MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

Regulatory Impact Statement: Driving economic growth through Science, Innovation and Technology

Decision sought	Analysis produced for the purpose of informing: Final Cabinet decisions and drafting instructions for legislation supporting the Science, Innovation and Technology reforms.
Agency responsible	Ministry of Business, Innovation and Employment (MBIE)
Proposing Ministers	Hon Dr Shane Reti, Minister of Science, Innovation and Technology
Date finalised	3 April 2025

Briefly describe the Minister's regulatory proposal

The Minister of Science, Innovation and Technology (SI&T) is proposing to introduce a single, comprehensive SI&T Bill, which will consolidate and update provisions from the several disparate pieces of legislation that currently govern the system. The legislation will provide for:

- a facilitating structure for the Prime Minister's Science, Innovation and Technology Advisory Council (PMSITAC) to enable it to advise on priorities for the SI&T system;
- the creation of science funding boards, which will implement priorities via funding decisions;
- new settings for New Zealand's publicly owned research institutions through deeming Crown Research Institutes (CRIs) to be public research organisations (PROs) – large, flexible and responsive science organisations, which will deliver on government science priorities;
- the disestablishment of Callaghan Innovation as an innovation agency, freeing up scarce resources to be allocated to science more directly related to economic growth; and
- continuing Callaghan Innovation's property management functions in an updated form, Gracefield Innovation Quarter (GIQ) Holdings, to manage Government's ownership of the Gracefield Innovation Quarter[1].

The regulatory proposal progresses decisions Cabinet made in November and December 2024 on the SI&T system reforms, following advice from the Science System Advisory Group (SSAG, ECO-24-MIN-0242 and CAB-24-MIN-0504.02). The main decisions were:

[1] The Gracefield Innovation Quarter comprises 16 acres of Crown-owned land and infrastructure in Lower Hutt. While Callaghan Innovation has managed the site since 2013, the site has been used for Crown-led research activities (largely engineering, physics, and geological research) since 1942.
GIQ seeks to bring together scientists, technicians and businesses in a collection of laboratories, workshops, pilot labs, and office spaces on the site. Residents have access to leading scientific and technical advice and services, and range from privately-owned enterprises to research and development teams delivering for major national and international companies.

- to establish a PMSITAC. Terms of reference were appended to the Cabinet paper and agreed
- to progress work to create four PROs, to focus on bioeconomy, earth sciences, health and forensic science services, and advanced technologies respectively. Cabinet also agreed to the purpose and functions of PROs
- to disestablish Callaghan Innovation as an innovation agency.

The above decisions are essentially out of scope for the RIS, as much of the work to establish a PMSITAC, amalgamate some of the CRIs, and disestablish Callaghan Innovation are underway. This regulatory impact analysis instead focuses on how those decisions can be implemented.

The SSAG was commissioned by the former Minister of SI&T to provide advice on how the system can better contribute to New Zealand's economic and broader development.

The group is developing further advice on the potential future state of the SI&T. The Minister of SI&T will come back to Cabinet later in the year with recommendations on how Government should respond to that advice.

Summary: Problem definition and options

What is the policy problem?

New Zealand's SI&T system is struggling to effectively deliver science, innovation and scientific services that improve economic outcomes and the overall wellbeing of New Zealanders. Our scarce SI&T resources:

- are spread too thinly, and
- not directed towards the areas of highest priority for New Zealand.

The SI&T system is not responsive to priorities and opportunities, particularly if they are new or emerging. The structural issues contributing to these problems include:

- New Zealand invests significantly less in research and innovation, relative to many comparable countries. Investing in SI&T is recognised internationally as the core element to enhancing productivity[2].
- The absence of crucial government levers to articulate clear strategies and SI&T priorities to which research organisations can align their activities. Many comparable countries establish advisory councils to set strategic direction and priorities for SI&T.
- The CRIs collectively struggle to align scarce resources to effectively deliver coherent and well-coordinated research and services that best meet New Zealand's current and future needs. CRIs:
    a. are resource-constrained with insufficient public funding to meet current stakeholder (public and private) expectations

[2] Jones & Summers (2020) - *A calculation of the social returns to innovation.* - finds high rates of return to public R&D investment.
Tsamadias, Pegkas, Mamatzakis & Staikouras (2018), *Does R&D, human capital and FDI matter for TFP in OECD countries*, finds R&D has the most significant positive correlation with productivity from a range of potential drivers.
IMF (2021) *Research and innovation: fighting the pandemic and boosting long-term growth* finds "public funding for research is too low " and that doubling public funding for R&D would boost annual GDP growth per capita by 0.2 percent.

b. are driven to invest in, and pursue, niche research areas that secure their financial wellbeing
c. develop capabilities and infrastructure that overlaps with the research areas of other research organisations, resulting in fragmentation, sub-scale delivery, unproductive competition and unnecessary effort expended between institutions.

- Callaghan Innovation lacks clear purpose and operates a wide range of activities not well suited for an innovation agency. This impacts its ability to perform high-value functions.
- Cabinet has decided to disestablish Callaghan Innovation as an innovation agency. However, some of its activities are:
  a. necessary for a well-functioning innovation system (for example, technical assessments and support for the Research and Development Tax Incentive),
  b. a Crown responsibility that cannot be abruptly stopped (for example, maintaining the Measurement Standards Laboratory (MSL), or management of GIQ.

This results in:

- Difficulty in focusing and directing resources to new areas of need and emerging sectors of importance.
- Fragmented science research and services that have poor alignment with our economic and other wellbeing goals, inconsistent consideration of trade-offs, duplication of effort and an inability to effectively connect and cooperate for scale and impact.
- CRIs needing to manage conflicting priorities around national benefit and organisational financial stability leading to strategic misalignment and, in some cases, financial precarity.
- Callaghan Innovation being hindered in its ability to perform and function effectively and efficiently as an innovation agency by its broad, and often conflicting, mandate.

Various reports and reviews have raised these problems over the last decade. Stakeholders have also consistently highlighted these issues through recent sector engagement processes.

Without changes to the status quo, the SI&T system will not make the step change needed to ensure the SI&T system is meaningfully contributing to New Zealand's economic growth, productivity and overall wellbeing of New Zealanders.

While the problem definition described in this document covers the full scope of the SI&T reforms, the regulatory options we are seeking to progress relate to a subset of the wider reforms, these being:

- lack of strategic oversight and priority setting / our scarce resources are spread too thinly
- lack of responsiveness to priorities / CRIs struggle to align scarce resources to best meet New Zealand's needs
- Cabinet has decided to disestablish Callaghan Innovation as an innovation agency. Its most important functions need to be redistributed to parts of the system where they will have greatest impact, while others must stop.

The scope of this regulatory impact analysis is limited to SI&T activities funded by the SI&T appropriations.

What is the policy objective?

The overarching objective of these proposals is to create an SI&T system that enables Government's investments in SI&T to be clearly directed towards, and responsive to, Government priorities.

These reforms are intended to enable government to set clear strategy and priorities for the system, provide for allocation of resources to those priorities, and ensure the system has flexibility to respond accordingly.

What policy options have been considered, including any alternatives to regulation?

Underlying problem	Proposed changes	Options
Lack of strategic oversight and priority setting / our scarce resources are spread too thinly.	Establish the **PMSITAC** that provides strategic oversight and set government priorities for the SI&T system. The advisory council will drive a unified direction by articulating key objectives and priorities to ensure system-wide alignment and effective communication of goals. Levers for prioritisation and structures will ensure agencies and research institutions collaborate effectively and deliver on these priorities.	No PMSITAC – Rescind Cabinet's decision to establish PMSITAC, leaving the system with no clear mechanism to set priorities, maintaining the SI&T system's lack of strategic direction.
		Status quo - Establish the PMSITAC via Cabinet and without support in legislation. The Council will report to the Ministers who use executive powers to give effect to priorities.
		Establish the PMSITAC with support in legislation. The PMSITAC is a statutory body empowered to provide recommendations and directions to the Cabinet concerning the SI&T system. The PMSITAC would be able to determine and publish priorities and have the power to direct PROs and funding decision-makers directly.
		Preferred option Establish the PMSITAC with support in legislation. However, in contrast to the option above, the PMSITAC provides advice to the Minister of SI&T. The Minister, in consultation with Ministerial colleagues determines the priorities, which are then published by Gazette Notice. The Minister will direct PROs and funding decision makers to give effect to priorities through new direction setting levers. This will be done using other executive powers or influence to give effect to recommendations as appropriate.

Lack of responsiveness to priorities / CRIs struggle to align scarce resources to best meet New Zealand's needs.	Retain ability to establish SI&T funding decision making entities and clarify how they can be directed to respond to priorities.	**Preferred option** **Funding decision making boards** Retain the provisions enabling the Minister of SI&T, under the Research, Science, and Technology Act 2010, to establish funding decision making boards, but amended to clarify how the boards can be directed to respond to SI&T priorities, and other minor amendments clarifying the role of the boards. The amendments are minor and captured by the analysis provided for the PMSITAC. The Science Board, which makes funding decisions for the Endeavour Fund, is an example of a funding decision making board established under the current legislation. The proposed provisions are flexible and sufficiently permissive to enable Government to respond to a range of recommendations from the SSAG, which will be providing advice on the future configuration of funders and funds within a few months.
	Enable creation of **PROs** and ensure they focus on delivering research aligned with governmental priorities and better address economic outcomes. Explore regulatory and organisation options to best deliver core innovation functions to support business innovation and research commercialisation across the economy, while considering the coordination and coherency of the SI&T system.	Variation of the status quo – Retain the current Crown entity company format under existing CRI Act 1992 settings, **with no further legislative ability to direct**. The amalgamated CRIs would operate under those settings as would the newly stablished advanced technology research organisation.
		Preferred option Enable PROs to be established with the Crown entity company format but with strengthened ability for Government to direct through statements of purpose and gazette. Establish a new PRO focused on advanced technology in same entity form and ability to direct.
		Establish the new PROs as Crown agents but with legislated financial freedom (exemptions from the Crown Entities Act 2004). Establish a new PRO focused on advanced technology as an agent with the same exemptions.
		Establish PROs as Crown agents with default financial settings (ie no ability to retain surplus, borrow, and make capital decisions). Establish a new PRO focused on advanced technology as a Crown agent with the same default financial settings.
Cabinet has decided to disestablish Callaghan Innovation but	Regulatory and entity options to best enable the continued ownership and operation of GIQ, explore commercial solutions to	Status Quo – Callaghan Innovation continues to own and operate GIQ under the Callaghan Innovation Act 2012.
		Preferred option Re-purpose the Callaghan Innovation entity to own and operate GIQ.

some of its activities need to be retained in the system.	retain the site as a centre for SI&T.	Transfer GIQ to another entity or standalone entity to own and operate GIQ.
	Options on the most appropriate mechanism to give effect to transfer of specified activities to other entities.	Status Quo – Transfer activities without legislation (or with minimal legislative change).
		Preferred option Transfer activities with legislation.

What consultation has been undertaken?

MBIE has had limited opportunity to consult on the proposed changes due to confidentiality constraints requested by the Minister's office in the lead up to the overall reforms being announced by the Prime Minister on 23 January 2025.

However, the proposals and supporting analysis are heavily informed by recommendations of previous reviews relating to the SI&T system and the underpinning consultation for each. The reviews include:

- Te Pae Kahurangi Report – Positioning Crown Research Institutes to collectively and respectively meet New Zealand's current and future needs (2020)
- Te Ara Paerangi – Future Pathways (2021 to 2023)
- Science System Advisory Group Report – An Architecture for the Future (2024).

Each of these reviews involved a mix of open and targeted consultation with a wide range of government and non-government stakeholders in the SI&T system. More information about the consultation undertaken is provided in the section "*What consultation has been undertaken?*".

The following departments and groups were consulted on this regulatory impact analysis and the accompanying Cabinet paper:

- Parliamentary Counsel Office
- Legislation Design and Advisory Committee (LDAC)
- Internal MBIE - Commerce, Consumer and Business, Energy Policy, Resource Policy, Economic Development
- The Treasury
- Department of the Prime Minister and Cabinet
- Public Service Commission
- Ministry of Education
- Ministry of Health
- Ministry for Primary Industries
- Ministry for the Environment
- Department of Conservation
- Ministry of Housing and Urban Development
- Ministry of Foreign Affairs and Trade
- Ministry for Pacific Peoples
- Ministry of Defence
- Te Puni Kōkiri
- Ministry of Social Development
- Inland Revenue Department
- National Emergency Management Agency
- New Zealand Intelligence Community

While departments were provided with opportunities to comment on the proposals in the lead up to Cabinet decisions, they had little opportunity to contribute to the development of options. Key points raised by departments in relation to the regulatory impact analysis included:

- Suggestions to provide greater clarity about progress to implement decisions already made by Cabinet and their relationship to the scope of the regulatory impact analysis.
- Emphasise that the SI&T system plays a vital role in understanding and managing natural hazards, such as earthquakes and pandemics, and thereby ensuring our economy is resilient to shocks and stresses.

- Include more information on costs and financial implications.
- Include an assessment of unintended consequences of the reforms.

Is the preferred option in the Cabinet paper the same as the preferred option in the RIS?

Yes.

Summary: Minister's preferred option in the Cabinet paper

Costs (Core information)

Outline the key monetised and non-monetised costs, where those costs fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

- Confidential advice to Government The reforms costs are expected to be met by reprioritising funding from within existing appropriations.
- Estimates for some of the costs, for example, disestablishing Callaghan Innovation as an innovation agency, are still being refined. The disestablishment of Callaghan Innovation as an innovation agency will free up funding that can be used in other, higher priority areas.
- The transition from CRIs to PROs will occur within existing funding, covering both the direct costs of transition and reallocation of funding. MBIE is working closely with the CRIs as they consider mergers to understand the costs and savings.
- Trade-offs will be necessary as PROs focus their activities to maximise economic growth and stewardship benefits within available funding, likely requiring identification of the most critical science services.
- Reprioritisation of funding will impact different parts of the system in different ways. For example:
  - **Endeavour, Health Research, and Marsden Funds.** CRIs, universities and independent research organisations are the primary beneficiaries of these large contestable funds. Research organisations have been re-sizing in recent years to adjust to lower Government and commercial funding and increases in operating costs. Confidential advice to Government
  - **Business research and development grants.** Businesses, sometimes relatively new start-ups are the primary beneficiaries of these grants. Reductions to these grants would reduce the amount of research and development output of businesses and possibly staffing.
- Uncertainty resulting from institutional change can be unsettling for staff and customers. We could expect to see:
  - some talent opting to leave the CRIs as it progresses from current state, through to amalgamation, and transition into a PRO.
  - Loss of commercial revenue as customers lose sight of organisational status or struggle to engage with the new entity.
- Change can take time to embed. We could see a drop in productivity as each part of the system grapples with how priorities are determined and translated through the system and put into effect by funders and research organisations. Confidential advice to Government

Benefits (Core information)

Outline the key monetised and non-monetised benefits, where those benefits fall (e.g. what people or organisations, or environments), and the nature of those impacts (e.g. direct or indirect)

Non-monetised benefits include better alignment around SI&T priorities and subsequent use of our scarce SI&T resources. We expect the SI&T reforms to contribute to the diversification of New Zealand's economy and ensure we can make good of rapidly advancing technologies. The non-monetarised benefits include:

a. strategic alignment

b. world class research with economic impact

c. organisational effectiveness

d. attraction and retention of talent and capability

e. strengthened global connectivity.

We can expect to see the PROs to be more responsive to priorities, as directed by the Minister of SI&T, and to move resources towards those priorities. The amalgamation of the CRIs in advance of their transition to PRO status should reduce duplication and unnecessary competition in the system and increase opportunities for transdisciplinary research.

We cannot calculate the benefit quantitatively while the priorities for the system are unknown.

Balance of benefits and costs (Core information)

Does the RIS indicate that the benefits of the Minister's preferred option are likely to outweigh the costs?

While it is difficult to anticipate quantitative benefits of these reforms, the counterfactual means a system that continues to constrain the Government's ability to generate economic growth for New Zealand through the SI&T system, and allocate resources in an uncoordinated, sub-scale fashion is likely to result in unproductive fragmentation.

Implementation

How will the proposal be implemented, who will implement it, and what are the risks?

The legislation is expected to come into force Confidential advice to Government aligning with the transfer of key functions. The requirement for Orders in Council is supported by the provision enabling the Minister to issue statements of purpose for PROs as secondary legislation.

Direction setting from the PMSITAC is further supported through the Minister being able to gazette Government objectives that the PROs must give effect to, and by being able to appoint science funding bodies and direct them.

Implementation of these reforms will be overseen by the SI&T reform programme, which is governed by MBIE. MBIE will also be responsible for administering the legislation with appropriate oversight.

Confidential advice to Government

Limitations and Constraints on Analysis

The technical expertise and detailed information needed to estimate costs is currently held by the CRIs and Callaghan Innovation. The cost estimates need to be informed by organisational due diligence, and decisions around the design of future state. While this information will become clearer as the reforms progress, comprehensive analysis is not currently possible. This work is underway but not complete.

We have been limited in our ability to consult on these proposed regulatory changes due to Ministerial constraints around confidentiality in the lead up to the overall reforms being announced.

However, there has been wide consultation and discussion of the issues faced by the SI&T system through multiple successive reviews of our SI&T system over the past 15 years which have informed our analysis and the design of the preferred options.

I have read the Regulatory Impact Statement and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the preferred option.

Responsible Manager's signature:

Lee Robinson

Policy Director, Science & Space
Ministry of Business, Innovation and Employment

03/ 04 / 2025

Quality Assurance Statement	
Reviewing Agency: Ministry of Business, Innovation and Employment	**QA rating:** Partially meets
Panel Assessment & Comment: An internal MBIE quality assurance panel has reviewed the regulatory impact statement on *Driving economic growth through Science, Innovation and Technology*. The panel considers the RIS **partially meets** the quality assurance criteria, and notes that while the main limitation of the impact assessment was the limited consultation that was able to be conducted on the regulatory proposals, the analysis is sufficiently comprehensive to inform decision makers.	

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

What is the science, innovation and technology system?

1. New Zealand's SI&T system consists of businesses, people, institutions such as research organisations and universities, funding agencies and investors, accelerators and incubators. These different system actors engage with each other in a wide range of activities that contribute to the SI&T system as whole. The current SI&T system architecture is attached in Annex One.
2. SI&T activities such as research, research services, commercialisation of research, business innovation, and research and development (R&D) drive the generation of new knowledge, development of new technologies, and apply them in New Zealand to drive economic, health, social, and environmental well-being.
3. The SI&T system overlaps and interacts with different systems in New Zealand, such as education, health, environmental, business and industrial, and trade and export. The SI&T system also delivers key services for government, such as forensic testing, public health and environmental monitoring.
4. Importantly, the SI&T system plays a vital role in managing national risks, national security, and building national resilience. Understanding and managing national risks (that is, hazards and threats that can derail us as a country) improves the overall resilience of our economy.
5. Total investment in R&D was approximately $5.2 billion in 2022. Businesses perform well over half of the R&D that occurs in New Zealand at about $3.1 billion, with government conducting its own R&D and supporting business R&D through a variety of mechanisms and portfolios at $2.2 billion[3]. The Māori economy has experienced significant growth, contributing a reported 8.9 per cent to New Zealand's GDP in 2023, with a noticeably diverse shift into sectors like professional services, tourism, and scientific research.
6. The SI&T portion of Vote Business, Science and Innovation (BSI) is the largest portion of government funding for R&D at $1.2 billion. In addition, approximately $500 million is allocated through tax credits under Vote Revenue and approximately $300 million is allocated to research through the Tertiary Education Commission in Vote Tertiary Education.
7. Other government agencies also fund and purchase SI&T through their portfolios for their specific policy needs. The total R&D workforce is at about 39,000 FTE in 2022, with 21,000 FTE in 2,350 businesses, 3,800 FTE in seven CRIs and 14,000 in eight universities[4].
8. The scope of this regulatory impact analysis focuses on Government's investment in SI&T via its SI&T appropriations, and the function of CRIs and Callaghan Innovation.

What is the government's role?

9. Government and private investment in SI&T are recognised internationally as core contributors to enhancing economic productivity. Positive spillovers in R&D activities mean that government needs to intervene to ensure SI&T activities are not occurring at a suboptimal level and that benefits from public good research and broader innovation are not under provided.

[3] "Research and Development Survey: 2022 | Stats NZ." 2022. Govt.nz. 2022. https://www.stats.govt.nz/information-releases/research-and-development-survey-2022/.

[4] Research and Development Survey: 2022 | Stats NZ." 2022. Govt.nz. 2022. https://www.stats.govt.nz/information-releases/research-and-development-survey-2022/.

10. In addition to investment, government plays multiple additional roles in the SI&T system including as a system steward, coordinating and directing activities, and owning research performing organisations.

11. A range of organisations funded by the SI&T related appropriations in Vote BSI contribute to the delivery of the government's role within the SI&T system. These include:

    a. **MBIE**: Responsible for developing advice and policy and providing science and innovation funding.

    b. **CRIs**: Responsible for conducting research for the benefit of New Zealand.

    c. **Callaghan Innovation**: Responsible for funding and supporting research commercialisation, business innovation and connecting SI&T system actors, in addition to other activities not well suited for an innovation agency.

12. Other Government agencies also purchase and use SI&T developed by the system and support the broader functioning of the broader SI&T ecosystem through administration of grants, incentives, and the attraction of investment and capital.

13. By international standards, New Zealand's investment in R&D is low and is focused on traditional economic sectors like the primary industries. Only 30 per cent of science investment goes to advanced technology, compared to the Organisation for Economic Co-operation and Development (OECD) average of 60 per cent.

14. New Zealand operates a fragmented SI&T system without clear strategic priorities or accountability mechanisms. The system is governed by three key pieces of legislation that act on different parts of the system. These pieces of legislation are disparate and were largely designed independently from each other.

15. New Zealand, like many other countries has publicly owned research institutions, the CRIs. These are focused on traditional areas of strength, with limited agility to respond to emerging opportunities[5].

16. The last significant reform to the system occurred in 1992 with the creation of a highly contestable funding system and the establishment of the CRIs as Crown entity companies out of the Department of Scientific and Industrial Research.

17. This was followed later in 2013 with the establishment of Callaghan Innovation from the merger between MBIE's business innovation funding unit and the Industrial Research Limited CRI.

18. Three key pieces of legislation that govern the SI&T system and relate to the proposed regulatory changes are:

    a. **Research, Science and Technology Act 2010**: A broad framework for the government's role in promoting and funding research and innovation in New Zealand. However, it lacks a mechanism to set strategic directions and national priorities.

    b. **Crown Research Institutes Act 1992**: Establishes the CRIs as responsible for conducting research for the benefit of New Zealand. However, the Crown entity company form of CRIs has resulted in CRIs prioritising organisational benefits over broader national benefits. CRIs are not required to give effect to government policy, such as aligning its research areas with the Government's strategic direction and national priorities.

    c. **Callaghan Innovation Act 2012**: Establishes Callaghan Innovation as an innovation agency responsible for supporting research commercialisation and business innovation. However, the mandate is spread thin across often conflicting functions

[5] In this document we use 'publicly owned research institutions' as an umbrella term for government owned research institutions. CRI refers to the organisational form defined under the CRI Act. PRO refers to a new type of publicly owned research organisation with new settings to be defined under the proposed new legislation.

which impacts its ability to deliver core innovation functions, such as fee-for-service R&D, calibration services, etc.

19. These three pieces of legislation do not empower direction setting and coordination for the system, which limits the government's ability to steer and coordinate government SI&T funding and organisations to ensure that New Zealand maximises the benefit from the amount invested.

What happens if the status quo continues?

20. Various reviews, reports and engagement with stakeholders over the last decade have consistently highlighted the following issues:

    a. **Continued focus of resources spent on research and innovation in New Zealand's traditional areas of strength**, limiting investments into new and emerging technology areas with high potential to transform the economy, such as artificial intelligence (AI), synthetic biology, aerospace, medical technology, and quantum technology.

    b. **Insufficient ability of public organisations to deliver core science and innovation functions**, such as the CRIs' mismatched funding to expectations and limited ability to adapt to government priorities, and Callaghan Innovation's wide mandate to include activities not well suited for an innovation agency.

    c. **Continued fragmentation** and siloes between research organisations due to the current organisational arrangements and funding model, causing counterproductive competition, complexity and unnecessary administrative effort.

    d. **Continued inability for government to coordinate SI&T activities** including mechanisms for setting priorities and directing CRIs, and institutions adapting to those settings.

    e. **Continued difficulty for system actors to navigate the system** making it difficult for researchers, businesses, and collaborators to effectively partner and cooperate to maximise impact.

    f. **Suboptimal levels of research, innovative and commercialising activities**, limiting the generation of positive spillover benefits to the New Zealand economy.

What is the policy problem or opportunity?

21. On 25 March 2024, Cabinet agreed to establish the SSAG to investigate issues across the SI&T system. The SSAG's first report notes that New Zealand has seen its relative wealth and position decline and been content to live off past SI&T investments in the primary sector and:

    a. we are falling behind in our use of research and science to drive future commercial and societal benefits

    b. every other small, advanced economy, most major countries, and the European Union, have long recognised and demonstrated the core role of SI&T in advancing productivity.

New Zealand's investment in SI&T is low and not contributing – as it could – to our economic productivity and growth

22. There is international consensus that SI&T activity and increased investment in SI&T is core to advancing productivity and economic growth[6]. OECD data demonstrates a strong

[6] Gluckman, Sir Peter, Michael Ahie, Mark Ferguson, Hermann Hauser, Barb Hayden, Nadia Levin, Tracey McIntosh, et al. 2024. Review of *Science System Advisory Group Report an Architecture for the Future*. August 2024. https://www.mbie.govt.nz/assets/science-system-advisory-group-report.pdf

relationship between total government investment in R&D and economic growth, including between R&D spend and GDP per capital[7].

