.

### **Transfer of schemes to Callaghan Innovation**

43. Cabinet previously agreed in principle that the administration of certain business R&D grants schemes, along with MSI's (now MBIE's) current business investment managers whose primary role is to administer these funding schemes, transfer from MBIE to the ATI upon its establishment [CAB Min (12) 22/11]. Cabinet also sought further consideration of: which funding instruments should be devolved to ATI; how to ensure integration between science and business funding; the appropriate roles for MBIE and the statutory Innovation Board in the grants administration system; and how to ensure a level playing field with other research providers.
44. I am recommending that all the business-led R&D grants schemes be transferred to Callaghan Innovation along with Science and Innovation's staff whose primary role is to administer these grants. I am recommending Cabinet make the decision now so associated staff have certainty over their longer term employer. It will also give certainty to Callaghan Innovation that the function will be devolved from MBIE, and allow businesses to be informed these services will be provided by Callaghan Innovation.
45. Transfer of the schemes is consistent with my objective to achieve a one-stop shop for New Zealand businesses to access technology advice and support. Callaghan Innovation has the ability to be more responsive to the needs of business, in the way it will work as well as the timeframes and processes it will use. I have provided for the transfer of the R&D schemes to Callaghan Innovation in the Advanced Technology Institute Bill. Clause 13(1)(f) of the Bill will enable Callaghan Innovation to allocate and administer RS&T funding.
46. A number of other alternative options were assessed and discounted. I considered whether all of the initiatives should remain in MBIE. While retention in MBIE would be cost neutral, it would increase compliance for businesses having to engage with MBIE for funding and Callaghan Innovation for other services. A demand side study also concluded the institute should have a funding role. I also considered whether the initiatives should be split between Callaghan Innovation and MBIE. This option could create substantial difficulties as business can present seeking one type of grant but end up receiving a different one. Overall these options would involve higher transaction costs for business and create greater confusion.
47. Cabinet has already considered the potential conflict of interest created by the transfer of the business-led R&D schemes, which will mean Callaghan Innovation will be both a funder and a service provider [CBC (12) 64 refers]. The ATI Bill has specific provisions to deal with the potential conflict of interest of Callaghan Innovation being a service provider as well as allocator and administrator of business R&D grants. These are outlined in paragraph 21.

#### **Roles of MBIE, the statutory Innovation Board and Regional Business Partners**

48. MBIE will continue to set the policy for business-led R&D investments, determine the annual funding available, and monitor the effectiveness of the grants.
49. When the schemes transfer I propose to disestablish the Innovation Board because the Innovation Board will no longer have a substantive role in providing business R&D support. The transfer will remove all the business-led R&D schemes that the Innovation Board is currently responsible for except for a commercialisation and technology transfer scheme which involves very small amounts of funding. The administration of this scheme will be reviewed by MBIE in 2013 but as an interim measure can be administered by the Science Board as the funds apply across their area of responsibility as well.

50. The Regional Business Partners currently have a role in administering and facilitating access to low level business R&D support. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.

### **Changes to design of schemes**

51. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
52. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
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### **Date of transfer**

57. I seek Cabinet approval for me to determine the date of transfer, which I would decide in consultation with MBIE and Callaghan Innovation. I am not recommending a specific date for transfer because a number of decisions still need to be made regarding the operation of Callaghan Innovation. The date of transfer would require a range of factors to be taken into account including:
58. the readiness of Callaghan Innovation, and the effect an early transfer of responsibility will have on it managing the development of its core business activities;
59. the role of the administration of grant schemes in giving the institution a profile in the marketplace and attracting businesses; and
60. the likely implementation date of the new schemes, and the merits of having Callaghan Innovation administer the more discretionary existing schemes for a brief period of time.
61. I expect to transfer the current business R&D schemes at the earliest available opportunity, and by 1 February 2013 if possible, given the staff and functions are already well established with the innovation sector. It will be important for Callaghan Innovation to be delivering business R&D support directly to businesses as soon as possible.

### **Integration between science and business funding**

62. If the business R&D schemes are transferred to Callaghan Innovation, science funding will continue to be administered by MBIE and other contracted agencies such as the Health Research Council. To maintain strong linkages across the science and innovation portfolio I propose to appoint the CE of MBIE as a special adviser to the Callaghan Innovation Board. This appointment will support strategic alignment across the two agencies. My letter of expectations to Callaghan Innovation will also outline how I want the work of the institute to be aligned to that of MBIE. My general expectation across both agencies will be that the CE's will work together to ensure that opportunities across the innovation and science system are maximised. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.

