

Treasury Report: Meeting with the Prime Minister, Hon Brownlee and Hon Mapp - Vote RS&T Budget Package

Date:	12 February 2010	Report No:	T2010/209
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Action Sought

	Action Sought	Deadline
Minister of Finance (Hon Bill English)	Note contents	Before your meeting with the Prime Minister, Hons Brownlee & Mapp on Tuesday 16 th February

Contact for Telephone Discussion (if required)

Name	Position	Telephone		1st Contact
[deleted – privacy]	Analyst, Economic Performance Overview and Coordination	[deleted – privacy]	[deleted – privacy]	✓
Kirsty Flannagan	Team leader, Economic Performance Overview and Coordination	[deleted – privacy]	[deleted – privacy]	

Minister of Finance's Office Actions (if required)

None.

Enclosure:

Annex 1: Business Innovation and Technology Transfer Initiatives (December 2009)

Annex 2: The proposed business R&D and RS&T budget package

Annex 3: *[deleted – confidentiality of advice]*

Treasury Report: Meeting with the Prime Minister, Hon Brownlee and Hon Mapp - Vote RS&T Budget Package

Executive Summary

You are meeting with the Prime Minister, Hon Brownlee and Hon Mapp on Tuesday 16 February to discuss:

- The business R&D and technology transfer initiatives proposed to you in December 2009 (attached as an annex 1);
- A RS&T proposed Budget package (proposed business suite package has been provided by MoRST and is attached as annex 2. More details may be provided at the meeting); and
- How this package will be funded.

Feedback from this meeting will be used to inform a Cabinet paper on business assistance and innovation that will be going to EGI on 24 February.

This briefing firstly sets out the key decisions that Ministers need to make at this meeting. The body of the report provides more details on the risks and issues you should be aware of for the meeting.

Key Decisions

At this meeting Ministers need to decide on the:

- Overall size of the package;
- Key elements of the package;
- Preferred business R&D incentive initiative; and
- Funding sources.

Size of the package

Feedback from Ministers' meetings with the Prime Minister indicates that there will be an increasing RS&T package for Budget 2010 as below:

	2010/11	2011/12	2012/13
Total	\$50m	\$75m	\$100m

This gives a reasonable sized package allowing there a focus on business R&D initiatives. Ministers will need to confirm the size of the package at the Joint Ministers meeting.

Key elements of the package

The body of the report contains a more detailed table of the initiatives in the proposed RS&T Budget package (this will also be provided to you at the joint Ministers meeting) *[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]*

This is what the package broadly consists of:

Initiative	2010/11	2011/12	2012/13	Treasury's view
	\$m	\$m	\$m	
Business R&D incentive - Development voucher/grant	22.5	45	60	Support – however should be greater proportion of package in 2010/11.
Technology transfer initiatives	8.5	13	13	Support – along with more work to further develop initiatives. There exist initiatives with potential that need working up. Need to set aside funding now as unlikely to be funding available in the future.
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Top Talent	4	6	6	Support – subject to more details provided
Other	6.5	4.5	4.5	Support – subject to more details provided
Total operating package	47.9	79.4	98.5	
Capital				
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Preferred R&D business incentive – Development Voucher/Grant

For the indicated funding parameters there are two R&D business incentives on the table:

- Option 1) A rules based voucher/grant, where if firms meet eligibility criteria they receive a reimbursement for a percentage of their R&D. This option is considered to give slightly more certainty for a firm but a higher fiscal risk to the Crown, without the benefits of being broad-based and truly non-discretionary.
- Option 2) A voucher/grant that a firm receives if they meet eligibility criteria but officials have final discretion on which firms receive support. This option gives more discretion to officials but also gives more cost control to the Crown (Treasury recommends).

Funding sources

The Prime Minister and Minister Mapp have indicated the following package:

	2010/11	2011/12	2012/13
Reprioritised from	\$25m	\$25m	\$25m

Vote RS&T			
\$ from rolling maul	\$25m	\$50m	\$75m
Total	\$50m	\$75m	\$100m

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Recommended Action

We recommend that you **note** the key decisions in the meeting are:

- a size of the package;
- b key elements of the package;
- c preferred option for R&D business incentive; and
- d funding sources.

