

The Treasury

Budget 2013 Information Release

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Smarter Research and Development Incentives to Support Innovation

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Purpose

1. This paper seeks agreement to redesign business R&D programmes, following Budget Ministers agreement to a package of additional innovation funding. The redesign will shift current programmes to a more market-led approach, to improve predictability and certainty for firms.

Comment

2. The paper proposes changes to three existing business research support programmes, and a trial of a new business incubator programme:
 - a. The **R&D Growth Grants** (previously named Technology Development Grants) will be expanded. Eligibility criteria will be widened, and the subjective judgement stage by officials eliminated. These changes will make the programme simpler and more predictable.
 - b. **R&D Project Grants** will be reduced in size, to partially fund the expanded Growth Grants. The new project grants will have lower rates of public co-funding, and be targeted to firms that are new to R&D.
 - c. **R&D Student Grants**, supporting students to work in research active businesses, will continue, but with a greater focus on the benefit to the student.
 - d. A new **repayable grant for capital-intensive start-ups** will be trialled, working in conjunction with current incubator programmes.
3. The new funding for Budget 2013, and final funding amounts for the grants, are outlined below:

Funding for business R&D support programmes	2013/14 \$000	2014/15 \$000	2015/16 \$000	2016/17 & outyears \$000
New Funding: Budget 2013	16,000	24,000	30,500	36,000
R&D Growth Grants	85,000	94,000	103,000	111,000
R&D Project Grants and Student Grants	50,600	44,900	40,000	37,500
Repayable Grants	3,100	7,800	10,200	10,200
Total Funding	138,700	146,700	153,200	158,700

4. **Treasury is broadly supportive of these changes.** The simpler R&D Growth Grants will provide more certainty to businesses, and a larger portion of funding will go towards Growth Grants, which appear to be more effective than the Project Grants.
5. However, if demand for the new Growth Grants exceeds the amount of funding, a rationing mechanism will need to be applied. Adding rationing mechanisms risks undermining the improved certainty of the programme, and imposing funding caps can

remove the incentive for firms to conduct additional R&D. Treasury will work with MBIE to develop a rationing mechanism which is the least harmful to certainty and incentives.

6. While the repayable grants for start-up companies have potential benefits, there has been no in-depth analysis of the policy at this stage. Minister Joyce will report back to Cabinet in September 2013 with more a more detailed proposal for this programme.

Treasury Recommendation

7. We recommend that you **support** the recommendations in this paper.

The following table goes into the Executive Summary of the paper

Title	Pg	Recommend	Fiscal Implications (\$m GST excl.)					Treasury Comment
			12/13	13/14	14/15	15/16	Out years	
Smarter Research and Development Incentives to Support Innovation		Support	<i>Operating</i>					This paper seeks agreement to redesign business R&D programmes, following Budget Ministers agreement to additional funding. Treasury is broadly supportive of these changes.
			-	-	-	-	-	
			<i>Capital</i>					
			-	-	-	-	-	