23. New Zealand is an outlier to peer jurisdictions in the Small Advanced Economies Initiative network and our research intensity is low. New Zealand's total R&D spend is at 1.47 per cent of GDP, compared to the OECD average of 2.72 per cent[8].

24. While underfunding is a significant underlying contributor to the issues undermining the performance of the SI&T system, Government's overall investment in SI&T does not fall within the scope of this regulatory impact statement.

We are not making the best use of our scarce SI&T resources

25. Our lower level of investment means that choices must be made on where best to focus our scarce resources and we need a system that responds to those choices.

26. There are several key contributors to the inability of our system to extract better value from our scarce SI&T investments:

    a. **Lack of strategic oversight and priority setting / our SI&T resources are spread too thinly.** We lack a clear, overarching strategy at a system level to guide research priorities, direct investments and ensure alignment with national goals.

       Our system is characterised by strategy and priority 'clutter'. Strategies and priorities are expressed through funding allocated through new budget initiatives and policy decisions, strategy documents published by various government departments, and the organisational strategies of each research organisation.

       This proliferation of strategies and priorities results in our already scarce SI&T investments spread very thinly across many different areas, without consideration of the strategic trade-offs and opportunity costs of those investments and the makeup of our overall portfolio[9].

       The lack of strategic oversight and priority setting is compounded by a lack of coherence and coordination across the system. Decision making processes tend to be dispersed, and funding allocations and the associated decision making tend to be siloed. These factors, coupled with limited communication channels between agencies and research institutions result in inefficiencies, duplication of effort, and missed opportunities for collaboration.

    b. **Lack of responsiveness to Government priorities / CRIs struggle to align scarce resources to best meet New Zealand's needs.** Competing incentives and drivers for CRIs making it difficult to focus on government science priorities. The CRIs are resource constrained and are driven to pursue research areas that provide organisational financial benefits which often overlap the research areas of other research organisations.

       For example, both National Institute of Water and Atmospheric Research (NIWA) and Plant and Food Research maintain separate teams and infrastructure in similar aspects of finfish aquaculture; GNS Science, Manaaki Whenua - Landcare Research (MWLR) and NIWA all maintain overlapping capabilities in engineering geology; almost all CRIs are active in some aspect of freshwater science. While there are some areas of well-defined responsibility, these frequently interact in practice, leading to duplication and competition[10].

[7] OECD. (2018). OECD Science, Technology and Innovation Outlook 2018: Adapting to Technological and Societal Disruption, OECD Publishing, Paris. https://doi.org/10.1787/sti_in_outlook-2018-en.
[8] OECD Main Science and Technology indicators.
[9] Te Ara Paerangi – Future Pathways Green Paper 2021, MBIE.
[10] PCE review of freshwater models used to support the regulation and management of water in New Zealand 2024.

As a result, the CRIs collectively struggle to align scarce resources to effectively deliver coherent and well-coordinated research and services that best meet New Zealand's current and future needs.

c. **Callaghan Innovation is being disestablished, but some of its activities need to be retained in the system.** Government has decided to disestablish Callaghan Innovation as an innovation agency given the issues around the agency not having a clear purpose, an overly wide mandate and having several additional activities not well suited for an innovation agency. That decision frees up resources that can be used in other parts of the system, such as the establishment of a PRO focused on advanced technology research. However, some of Callaghan Innovation's activities need to be retained within the SI&T system, Confidential advice to Government

Stakeholders, nature of interest, how are they affected by the problem, and do they share view of problem?

27. There are a wide range of stakeholders with different interests in the system and its inputs, outputs, outcomes and impacts. Those directly impacted are public and private research organisations, the research workforce, funders of research and innovation, and business, government, iwi, hapū and Māori as key players in the SI&T system, and all New Zealanders as users and beneficiaries of research and innovation services and other outputs.

28. This regulatory impact statement has been informed significantly by stakeholder engagement over the last decade, including various reviews and reports. There has been extensive consultation with the sector and stakeholders during the Te Pae Kahurangi review of CRIs, the Te Ara Paerangi – Future Pathways process[11], and through the first phase of the SSAG's review[12].

29. There is a high degree of agreement around the presenting problems in the SI&T system and the need for urgent action. Stakeholders want the SI&T system to be generating greater benefit to New Zealand. The absence of an overarching strategy and system priorities was a prominent message in the consultation undertaken by the SSAG, the Te Ara Paerangi – Future Pathways process, and the Te Pae Kahurangi report on the future of the CRIs.

30. Researchers tended to support the need for SI&T funding decisions to be made by independent bodies and voiced considerable frustration with the current funding model and barriers to cooperation and collaboration across the sector.

31. Stakeholders with an interest in the innovation system drew parallels with developments in other countries, where Government has invested in significant infrastructure and support for innovation and invested heavily in advanced technologies.

32. The performance of existing entities was under scrutiny across the board. Key concerns included Government's under-investment in the system, barriers to collaboration, and incentives driving entity self-interest and unconstructive competition. These views have shaped our overall approach for the SI&T reforms and the areas in which regulation can assist in driving system coherence and direction, and better performance of public research and innovation entities.