## Callaghan Innovation and NZTE Alignment and Coordination

63. While Callaghan Innovation and NZTE have distinct functions, achieving a high level of alignment and coordination between the two entities is important, as both will be involved in the design and delivery of business development services to firms and the overall effectiveness of these services will depend on the extent to which they are mutually reinforcing.
64. Cabinet directed officials from MBIE, in consultation with the ATI Establishment Board and NZTE, to report back to EGI on how it proposes the activities of ATI and NZTE be aligned and coordinated and which, if any, NZTE initiatives or programmes should be transferred to the ATI [CAB Min (12) 22/11].
65. The level of alignment and coordination between Callaghan Innovation and NZTE will depend on the respective client bases and the usage of each agency's services by firms. Officials have applied the following principles (based on the Business Facing Services component of Better Public Services) to the relationship between Callaghan Innovation and NZTE:
  - (a) seamless service provision from both organisations from the perspective of the business customer. A firm's ability to access specific support from across the system should not be disadvantaged through choice of lead agency
  - (b) customer engagement should be tailored to meet business needs and based on common processes of assessment to ensure consistency of experience for the customer
  - (c) minimise transaction costs for business and government and, where possible, avoid duplication (especially in requests for information), and
  - (d) programmes are consistent with the agency's role and purpose, and should be delivered or administered by the agency with the requisite skills and capability to reach target businesses.
66. There are three forms of support for high growth potential, internationally competitive firms:
  - (a) support for science, engineering and technology processes in firms (e.g. through business R&D grants) – this is consistent with the main objective of Callaghan Innovation and it is logical that programmes that focus primarily on providing this support are administered by Callaghan Innovation;
  - (b) support provided to firms accessing, or preparing to access, international markets (e.g. through the Beachheads programme) – these programmes are aligned with NZTE's core purpose and should primarily be administered by NZTE; and
  - (c) support to develop innovation capability or the core capabilities required within firms to develop innovative new products and processes, and to successfully commercialise them including through internationalisation – this is the point of greatest overlap between NZTE and Callaghan Innovation and where integrated service delivery is the most important.
67. A firm's global competitiveness is best enhanced by a focus on all three elements set out in paragraph 64. This should be reflected in the way Government provides support to these firms. A model for integrated service delivery is presented in Annex Two.

68. The model is based on a 'no wrong doors' principle, namely that businesses are able to seamlessly access or be directed to available support from both agencies. This is consistent with the relationship between NZTE and Callaghan Innovation where the two roles are functionally distinct but the services provided are complementary and is contrasted with a 'one front door' approach where there is one agency. The no wrong door model has advantages in that it can be extended to encompass other organisations which interface with businesses over time, and places Callaghan Innovation and NZTE as equal partners in supporting firms to innovate and internationalise.
69. Understanding and cross-managing the client base of the two organisations is an important feature of the proposed model. Currently, access to many programmes and services within NZTE is moderated through client segmentation. NZTE currently provides intensive support for up to 500 firms with a further 1,500 receiving a lighter touch level of support. The scale and nature of the potential Callaghan Innovation client base is currently being defined as part of the business case under development by the Establishment Board.
70. For the integrated service delivery model to be effective, the assessment and eligibility mechanisms for various programmes will need to be aligned between the two organisations to avoid eligibility inconsistencies and to ensure the programmes are targeted at firms that are likely to gain maximum value. Segmentation criteria will need to be consistent for clients accessing some business services between the two organisations. This, in turn will require consistent assessment processes and, where appropriate, common engagement plans. This will ensure that the support provided to high growth potential firms from the two organisations is well sequenced and complementary.
71. The Establishment Board is developing its business case and operating model, which will determine the suite of products and services the organisation will deliver and the delivery model (i.e., what will be delivered in house, what will be delivered jointly with other agencies and what will be delivered through third party providers). While the business case will be complete by 31 January 2013, implementation will continue beyond 1 February 2013. MBIE officials will be reporting to me quarterly on the progress of implementation of the integrated service delivery model.

### **Transfer of NZTE programmes**

72. Officials have examined the current set of programmes delivered by NZTE, in particular the capability-building programmes such as Better by Design, Better by Lean and Better by Strategy. Applying the principles and the model outlined here, there will be an integrated suite of programmes under joint governance of both agencies, with one agency responsible for the administration of each programme. While this makes the 'ownership' of specific programmes less critical, the lead agency for programmes should be that with the specialisation closest to the client's needs.
73. Having undertaken an initial review of existing NZTE programmes and initiatives, I propose that responsibility for the Better by Lean programme transfer to Callaghan Innovation. This programme is focused on improving productivity within companies through application of the lean manufacturing process. This programme is applicable to clients of both NZTE and Callaghan Innovation, but aligns more closely with Callaghan Innovation's core purpose. Officials will report back to me on the timing and process for the transfer but I envisage that this will occur by 30 June 2013.
74. I also propose that lead responsibility for Better by Design and Better by Strategy be kept under review. The relationship between NZTE and Callaghan Innovation will evolve as the

new institute establishes itself and its client base. Also, there is an on-going process of programme evaluation across the science and innovation and economic development portfolios. These processes provide the opportunity to re-examine who should be lead agency for delivery of particular programmes.

## Consultation

75. The following ministries and agencies have been consulted on this paper: the Treasury, State Services Commission, and NZTE. The Callaghan Innovation Establishment Board was also consulted. The Department of Prime Minister and Cabinet has been informed.

## Financial implications

76. Budget 2012 approved \$166.1 million over four years to support the implementation of Callaghan Innovation. Cabinet agreed in June that the release of non-departmental funding be approved by the Minister of Science and Innovation and the Minister of Finance, subject to an acceptable business case and revenue model being proposed by the ATI Establishment Board.
77. This paper contains no specific financial implications but it does seek Cabinet agreement to the proposed structure of appropriations, subject to there being scope for the Minister of Science and Innovation and the Minister of Finance to make any final changes necessary to ensure all services and activities proposed in Callaghan Innovation's business case, and consistent with its statutory functions, can be lawfully funded.
78. The Minister of Finance and I will be making final decisions on the release of existing non-departmental appropriations, including transfers to the proposed appropriations (e.g. for the business-led R&D schemes), in February 2013 following approval of the Callaghan Innovation business case by 31 January 2013. These decisions will then be reflected in the 2013/14 Estimates of Appropriations.

## Legislative implications

79. An Advanced Technology Institute Bill is in progress in the 2012 legislative programme with a priority 2 (must be passed this year) and will give effect to policy decisions made by Cabinet in June and August 2012 on the establishment of Callaghan Innovation. The recommendations in this paper have no additional legislative implications.

## Other implications

80. This paper has no human rights, regulatory impact, business compliance cost, gender or disability implications.

## Recommendations

81. The Minister of Science and Innovation recommends that the Committee:
1. **Note** that in June 2012, Cabinet agreed to establish the Advanced Technology Institute (ATI) as a new Crown agent with the purpose of supporting firms in the manufacturing and services sectors to improve their competitiveness and growth through science and technology-based innovation and its commercialisation [CAB Min (12) 22/11].

2. **Note** that on 14 November the Minister of Science and Innovation announced that the permanent name of the ATI will be Callaghan Innovation, that it would have operations in the Auckland, Wellington (including Hutt Valley) and Canterbury regions, and that its Establishment Board are working toward a 1 February 2013 start.

**Accountability and performance framework**

3. **Agree** that the Ministry of Business, Innovation and Employment (MBIE) perform the role of monitoring agency for Callaghan Innovation, to assist the responsible Minister in performing the role envisaged in section 27 of the Crown Entities Act, and any related functions including the administration of appropriations and legislation and the tendering of advice to Ministers.
4. **Note** that the Minister of Science and Innovation intends to direct Callaghan Innovation to prepare a statement of intent, by 31 March 2013, covering the period 1 February 2013 to 30 June 2014, noting that some elements of this will be retrospective.
5. **Note** that the Minister of Science and Innovation will put in place a performance contract for Callaghan Innovation for 2013/14 with the overall aim of facilitating the delivery of Crown-funded outputs to agreed performance standards, and which would cover the following elements:
  - a) the institute's output expenses, grant programmes, and their costs
  - b) scope of activities in each output class and associated performance measures and standards
  - c) performance improvement actions and associated deliverables
  - d) respective roles of MBIE and Callaghan Innovation in monitoring and how performance information will be reflected in the institute's strategy and used to improve operations.
7. **Note** that the Minister of Science and Innovation, as responsible Minister for Callaghan Innovation, intends to appoint:
  - a) a stakeholder advisory group to advise the Callaghan Innovation Board on matters relating to the performance of its functions
  - b) the chief executive of MBIE as a special adviser to the Callaghan Innovation Board to assist the Board in aligning its strategies and activities with government policy.
8. **Note** that paragraph 7 above is subject to any relevant revisions to the ATI Bill agreed by the House and enacted in the Callaghan Innovation Act.
9. **Note** that Cabinet previously agreed that the ATI would aim to:
  - a) broaden the base of technologically aware and innovation-ready companies
  - b) stimulate existing businesses to increase their expenditure on R&D
  - c) build firms' innovation and commercialisation capability, including by putting firms in touch with the right expertise and capability
  - d) improve information about and access to the significant but distributed science, engineering, design and technology development capability that exists within public research organisations



- e) improve the transfer of knowledge and technology in the innovation system by facilitating improved connectivity and networks between firms and knowledge institutions
  - f) encourage greater mobility of workers between knowledge institutions and business [CAB Min (12) 22/11].
10. **Agree** that Callaghan Innovation be subject to an independent programme of evaluation, to be managed by MBIE.
11. **Note** that MBIE, in consultation with Callaghan Innovation and the Treasury, will report back to the Minister of Science and Innovation with a proposed evaluation framework and work programme for Callaghan Innovation by 31 March 2013.
12. **Agree** that the evaluation work programme referred to in paragraph 11 include a review, following three years of operation, of the capability, operations, financial sustainability and overall contribution Callaghan Innovation has made to the aims noted in paragraph 9.

#### **High-Level Funding Arrangements**

13. **Note** that Budget 2012 approved \$166.1 million in non-departmental funding over four years to support ATI implementation.
14. **Note** that in June 2012 Cabinet agreed that the release of that funding be approved by the Ministers of Science and Innovation and Finance (joint ministers), subject to an acceptable business case and revenue model being proposed by the ATI Establishment Board [CAB Min (12) 22/11].
15. **Note** that the Minister of Science and Innovation and the Minister of Finance will jointly decide final Callaghan Innovation funding, following their approval of the final Callaghan Innovation business case.
16. **Agree** that the following principles should apply when making final funding decisions for Callaghan Innovation:
- a) the funding model should reinforce the behaviours sought from Callaghan Innovation and other RS&T providers, in particular strong engagement with firms and industry, a focus on adding value to firms and industry, and a collaborative approach that seeks to harness the capabilities and facilities of other RS&T providers and minimises unnecessary duplication
  - b) with respect to Callaghan Innovation's commercial activities, the funding model should create incentives for the institute to grow commercial revenue and reduce its overall reliance on government funding over time
  - c) the funding model for contestable services should be broadly consistent with the principle of competitive neutrality to avoid crowding out other (public and private) providers
  - d) funding sources for Callaghan Innovation functions, and their associated services or activities, should recognise the different blend of public/club/private good characteristics associated with those functions

- e) the funding model should be consistent with the on-going financial viability of Callaghan Innovation, including with respect to building and maintaining capability to deliver services into the future
- f) experimental or pilot initiatives should be funded on a temporary basis, with on-going funding subject to external review and evaluation and/or an exit strategy.

17. **Agree** the following indicative non departmental output expense appropriations to be established in the 2013/14 Estimates of Appropriations:

Appropriation Title	Scope statement
Building innovation potential	This appropriation is limited to activities which build innovation potential through providing or enhancing access to information, training, mentoring, foresighting, networking and leadership across the innovation system and facilitating human capital mobility, for both businesses and RS&T providers.
Realising the benefits of innovation	This appropriation is limited to activities that build the level of, and returns from, science and technology-driven innovation through providing tailored brokerage and access to advice, technical services and facilities, and creating linkages, projects and collaborations between business or industry and RS&T providers.
National Measurement Standards	This appropriation is limited to providing specified standards to satisfy the needs for traceable physical measurement in New Zealand.
Business R&D Contract Management	This appropriation is limited to selection of businesses or individuals for either the provision of RS&T outputs, or the award of grants; and to negotiate, manage and monitor appropriate contracts with those businesses or individuals.
Callaghan Innovation Strategic Investment	This appropriation is limited to Callaghan Innovation for the development and maintenance of science, engineering, technology, design and other strategic capabilities required to develop, deliver, improve and evaluate its services and activities to meet the immediate and future needs of business and industry, and to facilitate its interactions with RS&T providers.

- 18. **Agree** that the Minister of Science and Innovation and the Minister of Finance can approve jointly any modifications to the appropriation titles and scope statements in paragraph 17 above to ensure all services and activities proposed by Callaghan Innovation in its business case, and consistent with its statutory functions, can be lawfully funded.
- 19. **Agree** that the current ATI non-departmental capital appropriation be retained to meet the capital requirements associated with Callaghan Innovation implementation, noting that the scope and amount of the appropriation may change following finalisation of the Callaghan Innovation business case.
- 20. **Agree** that the main objective in setting financial performance expectations for Callaghan Innovation is to ensure its financial viability, both in terms of operating as a

going concern and generating an adequate surplus to maintain and build its capability in support of its main objective.

21. **Agree** that the Minister of Science and Innovation will discuss and agree key financial performance objectives for Callaghan Innovation through the annual statement of intent process, taking into account of the following factors:
- a) the institute's ability to deliver on its mandate in the short- and long-term
  - b) its ability to support innovation and its commercialisation in the New Zealand manufacturing and services sector through continued investment in new assets, capability and engagement with firms and industry
  - c) how to deliver benefit to New Zealand in the most efficient manner, for example using debt to invest in physical assets that generate returns over time
  - d) the capital charge rate applied to Crown entities and the cost of borrowing (if any)
  - e) the entity's financial risk profile and its ability to absorb risk and unexpected shocks.

#### **Administration of Business R&D Grants Schemes**

22. **Agree** that all the business-led R&D schemes administered by the Science and Innovation group of MBIE, along with the staff whose primary role is to administer these grants, transfer to Callaghan Innovation at the earliest possible opportunity.
23. **Agree** that the Minister of Science and Innovation will decide the date of transfer of the business-led R&D schemes, with advice from MBIE and Callaghan Innovation, taking into account:
- a) the readiness of Callaghan Innovation, and the effect an early transfer of responsibility will have on it managing the development of its core business activities
  - b) the role of the administration of grant schemes in giving the institution a profile in the marketplace and attracting businesses, and
  - c) the likely implementation date of the new schemes, and the merits of having Callaghan Innovation administer the more discretionary existing schemes for a brief period of time.
24. **Note** that the current business-led R&D schemes are the TechNZ technology development grant, project grants, capability grants and the technology transfer voucher.
25. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
26. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
27. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
28. Withheld under s9(2)(f)(iv) of the Official Information Act 1982.
29. **Note** that the Advanced Technology Institute Bill has specific provisions to deal with the potential conflict of interest of Callaghan Innovation being a service provider as well as

allocator and administrator of business-led R&D schemes.

30. **Note** that when the business-led R&D schemes are transferred to Callaghan Innovation, MBIE's role will involve strategic oversight of the schemes (including monitoring), policy responsibility, and determining the annual funding available.
31. **Note** that the Minister of Science and Innovation will disestablish the Innovation Board when the business-led R&D schemes are transferred because the Innovation Board will no longer have a substantive role in the science and innovation system.

#### **Callaghan Innovation and New Zealand Trade and Enterprise (NZTE) Alignment and Coordination**

31. **Note** that Cabinet directed officials to report back to EGI on how it proposes that the activities of ATI be aligned and coordinated and which, if any, NZTE initiatives or programmes should be transferred to the ATI [CAB Min (12) 22/11].
32. **Note** that officials propose a model of integrated service delivery based on the no wrong doors concept as outlined in Annex Two.
33. **Agree** that this model be adopted by Callaghan Innovation and NZTE in delivering programmes that support innovation and internationalisation capability to ensure maximum impact and minimum transaction costs for business support programmes provided to high growth potential firms.
34. **Agree** that responsibility for administration of the Better by Lean programme be transferred from NZTE to Callaghan Innovation by 30 June 2013 together with existing funding.
35. **Note** that the Minister of Science and Innovation will receive quarterly reports from MBIE on progress in developing the integrated service delivery model for Callaghan Innovation and NZTE.

**Hon Steven Joyce**  
Science and Innovation

**Annex One: Callaghan Innovation Output Classes (indicative)**

General principles: Grouped by like activities; High level enough to provide flexibility to Callaghan Innovation, but detailed enough to provide assurance of delivery of policy intent (noting that further specification of outputs can be done in performance contract); Alignment with functions in legislation where relevant (see page over for functions in ATI Bill); and Consistent with Public Finance Act requirements, eg covers full overheads