Kirsty Flannagan
**Team Leader, Economic Performance and Coordination
for Secretary to the Treasury**

Hon Bill English
Minister of Finance

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Key Issues for the Joint Ministers Meeting

Feedback from Ministers' meetings with the Prime Minister indicates that there will be an increasing RS&T package announced at Budget 2010 as below:

	2010/11	2011/12	2012/13
Reprioritised from Vote RS&T	\$25m	\$25m	\$25m
\$ from rolling maul	\$25m	\$50m	\$75m
Total	\$50m	\$75m	\$100m

Initiatives that MoRST are proposing are a business R&D incentive, technology transfer initiatives, Top Talent initiatives, international linkages funding, Global Alliance, FINNZ and RS&T infrastructure initiatives. See table below for Treasury's views on MoRST's Budget package:

Further details on MoRST proposed package (figures subject to change)

Initiative	2010/11	2011/12	2012/13	2013/14	Treasury's view
	\$m	\$m	\$m	\$m	
Package					
Business R&D					
Development voucher/grant	22.50	45.00	60.00	60.00	Support – however should be greater proportion of package, especially in the first year. MoRST may request multiyear appropriation – we do not support this as it will decrease transparency.
Technology transfer initiatives					
Technology voucher (trial)	5.00	5.00	5.00	5.00	Funding in 2012/13 depends on the results of evaluation.
Centre of excellence in technology transfer (PMCSA)	2.50	3.00	3.00	3.00	Support – Treasury will be involved in working this initiative up.
Contingency	2.00	5.00	5.00	5.00	Support – More is needed to improve knowledge exchange. It is our view that there are existing initiatives with potential that need working up. If money is not set aside for this now then it is likely that no money will be available in the future for this.

Other					
Food Innovation Network of New Zealand (agreed by Cabinet)	2.50	0.00	0.00	0.00	
Subtotal	37.00	58.00	73.00	73.00	
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High Performance Computers	5.71	7.18	7.18	7.18	
Subtotal	6.40	10.94	15.09	15.09	
Top Talent					
Early-mid career fellowships	2.00	3.00	3.00	3.00	Support as long as is reprioritised from existing fellowship programmes.
Entrepreneurial Top Talent (PMCSA)	2.00	3.00	3.00	3.00	Has some merit but we consider this to not be as high priority as other tech transfer initiatives.
Subtotal	4.00	6.00	6.00	6.00	
<i>[deleted – confidentiality of advice]</i>					<i>[deleted – confidentiality of advice]</i>
Global alliance (agreed by Cabinet)	2.50	2.50	2.50	2.50	
Subtotal	4.00	4.50	4.50	4.50	
Total operating package	51.40	79.44	98.59	98.59	
Funding the package					
Rolling maul	25.00	50.00	75.00	75.00	<i>[deleted – confidentiality of advice]</i>
Reprioritisation needed	-25.90	-29.44	-23.59	-23.59	

Capital					
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The indicated package is not large enough to introduce a broad-based, non discretionary business R&D scheme....

The amount of funding that has been indicated for a RS&T package is not large enough to accommodate a broad-based, non-discretionary business R&D grant (this is Treasury’s preferred option but we think it requires at least \$100 million. Treasury favours non discretionary support of R&D business support as it is more market led, reaches more firms and avoids government “picking winners”). A less broad-based alternative will be needed. There are two vouchers/grants on the table (see annex 2):

Option 1) A rules based voucher/grant, where if firms meet eligibility criteria they receive a reimbursement for a percentage of their R&D. This option is considered to give slightly more certainty for a firm but a higher fiscal risk to the Crown.

Option 2) A voucher/grant that a firm receives if they meet eligibility criteria but officials have final discretion on which firms receive support. This option gives more discretion to officials but gives more cost control to the Crown.

Treasury supports option 2 as it offers fiscal certainty to the Crown but also considers it to be the most effective option given the indicated fiscal parameters. Treasury would support option 1 if there was enough money for this to be more broad-based (we think at least \$100 million would be required). For the indicated parameters, the restrictions around the eligibility criteria for option 1 would have to be so restrictive that there would be similar amounts of “picking winners” and uncertainty to the firms as option 2 - only with more complications and risks.

It may be difficult to reprioritise \$25 million from Vote RS&T....

Reprioritising \$25 million, at least in year one, will be difficult, and will almost certainly require reductions in areas of importance to other Ministers, *[deleted – confidentiality of advice]*. One-off savings of \$10m can be found in 2009/10. Further savings will either require cutting contracts in areas not considered high priority (e.g. social research) or reducing funding in areas as contracts come up for renewal. *[deleted – confidentiality of advice]*

Treasury will provide further advice to you on the details of MoRST’s reprioritisation once it is finalised in the baseline realignment process. However, it does need to be flagged now that it is likely to be difficult and Ministers could consider alternative funding sources for the RS&T package.

[Information deleted in order to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials]