

Guidelines

Evidencing R&D and RDI for Growth Grants



Version > V3.1

Date > December 2016

CallaghanInnovation

BUSINESS TECHNOLOGY SUCCESS

Contents

1.	Introduction.....	3
1.1.	Purpose	3
2.	Evidencing Criteria Met – Application.....	3
3.	Annual Year End Claim.....	4
4.	Eligible R&D	4
4.1.	General Exclusions.....	5
4.2.	Specific Exclusions	5
4.3.	Eligible Activities	6
5.	Expenses and Overhead Expenses Calculation.....	6
6.	RDI	7
7.	Due Diligence	7
8.	R&D Programme	8
9.	Appendix One – Review Report to the Directors of the Entity	9
10.	Appendix Two (A) - Confirmation of Eligible Research & Development - For Applications	10
11.	Appendix Two (B) - Confirmation of Eligible Research & Development – For Year End Claims	11
12.	Appendix Three – Sample of R&D Programme.....	12
13.	Appendix Four – Transitional Letter Confirmation	13

1. Introduction

These guidelines are intended to provide users with clarification of Callaghan Innovation's intentions and principles to apply when accounting for and reporting on Growth Grant Research and Development expenditure. They are not intended to be exhaustive, and you are encouraged to **discuss any matters with Callaghan Innovation directly**.

1.1. Purpose

The objective of the Growth Grant is to increase New Zealand businesses' investment in research and development (R&D) to support long term economic growth.

The Growth Grant is a rules based, market led incentive for increasing R&D investment in businesses that are experienced in investing in R&D.

To receive funding an eligible business must satisfy all of the following criteria:

- > **Eligible R&D Spend** – Have spent at least \$300,000 in eligible R&D expenditure sourced from non-government funds in each of the last two financial years.
- > **RDI** – Eligible R&D expenditure must be at least 1.5% of operating revenue in each of the last two financial years.
- > **Due Diligence** – Meet financial and management due diligence which supports and justifies three years of funding.
- > **R&D Programme** – Provide Callaghan Innovation with an R&D plan including an estimate of R&D expenditure over the next three years.

2. Evidencing Criteria Met – Application (Including Transitional Scheme)

When an eligible entity applies for a Growth Grant they must supply the following documentation to show that they meet all criteria (you will be advised if you need to apply under the Transitional Scheme):

- Financial statements prepared by an independent chartered accountant for the immediate two financial years preceding the Growth Grant start date.
- A Review Report to the Directors of the Entity for the immediate two financial years preceding the Growth Grant start date (not required for Transitional). (Appendix One)
- A Confirmation of Eligible Research & Development for the immediate two financial years preceding the Growth Grant start date (not required for Transitional). (Appendix Two A)
- R&D plan which contains sufficient detail to enable Callaghan Innovation to assess progress in the businesses R&D programme over time (Appendix Three).
- A Transitional Letter Confirmation (for applications under the Transitional Scheme only). (Appendix Four).
- Completion of the online application in full (with all required documents uploaded to the application).

Note: In some instances, we may also require management accounts and a cash flow forecast to support the application. Further details can be found under the [Due Diligence](#) section.

3. Annual Year End Claim (Including Transitional Scheme)

Along with quarterly claims and reporting, a grant recipient is required to complete an end-of-year claim annually which verifies the claims made and releases the retentions deducted for the period. The grant recipient must supply the following documentation to show that they continue to meet all criteria for the year-end claim:

- Financial statements prepared by an independent chartered accountant for the period relating to the year-end claim (see below note for financial year-ends that do not match Growth Grant period*).
- A Review Report to the Directors of the Entity for the period relating to the year-end claim. (Appendix One).
- A Confirmation of Eligible Research and Development for the period relating to the year-end claim. (Appendix Two B).
- Completion of the online claim in full (with all required documents uploaded to the claim) and sufficient detail to enable Callaghan Innovation to assess the progress of the businesses R&D programme.

*Where the Growth Grant contract period anniversary does not coincide with a grant recipient's financial year-end a grant recipient can elect to provide the required information for a part year (i.e. 3-9 months) or up to an 18-month period to enable alignment of the financial year-ends and the Growth Grant year-end reporting.

4. Eligible R&D

The following extract from the [Ministerial Direction](#) sets out eligible R&D expenditures.

“DEFINITION OF ELIGIBLE RESEARCH AND DEVELOPMENT EXPENDITURES FOR R&D GROWTH GRANTS

Eligible R&D expenditure is defined as those meeting the New Zealand Equivalent to International Account Standard 38 (NZ IAS38) definition of research and development and expensed under the standard.

The NZ IAS38 definitions of R&D are:

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

Clarifying Principle

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

4.1. General Exclusions

The following types of expenditure are not eligible for Growth Grants:

- > Any expenditure that is or would be, capitalised as an intangible asset under NZ IAS38.
- > R&D undertaken outside of New Zealand.
- > R&D funded through an enforceable levy paid by another entity.
- > Enforceable levies for R&D paid to another entity.
- > Any R&D funded by a grant or other payment provided by an entity that is not part of the same consolidated group of entities as the applicant. However, R&D funded by the R&D Growth Grant, an R&D Project Grant that the business receives for a collaborative R&D Project or an R&D Student Grant is eligible. Expensed funding for R&D contracted out by the applicant to another entity is also eligible.

4.2. Specific Exclusions

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

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

4.3. Eligible Activities

Guidance of activities that would typically include R&D is provided below. If this guidance does not fit your situation, contact Callaghan Innovation to discuss.

- > Research activities for which the primary purpose is to inform the technical development of the product.
- > Research aimed at discovery of new knowledge.
- > Searching for application of new research findings or other knowledge.
- > Formulation and design of possible new or improved product or process alternatives.
- > Testing in search of product or process alternatives.
- > Evaluation of product or process alternatives.
- > Design, construction and testing of pre-production prototypes and models.
- > Development of a software system/platform, architecture and new code.
- > Design of tools, jigs, moulds, and dies involving new technology as distinct from routine design of tools, jigs, moulds, and dies.

5. Expenses and Overhead Expenses Calculation

If an expense can be identified to R&D, it should be charged directly rather than included in an overhead rate. An example of this is wage records which should include timesheets that accurately identify the number of hours an employee spends on R&D.

Expenses which should be included or excluded in a fixed overhead calculation are:

EXPENSES TO INCLUDE	EXPENSES TO EXCLUDE
<ul style="list-style-type: none">> Depreciation> Insurance> Rent> Repairs and Maintenance> Utilities> Telephone Expenses> Printing and Stationary> ACC Levies> Rates and Taxes> Accounting Fees> Office Cleaning	<ul style="list-style-type: none">> Advertising and Marketing expenses> Bad Debts> Entertainment Expenses> Interest Expenses> Travel Expenses> Legal Expenses> Directors Fees> Recruitment Expenses> Freight & Delivery Expenses> Motor Vehicle Expenses> Directors Liability Insurance

The overhead expense calculation can use either an estimation percentage of use or percentage of employees who are R&D FTE to total FTE. A grant recipient/applicant may have another way to calculate which they will need to discuss with Callaghan Innovation.

EXAMPLE

Company has 100 FTE of which 15 are wholly R&D FTE and 5 are part time (50% of their time is spent on R&D and 50% of their time is spent on non R&D. These part time R&D staff equate to 2.5 R&D FTE).

The eligible overhead expense rate would be 17.5% (15+2.5 FTE).

Note: If your R&D intensity fluctuates throughout the year it may be appropriate to re-calculate your overhead rate for each quarterly claim.

IMPORTANT – no matter how a grant recipient/applicant chooses to calculate the overhead rate and other expenses claimed, they must keep sufficient records to easily demonstrate to an independent party how they have made the calculation and why it is reasonable.

6. RDI

Operating revenue is all income that a company receives from its normal business activities including revenues from sale of goods and services, dividends and or royalties paid to them by other companies.

$$\text{RDI} = \frac{\text{Eligible R\&D}}{\text{Operating revenue}}$$

There may be some instances where operating revenue derived overseas by subsidiaries of a group may be excluded. Discuss this with your account manager and should this apply, Callaghan Innovation will provide written advice.

7. Due Diligence

The [Ministerial Direction](#) states that:

“Callaghan Innovation must be satisfied that providing an R&D grant to the business would not bring the reputation of Callaghan Innovation or the R&D grants programme into disrepute.”

Callaghan Innovation must also be satisfied that the business is a going concern and that there is no indication that the business will not be a going concern for the period of the grant.

We will use the information provided in your application/claims to assess this along with the financials provided.

Where a grant applicant’s financial year-end does not match the start date of the grant we will require management accounts to be provided from the period of financial year-end to the month immediately prior to the month the application was submitted.

In instances where the financial statements of the company indicate negative equity, negative current ratio or any other negative measurement that Callaghan Innovation may apply to the financial statements, we may require the grant recipient/applicant to provide a 12-month cash flow forecast.

8. R&D Programme

Your R&D programme must contain sufficient details to enable Callaghan Innovation to monitor progress throughout the period of the grant.

The first year should contain greater detail than years two and three as we understand that the outcomes in the first year are likely to impact the activities undertaken in years two and three. We do expect you to have a high level plan for years two and three.

An example of the R&D Programme template is provided as Appendix Three.

9. Appendix One – Review Report to the Directors of the Entity

An example of an R&D Growth Grant application certificate / annual review certificate required to be provided by a registered practicing chartered accountant. This template can be downloaded from your online application in the Investment Management System (IMS) or downloaded from www.callaghaninnovation.govt.nz.

Review Report to the Directors of [entity]

We have reviewed the Confirmation of Eligible Research & Development Expenses dated [ddmmyy] for [Entity] which states eligible R&D expenditure of [\$] for the period [ddmmyy – ddmmyy].

The Directors have confirmed to us that they have prepared the Confirmation in line with:

- *Ministerial Direction to Callaghan Innovation – Criteria for Assessing Proposals for Funding dated 1 December 2015* (“Ministerial Direction”) AND [delete one of the following]
- Growth Grant Funding Agreement dated [ddmmyy] between the [Entity] and Callaghan Innovation (“Funding Agreement”) – (where this review report is to support an annual Confirmation).
OR
- Proposed Grant Funding Agreement that will be entered into between the [Entity] and Callaghan Innovation (“Proposed Funding Agreement”) (where this review report is to support a Growth Grant Application).

The Board of Directors of [Entity] is responsible for the preparation of the Confirmation. We do not express an audit opinion on the Confirmation. Our responsibility is to express a conclusion on the Confirmation based on our review. We conducted our review in accordance with ISRE (NZ) 2400 / 2410 / 3000 / 3100 [delete non-applicable].

This report has been prepared solely for the exclusive use of [Entity] to meet its obligations under the Ministerial Direction and Funding Agreement/Proposed Funding Agreement (delete non-applicable). We agree that a copy of this report may be provided to Callaghan Innovation for their information but we do not accept any duty, liability or responsibility to Callaghan Innovation in relation to this report. This report is not to be used for any other purpose, recited or referred to in any document, copied or made available (in whole or in part) to any other person without our prior written consent. We accept or assume no duty, responsibility or liability to any party, other than you, in connection with this report, including without limitation, liability for negligence.

Because of the inherent limitations of any limited assurance review it is possible that fraud, error or non-compliance may occur and not be detected. A review is not designed to detect all instances of non-compliance with the *Guidelines – Evidencing Eligible R&D and RDI for Growth Grants*, as it generally comprises making enquiries, primarily of management of [Entity], and applying analytical and other review procedures. The opinion expressed in this report has been formed on the above basis.

Our procedures included analytical review, discussion with management and agreeing financial information on a sample basis to supporting records. These procedures have been undertaken to form an opinion that nothing has come to our attention that causes us to believe that the Confirmation does not present fairly, in all material respects, the operating revenue and research and development expenditure of [Entity] for the period [ddmmyy – ddmmyy] in accordance with the Ministerial Direction and the Funding Agreement/Proposed Funding Agreement (delete non-applicable).

Dated: [ddmmyy]
[Independent Chartered Accountant]

10. Appendix Two (A) - Confirmation of Eligible Research & Development - For Applications

An example of Confirmation of Eligible Research & Development letter for R&D Growth Grant applications. This template can be downloaded from your online application in the Investment Management System (IMS).

[company letter head]

[Date]

Callaghan Innovation
Business R&D Grants
PO Box 11529
Manners Street
Wellington 6142

Confirmation of Eligible Research & Development Expenses for Growth Grant Application

We confirm that the below table is an accurate statement of the eligible Revenues and Research and Development expenditure (in line with the *Ministerial Direction to Callaghan Innovation – Criteria for Assessing Proposals for Funding dated 1 December 2015* “Ministerial Direction”) of

[Entity] “The Entity” for the years ending [yyyy to yyyy].

The Entity is part of a Group and the confirmation and financials supporting this confirmation have been reported accordingly. [Delete if not applicable]

	\$,000[yyyy]	\$,000[yyyy]
Operating Revenue	0	0
Total Research and Development	0	0
Less General Exclusions (Ministerial Direction)	0	0
Less Specific Exclusions (Ministerial Direction)	0	0
Eligible R&D Expenditure	0	0
RDI%	0	0

To reach this conclusion we confirm the following:

- We have appropriate knowledge of the Funding Agreement that will be entered into by The Entity for an R&D Growth Grant and the future obligations of The Entity under this agreement.
- We have reviewed and understand the document *Guidelines – Evidencing Eligible R&D and RDI for Growth Grants*. Where necessary we have sought clarification from Callaghan Innovation.
- We have appropriate knowledge of The Entity’s accounting systems and accounting records and understand how management makes accounting estimates in line with the Ministerial Direction to determine eligible Revenues and Research and Development expenditure.
- We have made enquiry with management and staff within The Entity, as appropriate, and evaluated the evidence obtained.
- Nothing has come to our attention that causes us to believe that the eligible R&D expenditure stated above, is not, in all material respects, in accordance with the future Funding Agreement and Ministerial Direction.

(All documents referred to are available to be downloaded from www.callaghaninnovation.govt.nz)

[name]
Director

[name]
Director

11. Appendix Two (B) - Confirmation of Eligible Research & Development – For Year End Claims

An example of Confirmation of Eligible Research & Development letter for R&D Growth Grant year end claims. This template can be downloaded from your online application in the Investment Management System (IMS).

[Company letter head]

[Date]

Callaghan Innovation
Business R&D Grants
PO Box 11529
Manners Street
Wellington 6142

Confirmation of Eligible Research & Development Expenses Claimed Under Growth Grant for Year End Claim

We confirm that the below table is an accurate statement of the eligible Revenues and Research and Development expenditure (in line with the *Ministerial Direction to Callaghan Innovation – Criteria for Assessing Proposals for Funding dated 1 December 2015* “Ministerial Direction”) of

[Entity] “The Entity” for the period [ddmmyy to ddmmyy].

The Entity is part of a Group and the confirmation and financials supporting this confirmation have been reported accordingly. [Delete if not applicable]

	\$,000
Operating Revenue	0
Total Research and Development	0
Less General Exclusions (Ministerial Direction)	0
Less Specific Exclusions (Ministerial Direction)	0
Eligible R&D Expenditure	0
RD!%	0

To reach this conclusion we confirm the following:

- We have appropriate knowledge of the Funding Agreement entered into by The Entity for an R&D Growth Grant and the obligations of The Entity under this agreement.
- We have reviewed and understand the document *Guidelines – Evidencing Eligible R&D and RDI for Growth Grants*. Where necessary we have sought clarification from Callaghan Innovation.
- We have appropriate knowledge of The Entity’s accounting systems and accounting records and understand how management makes accounting estimates in line with the Ministerial Direction to determine eligible Revenues and Research and Development expenditure.
- We have made enquiry with management and staff within The Entity, as appropriate, and evaluated the evidence obtained.
- Nothing has come to our attention that causes us to believe that the claims made under the Growth Grant Funding Agreement, are not, in all material respects, in accordance with the Funding Agreement and Ministerial Direction.