<b>Output Class 1: Building innovation potential</b> <i>Supports functions a, b, g in the Bill</i>	<b>Output Class 2: Realising the benefits of innovation</b> <i>Supports functions a, b, c, e, g</i>	<b>Output Class 3: National Measurement Standards</b> <i>Supports functions e, h</i>	<b>Output Class 4: Business R&amp;D Contract Management</b> <i>Supports functions f</i>	<b>Output Class 5: Callaghan Innovation Strategic Investment</b> <i>Supports functions a-g</i>
<p><b>Scope statement:</b> This appropriation is limited to activities which build innovation potential through providing or enhancing access to information, training, mentoring, foresighting, networking and leadership across the innovation system and facilitating human capital mobility, for both businesses and RS&amp;T providers.</p>	<p><b>Scope statement:</b> This appropriation is limited to activities that build the level of, and returns from, science and technology-driven innovation through providing tailored brokerage and access to advice, technical services and facilities, and creating linkages, projects and collaborations between business or industry and RS&amp;T providers.</p>	<p><b>Scope statement:</b> This appropriation is limited to providing specified standards to satisfy the needs for traceable physical measurement in New Zealand.</p>	<p><b>Scope statement:</b> This appropriation is limited to selection of businesses or individuals for either the provision of RS&amp;T outputs, or the award of grants; and negotiate, manage and monitor appropriate contracts with those businesses or individuals.</p>	<p><b>Scope statement:</b> This appropriation is limited to Callaghan Innovation for the development and maintenance of science, engineering, technology, design and other strategic capabilities required to develop, deliver, improve and evaluate its services and activities to meet immediate and future needs of business and industry, and to facilitate its interactions with RS&amp;T providers.</p>
<p><b>Rationale:</b> The objective is to raise awareness and aspirations, and strengthen the capability of businesses and RS&amp;T providers to enable better access and application of science and technology-based knowledge and facilities. Characteristics common to goods and services in this output class:</p> <ul style="list-style-type: none"> <li>• have a focus on developing and building capability to source and utilise innovation services effectively</li> <li>• focus on the innovation readiness of firms and RS&amp;T providers</li> <li>• information to improve capability and practices across a greater number of firms and RS&amp;T providers</li> <li>• have a focus on facilitating knowledge exchange between individuals or organisations within or across sectors</li> </ul>	<p><b>Rationale:</b> The objective is to improve industry access and returns from science, engineering, technology and design; increase collaboration and build scale for innovation in business; and science and technology to support the development of significant economic growth opportunities for New Zealand. Characteristics common to goods and services in this output class:</p> <ul style="list-style-type: none"> <li>• have the objective of improving outcomes for individual businesses, but with the expectation of also delivering wider benefits to the system or economy</li> <li>• are primarily to overcome coordination problems and transaction costs for businesses, and SMEs in particular, to derive greater value from science and technology, and collaboration</li> <li>• enabling access to facilities and infrastructure</li> </ul>	<p><b>Rationale:</b> The objective is to ensure New Zealand has the capability to meet its regulatory responsibilities in measurement standards.</p>	<p><b>Rationale:</b> The objective is to administer grants to business or individuals to support R&amp;D and any other funds Callaghan Innovation is directed to allocate.</p>	<p><b>Rationale:</b> The objective is to provide assurance and transparency that core science, engineering, technology and design capability is appropriately resourced and funded, as this is integral to Callaghan Innovation operating effectively and efficiently in the system and delivering services and undertaking activities of a high quality. Characteristics common to goods and services in this output class:</p> <ul style="list-style-type: none"> <li>• Involves research or its applications, technology development and associated activities</li> <li>• Support Callaghan Innovation functions and services, including new product and service development</li> <li>• Are not readily supported through other sources of indirect Crown funding for public good scientific research (e.g., contestable or negotiated science funding)</li> </ul>
<p><b>Likely Activities/Services Included (outputs):</b></p> <ul style="list-style-type: none"> <li>• Information portal and virtual communities</li> <li>• Web based self-assessments</li> <li>• Events, conferences and seminars (domestic and international experts or business people)</li> <li>• Facilitation of staff/student exchanges, Fellowships programme</li> <li>• Futureintech</li> <li>• Influencing education (school and tertiary) choices through youth forums, competitions, events.</li> <li>• Innovation training programmes (demand and supply side)</li> <li>• Innovation leadership programmes</li> <li>• Foresight and technology scoping</li> </ul>	<p><b>Likely Activities/Services Included (outputs):</b></p> <ul style="list-style-type: none"> <li>• Diagnostics and needs assessment</li> <li>• Technical analysis and advice</li> <li>• Enabling services e.g. facilities workshops, Food Bowl, Glycosyn</li> <li>• Innovation partnerships</li> <li>• Technology platforms</li> <li>• Large Customer program eg CERA, Health</li> <li>• Global Expert</li> <li>• Food Innovation Network</li> </ul>	<p><b>Likely Activities/Services Included (outputs):</b></p> <ul style="list-style-type: none"> <li>• Delivery of services currently provided by Measurement Standards Laboratory in accordance with its role assigned under the National Measurement Standards Regulations</li> </ul>	<p><b>Likely Activities/Services Included (outputs):</b></p> <ul style="list-style-type: none"> <li>• Administration of business R&amp;D funding, eg TDG, Tech NZ project and capability, including funding process and contract administration</li> <li>• Administration of loan and equity funding</li> </ul>	<p><b>Likely Activities/Services Included (outputs):</b></p> <ul style="list-style-type: none"> <li>• Longer-term R&amp;D that will underpin future service delivery to firms and industry</li> <li>• Seed funding for technology platforms or partnerships</li> <li>• Demonstration and proof of concept projects, e.g., for emerging technologies</li> <li>• Participation in international research consortia</li> <li>• Development and evaluation of Callaghan Innovation services to firms</li> </ul>

**Annex One (continued): Functions as set out in the Advanced Technology Institute Bill (to become the Callaghan Innovation Bill)**

**(1) ATI's functions are to -**

- (a) foster an environment that encourages and supports businesses to improve their growth and competitiveness through science and technology-based innovation and related activities:
- (b) promote and facilitate networking and collaboration among businesses and between RS&T providers and businesses to assist businesses to undertake, or benefit from, science and technology-based innovation and related activities:
- (c) facilitate the transfer of knowledge and technology from RS&T providers to businesses:
- (d) undertake research and development:
- (e) provide services to businesses that contribute to ATI's main objective:
- (f) allocate and administer RS&T funding:
- (g) invest in persons or projects that may assist businesses to undertake, or benefit from, science and technology based innovation and related activities:
- (h) perform or exercise any other function or power imposed or conferred on ATI by any other enactment:
- (i) perform any additional function that the Minister directs under section 112 of the Crown Entities Act 2004.

**(2) Examples of the ways in which ATI may perform the function specified in subsection (1)(b) (which relates to promoting and facilitating networking and collaboration between RS&T providers and businesses) include—**

- (a) supporting the development of technology platforms:
- (b) encouraging the exchange of staff, students, or other individuals between RS&T providers and businesses:
- (c) assisting businesses to identify and access grants and other assistance programmes that are intended to support science and technology-based innovation and related activities.

**(3) Examples of the ways in which ATI may perform the function specified in subsection (1)(e) (which relates to providing services to businesses) include—**

- (a) undertaking research and development in collaboration with, or on behalf of, businesses:
- (b) assisting businesses to access (within New Zealand or overseas) relevant expertise, intellectual property, equipment, facilities, or anything else that may assist those businesses to undertake, or benefit from, science and technology-based innovation and related activities:
- (c) providing information to businesses about potential new technologies or scientific discoveries and assisting businesses to use them, develop them, or exploit them commercially:
- (d) providing training and advice to assist businesses to undertake science and technology-based innovation and related activities (including how to access and manage technology or intellectual property):
- (e) providing product analysis, process testing, calibration and certification, or other related measurement services.

**Annex Two: NZTE and Callaghan Innovation Integrated Service Delivery Model**

**NZTE / Callaghan Innovation - Integrated Customer Engagement**

**Principles**

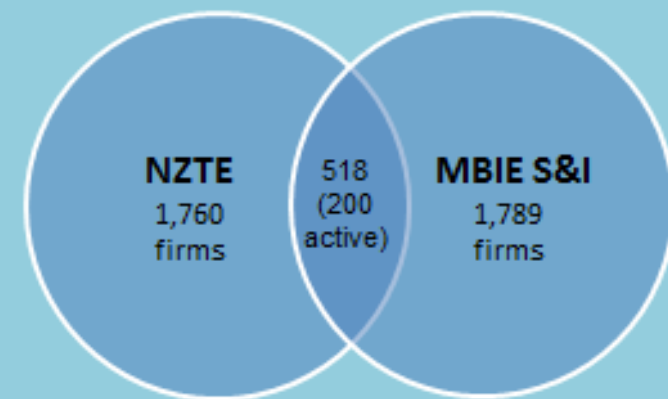
- Seamless service provision from perspective of business customer
- Generalists vs. specialists – first contact should act as “GP” and refer to specialists, and should “diagnose before prescribe”
- Minimise transaction costs for business and government, avoid duplication

**Approach**

<p><b>No wrong door</b></p>	<p>Both organisations operate as a front door, with mechanisms to present a seamless service to businesses through cross-referrals and joint engagement</p>	<ul style="list-style-type: none"> <li>• Each door will attract different firms, who may benefit from services from both agencies – wider potential catchment</li> <li>• Development of shared tools to minimise duplication and ensure visibility of businesses to both agencies</li> <li>• Principle of “no wrong door” can extend to include the many other “doors” in the system</li> </ul>
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**Current situation**

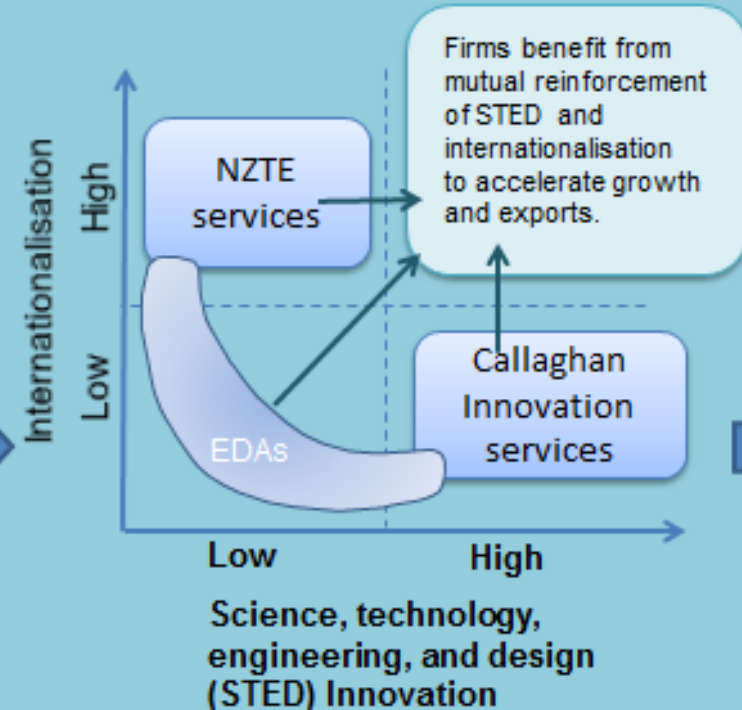
- Low overlap
- Limited integration of service delivery – reflects low overlap of common customers



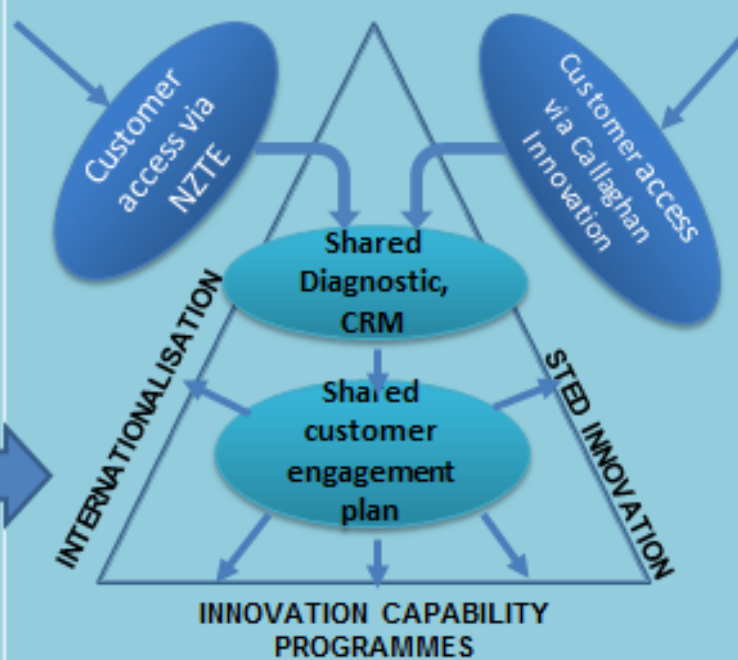
Engagement with different companies and people, and at different stages in product/ company life cycle.

\*Numbers are a snapshot in time

**Future**



**Achieved through: No wrong door**



Other channels such as websites are available for ‘light touch’ services/clients.

**Next steps:**

- Develop and test feasibility of set of **shared tools: diagnostics; shared engagement plans**