33. In relation to the aspects of the reforms addressed in this regulatory impact statement:

    a. The Te Pae Kahurangi and SSAG reports both identified the lack of strategic guidance for the system as a problem. The SSAG recommended the establishment of a

[11] Summary of submissions and Te Ara Paerangi Future Pathways 2022 - Summary of Submissions - Part II - a report summarising Māori submissions and engagements.

[12] Gluckman, Sir Peter, Michael Ahie, Mark Ferguson, Hermann Hauser, Barb Hayden, Nadia Levin, Tracey McIntosh, et al. 2024. Review of *Science System Advisory Group Report an Architecture for the Future*. August 2024. https://www.mbie.govt.nz/assets/science-system-advisory-group-report.pdf.

PMSITAC to advise on strategy and system priorities. Cabinet has agreed to establish a PMSITAC. The legislative provisions to enable the establishment of a PMSITAC are addressed in this regulatory impact statement.

b. The Te Pae Kahurangi and SSAG reports both identified that, in order to meet future needs, CRIs collectively will need high levels of adaptability, allowing them to build new capabilities and allocate resources to emerging research priorities, unconstrained by organisational boundaries. The SSAG recommended that the CRIs be amalgamated into a single PRO. Cabinet has agreed to establish four PROs, three from the seven existing CRIs and one new PRO focused on advanced technologies. The legislative provisions to enable PROs to be established and directed to respond to Government priorities are addressed in this regulatory impact statement.

c. The SSAG report recommended that Callaghan Innovation be disestablished and its valued activities redistributed to other parts of the SIT system. Cabinet has agreed to disestablish Callaghan Innovation. The legislative provisions to enable disestablishment of Callaghan Innovation, transfer some of its activities to other parts of the system and provide for the ongoing management of GIQ are addressed in this regulatory impact statement.

What objectives are sought in relation to the policy problem?

34. A successful reformed SI&T system will transform New Zealand's approach SI&T, creating tangible benefits for the economy and society.

35. The overarching objective is to reform the SI&T system so that it is future facing and enables government to effectively direct, redirect and prioritise investments and activities to support economic growth. This will primarily be achieved by enabling government to set strategic direction and areas of national priorities. This includes key objectives of:

    a. Create strategic clarity and alignment by having clear national priorities for New Zealand that guide investment decisions across the entire system.

    b. Develop world class research with economic impact by developing unique niches of excellence in strategic research areas and translation into commercial applications at an increased rate, generating greater economic returns.

    c. Ensure organisational effectiveness through the evolution of PROs into organisations with greater scale, efficiency, and financial sustainability.

    d. Attract and retain talent and capability in priority areas building critical mass in areas of strategic importance.

36. To achieve this, we need to:

- Enable Government to set clear strategy and priorities for the system, so that we can be sure scarce science resources are being put towards their best possible use for economic growth and wider benefit for New Zealand and New Zealanders.
- Provide for transparent allocation of resources to those priorities, by providing for legal structures to allocate funding.
- Ensure a smooth transition around disestablishing Callaghan Innovation as an innovation agency, redistributing some of its activities and funding to other parts of the system, and providing for the ongoing management of the Gracefield Innovation Quarter.
- Ensure publicly owned research organisations are responsive to priorities. This can be achieved by ensuring strengthening the operating frameworks and ability for the Minister to direct publicly owned research institutions.

Treaty of Waitangi obligations and opportunities

37. Several submissions to the SSAG and Te Ara Paerangi - Future Pathways, along with reports from iwi, hapū and Māori across the SI&T sector have highlighted a lack of explicit consideration of the Treaty of Waitangi (the Treaty) in the SI&T sector[13]. Submissions sought for iwi, hapū and Māori rights and interests to be more effectively addressed in the SI&T sector[14].

38. Key areas for consideration include:

    a. Delivery of outcomes for iwi, hapū and Māori through SI&T, eg through improved technologies, applied mātauranga Māori, and data that allow the Māori economy to grow and flourish.

    b. Participation in the system through the development of the general SI&T workforce, Māori researcher workforce and Māori innovator base.

    c. Appropriate stewardship of taonga[15] and relationships in accordance with Treaty obligations.

39. A key outcome for the SI&T reforms is recognising and enabling more iwi, hapū and Māori opportunities within SI&T to boost domestic productivity and innovation, particularly in high-potential domestic markets.

40. The regulatory changes considered in this analysis deal primarily with the architecture and design of the system. While some aspects of the Crown's obligations are addressed here, more thorough considerations of Treaty obligations and opportunities will need to be included as further non-regulatory aspects of the SI&T reforms are designed and implemented.

[13] Including Ngā Pae o te Māramatanga. (2021). *Te Pūtahitanga: A Tiriti–led Science-Policy Approach for Aotearoa New Zealand*, Te Ara Paerangi - Future Pathways 2022 Summary of submissions – Part II – a report summarising Māori submissions and engagement; SSAG submissions from groups and individuals identifying as being Māori or primarily Kaupapa Māori.

[14] Te Ara Paerangi - Future Pathways 2022 Summary of submissions – Part II.

[15] The intent of the term taonga here is related to Article 2 of the Treaty, elaborated by the Waitangi Tribunal to apply to taonga species (eg flora and fauna) taonga works (eg artistic creations), mātauranga, and data derived from taonga.