(All documents referred to are available to be downloaded from www.callaghaninnovation.govt.nz)

[Name]
Director

[Name]
Director

1. The grey boxes are for you to complete
2. Please provide Growth Grant details and the Grant start date
3. Where there is a * in the title, there is a drop down box available and free text is not permitted
4. Insert additional rows as required
5. When inserting rows ensure that column A is copied down (Year) and column B number is maintained (this effects the "Amendments" tab)
6. Please contact your Account Manager if you need any assistance

At Application:

1. Detail each objective (recommend maximum of eight) for year 1, 2 and 3
2. Detail tasks for year 1 (only) and list them under the objective they relate to
3. Dates are required for each objective and they are optional for tasks (we do not require you to report against tasks)

Yearly F Report

1. On completion of year 1 final report - update year 2 tasks under the objectives they relate to
2. On completion of year 2 final report - update year 3 tasks under the objectives they relate to

GROWTH GRANT - 3 Year Plan

Growth Grant Details	
Applicant / Business	
Programme / Contract details	
Grant start date	

Year One

Number	Objective or Task * (Maximum eight objectives and tasks per objective)	Name (Short Name)	Key Activity (Maximum of 50 words)	Start Date	End Date	Deliverable (Maximum 150 words)	Dependencies (What other objective / task this is dependent on) (Maximum 150 words)
1	Objective						
2							
3							
4							
5							
6							
7							
8							
9							
10							

Year Two

Number	Objective or Task * (Maximum eight objectives and tasks per objective)	Name (Short Name)	Key Activity (Maximum of 50 words)	Start Date	End Date	Deliverable (Maximum 150 words)	Dependencies (What other objective / task this is dependent on) (Maximum 150 words)
1	Objective						
2							
3							
4							
5							
6							
7							
8							
9							
10							

Year 3

Number	Objective or Task * (Maximum eight objectives and tasks per objective)	Name (Short Name)	Key Activity (Maximum of 50 words)	Start Date	End Date	Deliverable (Maximum 150 words)	Dependencies (What other objective / task this is dependent on) (Maximum 150 words)
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							

13. Appendix Four – Transitional Letter Confirmation

An example of Transitional Letter Confirmation (for applications under the Transitional Scheme only). This template can be downloaded from your online application in the Investment Management System (IMS).

[Company Letterhead]

[Date]

Callaghan Innovation
Business R&D Grants
PO Box 11529
Manners Street
Wellington 6142

Letter of Intent

We refer to our application for a Growth Grant from Callaghan Innovation under proposal number [proposal number].

We confirm that we currently record our Research and Development (R&D) in our accounts as detailed below:

- [Insert a description of the accounting policy that you currently use to record R&D activity e.g. Record as salaries and wages].

As such, our records [delete one of the following]:

1. Do not reflect the R&D spends in accordance with Callaghan Innovation requirements for the Growth Grant.
2. Confirm that we have not historically engaged in any R&D activity.

With the submission of this application, we confirm that it is our intent to spend [\$] on eligible R&D expenditure over the 12 months commencing [ddmmyy] and the eligible expenditure will be at a minimum of 1.5% of revenues over the same 12-month period.

We have appropriate knowledge of the Funding Agreement that will be entered into by [Entity] for a Growth Grant and the future obligations of [Entity] under this agreement.

We have reviewed and understand the document *Guidelines – Evidencing Eligible R&D and RDI for Growth Grants*. Where necessary we have sought clarification from Callaghan Innovation.

We acknowledge that should we fail to spend at least 1.5% of revenues and at least \$300,000 on eligible R&D under the Growth Grant that no funding will be provided and we will be unable to apply for a Growth Grant for a period of two years.

(All documents referred to are available to be downloaded from www.callaghaninnovation.govt.nz)

Signed by CEO or certified company representative: [name]

Dated: [ddmmyy]