

The Treasury

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- [1] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [2] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
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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.

Vote Science and Innovation

Four-year Budget Plan

Version 2

14 February 2011

Submitted by:

Hon Dr Wayne Mapp

Section 1: New Baseline and Summary of Changes

Direction of Change

Innovation continues as one of the six key economic growth priorities. This has been the focus of the two previous Research, Science and Technology Budgets. Budget 2009 concentrated on fundamental research and Budget 2010 on business innovation.

These initiatives have been supported by other major reforms, particularly the formation of the new Ministry of Science and Innovation, and a new impetus and direction for CRIs. Collectively, these measures have encouraged more investment from the private sector and brought innovation to the forefront of public and business thinking.

To reflect changes to the Portfolio and Ministry, the name of the Vote will also need to be changed to Vote Science and Innovation.

I set out my agenda for Budget 2011 in my priorities letter to the Prime Minister. In summary, our technology intensive industries have potential to substantially add to our overall exports and complement the success of our primary industries. While there are already a number of standout performers, New Zealand needs much greater scale and diversity in its technology-intensive exports if we are to achieve the EGA target of an additional \$20 billion in export earnings by 2025.

[2]

Departmental Initiative associated with the establishment of MSI

We propose that there be an increase to the Net Assets position of MSI in 2010/2011 by \$3 million and in 2011/12 by \$0.5 million by equity injection, funded through reduction to departmental funding of \$3 million in 2010/2011 and \$0.5 million in 2011/12. Provision for this injection was made within the \$6.90 million agreed for transition costs related to the establishment of the Ministry of Science and Innovation. The equity injection will cover \$3.5

million programmed spend for accommodation fitout and changes to ICT systems and applications. This is the entire capital proposal for Vote S&I for Budget 2011.

Overall Impact

Operating	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Current Baseline	765394	760536	770908	772928	772128
Net cost of new/increased activities	[2]				
Amount reprioritised					
New baseline					

*transfer of \$3 million MSI Departmental funding to Net Asset position of MSI

†includes transfer of \$0.5 million MSI Departmental funding to Net Asset position of MSI

Capital	Impact (\$000s)				
	2010/11	2011/12	2012/13	2013/14	2014/15
Capital proposals seeking new funding in Budget 2011.	0	0	0	0	0
Capital proposals seeking decisions in Budget 2011 funded within baselines.	3000	500	0	0	0
Total capital intentions	3000	500	0	0	0

Section 2: Vote Priorities and Pressures

1. *What you intend to achieve over the next four years (as outlined in the priorities letter agreed with the Prime Minister and as presented to ECC).*

The three major priorities outlined in the Minister's priorities letter were:

- A) Science and innovation capability, [2]
- B) Lifting Business R&D; and
- C) International science and innovation linkages.

[2]

The Economic Growth Agenda has set an ambitious target of increasing exports from manufacturing and services from \$9 billion in 2010, to \$29 billion in 2025. The development of more and larger technology intensive industries has the greatest potential to diversify and accelerate growth in the medium-to-long term of the New Zealand economy. The TIN 100 report tracks progress across our major technology intensive companies. Overall, the TIN 100 companies have increased revenue by 45% over the last five years. Within the group, there have been some outstanding company performances. By leveraging innovation more effectively, there is major scope for economic gains.

[2]

The Technology Development Grant has had very high demand, and demand is forecast to outstrip supply.

The TechNZ scheme is also almost fully committed over the next three years, leaving little scope for increasing technology project support to new entrants.

[2]

Commercialisation funding for start-ups from public-good research is very low, meaning that even if there are marketable results from science investment, there is limited ability to transfer these discoveries to technologies and services. The new National Network of Commercialisation Centres **[2]** will be able to administer new funding to technology start-ups.

Each of these funding instruments supports different stages of business development. **[2]**

[2]

. Currently we have a series of international science initiatives in place, including negotiation of high level science agreements and creation of bilateral mobility funds. **[2]**

2. How these achievements link to the Government's priorities.

Vote Science and Innovation is working to align with the Science, Innovation and Trade driver of the Economic Growth Agenda. Budget 2010 and the Primary Growth Partnership in Budget 2009 supported economic innovation. **[2]**

3. Relative to Government priorities, identify the lowest value programmes within the Vote(s).

In Budget 2010 there was a rigorous re-prioritisation process of Vote RS&T that freed up \$109.8 million over four years to support Government priorities. These include new schemes to lift business R&D, improve technology transfer between public and private sectors and implement new fellowships to attract the best and brightest scientists to New Zealand careers. This also supported priorities outside the Vote such as the Global Research Alliance and the Food Innovation Network of New Zealand.

The Vote is now substantially aligned with Government policies. However, I believe there is further room for reprioritisation in favour of the priority areas outlined.

Significant reprioritisation will impact on areas of considerable interest to other Ministers. Areas likely to be affected for this package are Biological Industries Research [2] further cuts to Environment Research, and shifting of High Value Manufacturing and Services towards business-led schemes. This will require agreement from Ministers

[2]

the specific amount of reprioritised money within the vote would be determined by running a review process aimed at attaining an overall reprioritisation goal.

4. The major pressures facing the Vote(s) over the forecast period. Where possible these should be quantified.

The new business R&D schemes are subject to heavy demand, and will require significant rationing to stay within appropriated levels. [2]

For example, approximately 28 out of 53 companies will receive the new Technology Development Grant this year. It is expected the declined companies will rebid for the 2011/12 allocation. In the meantime they will repackage their proposals seeking a TechNZ 50/50 project grant. Many of these applications will be attractive and eligible for TechNZ funding as these companies are all R&D savvy, have R&D intensities greater than 5% and are experienced in undertaking R&D programmes. The funding appropriation for TechNZ will be fully utilised in 2009/10 year and available funds for 2010/11 will be well short of demand.

Demand is also expected from the new national network of commercialisation centres and the pre-seed funding they will be allocating in future.

Longer term pressures include the need to maintain real levels of investment in nationally important capabilities (this may become an issue for CRIs over the next four years), and to support a broader and deeper base of socio-economic activity as the economy grows in real terms (this increases demand across the breadth of public and industry good investments).

The administrative costs in the system (Ministry and funding agencies) is relatively small (<5% of the total Vote) and will decrease with the formation of the Ministry of Science and Innovation.

5. The drivers of costs in the Vote(s) (e.g. inflation/price pressure, demographic changes, one-off pressures).

Costs in the Vote RS&T reflect salary costs, other direct costs and the overhead costs of businesses and research organisations. Under the full-cost funding policy, these costs are managed by the organisations contracted to do the work.

Costs in Vote RS&T are also driven by the cost of providing and replacing infrastructure such as the KAREN high speed networks and large facilities such as access to the Australian Synchrotron and High Performance Computing.

Real growth in the economy as a result of higher production, productivity increases and population growth will stimulate and increase demand for science and research services.

6. The measures being put in place to manage these pressures within the Vote(s).

The CRI taskforce reforms will be helpful in the short term by empowering CRI boards to make more efficient resource allocation to meet their agreed outcomes.

The Business R&D schemes will need to be restricted to prevent overspending in those appropriations.

We will also work to ensure that we are leveraging as much private and industry sector support as possible.

7. What risks do these pressures create?

Many worthwhile business R&D projects will not be funded. If excess demands persists in the business R&D schemes, firms may reduce their interest in investing and the Government may lose the momentum currently generated to accelerate investment in R&D.

The ability for institutions to continue re-allocating or divesting resources to manage pressures in areas of public and industry good activity is limited in the absence of increased

revenue. Vote RS&T has no mechanism to manage these pressures apart from increases in research funding via the annual Budget process.

Over time, the inability to adjust for cost rises will reduce the number and scale of research activities that the Vote is able to fund. Vote RS&T has a role in supporting Government priorities across many portfolios, each with their own priorities. The true cost increases of maintaining long-term scientific capability needs to be appropriately factored into Vote RS&T.

Overall, the real risk of not increasing investment over time is that we will miss the opportunity for New Zealand to lift its game more in line with our comparator countries and to compete economically.

Section 3: Proposed Changes for Budget 2011 (Reprioritisation)

What will be new or increased?

1. What is new or different compared to what is currently being delivered?

[2]

The final change we note is the transfer of department operational funding to the Ministry of Science and Innovation Net Asset position, to cover capital costs associated with setting-up the new ministry..

2. The contribution of the activity to your priorities.

[2]

3. Summary of information supporting the proposed changes.

[2]

Regarding reprioritisation, there are a range of specific research areas that will be reduced or cut to achieve the yearly targets. The scale and priority will be determined depending on the size of the overall Budget 2011 package. The reprioritisation process would also need to be agreed after discussion with Ministers in affected portfolios.

We will provide more information on this to Cabinet in early March.

Section 4: Summary of Financial Movements

This section details the changes to appropriations (including new appropriations) which are required to implement all of the proposed changes in section 3.

Departments should generate this report from CFISnet.