What consultation has been undertaken?

Wider reform and policy options

41. Consultation around the specifics of the SI&T reforms and proposed legislation has been limited by confidentiality constraints in the lead up to the Prime Minister's announcement of the wider SI&T reforms on 23 January 2025.

42. The problems we are seeking to address in the SI&T reforms are not new and have been the subject of a series of reviews where significant stakeholder engagement was undertaken over the last decade[16].

43. The **Te Pae Kahurangi review** of 2020 was led by a panel of independent experts supported by MBIE. The review was CRI-focused but touched on wider system issues. The panel met with a wide range of CRI stakeholders that use CRI services or engage with CRIs. These included businesses, central and local government, Māori and iwi organisations, and other parties such as universities and non-government research institutes. The panel also engaged with a panel of international scientists, each of whom had previously served on a CRI advisory panel. They also undertook two day visits with each CRI, engaged with the Minister and MBIE officials, reviewed various documents and commissioned a high level comparison of the public research institute elements in New Zealand relative to other countries.

44. The **Te Ara Paerangi – Future Pathways** consultation ran over five months from late October 2021 to late March 2022. The consultation was supported by a Green paper and stakeholders were invited to provide written submissions and to attend various open or targeted engagements with MBIE officials. A total of 885 written submissions were received, of which 442 substantively addressed the themes of the Green paper. MBIE hosted 12 general sessions and 15 in-depth sessions to discuss the topics in the Green paper, that involved 1106 participants.

45. The **SSAG's review** of 2024 was led by a panel of New Zealand and international experts, supported by MBIE. The SSAG engaged widely in targeted sessions with stakeholders from across the science and innovation system and ran an open consultation that resulted in over 300 written submissions.

46. The preferred options are strongly aligned to the recommendations of each of the above reports. This regulatory impact statement has drawn heavily from these bodies of work and the consultation undertaken to inform their respective recommendations.

Legislation

47. Since the announcement of the reforms on 23 January 2025, we have been working closely with the CRIs and Callaghan Innovation to progress Cabinet's decisions. This has included, among other things, identifying and testing what legislation is needed to enable their transition to, and to support, their future forms.

48. Our approach to the legislative options has also been informed by advice from the Legislation Design Advisory Committee and Parliamentary Counsel Office.

49. Agency consultation has been undertaken on this regulatory impact statement and the accompanying Cabinet paper. Our work on the PROs and disestablishment of Callaghan Innovation has been informed by advice from the Public Service Commission.

[16] CRI Taskforce (2010) *How to enhance the value of New Zealand's investment in Crown Research Institutes;* Review of Crown Research Institute Core Funding (2016); Te Pae Kahurangi Report 2020 *Positioning Crown Research Institutes to collectively and respectively meet New Zealand's current and future needs;* Te Ara Paerangi - Future Pathways 2022 Summary of submissions – Part II; Science System Advisory Group – An Architecture for the Future, August 2024.

Section 2: Assess options addressing the policy problem

What criteria will be used to compare the options to the status quo?

50. This section is structured to focus on the analysis of options for each key decision point rather than conducting a single overarching options analysis. Each set of key decisions will have a preferred option, as reflected in the cost-benefit analysis table.

51. To ensure that the core objective is met, which is primarily driven by the government's ability to set, and institutions' ability to adapt to, SI&T strategic direction and national priority areas, an overarching criterion will be used to assess all proposals. The criteria are:

    a. **Setting of, and adapting to, strategic direction and national priority areas**: What mechanism are in place to enable government to set them? What mechanisms enable institutions to adapt to and give effect to them?

    b. **Coordination and coherence of the system**: Are similar functions positioned appropriately within the system, such as decision-making for investments? Are institutions siloed from each other?

    c. Other criteria may be used, in addition to the overarching criteria, depending on the nature of the proposal. These include:

        i. **Impact on delivery of functions**: How does this option impact core functions? What are the trade-offs?

        ii. **Efficient use of resources**: Will resources be spent on high-value activities? Will this reduce duplication in the system?

        iii. **Difficulty of implementation**: How practical is the option to implement? How long will it take? What is the cost of implementation? What is the legislation approach to this?

        iv. **Legitimacy and permanence**: Does this option provide legitimacy and permanency for the SI&T system to set long-strategic direction and high-level priorities. A feasible option will ensure the option is enduring beyond political cycles, create trust in confidence with the public, demonstrate clear lines of accountability and responsibility, and produce high quality advice and recommendations.

What scope will options be considered within?

52. The options analysis focuses on regulatory changes to improve the strategic direction, coordination, responsiveness, and national benefits of New Zealand's publicly funded SI&T system. Options that fall outside the scope of regulatory changes include:

    a. **Options requiring significant increases in government spending:** While funding is acknowledged as a factor, the primary focus is on structural and regulatory changes to improve the system's efficiency and effectiveness.

    b. **Options involving the privatisation of core SI&T functions:** Maintaining public ownership and control of key research and innovation entities is considered crucial for achieving national goals and ensuring alignment with public good objectives.

    c. **Options neglecting the principles of the Treaty**: All options must be considered for their impact on iwi, hapū and Māori and ensure alignment with the principles of the Treaty.

    d. **Options ruled out by prior Ministerial decisions**: Certain proposals of the SSAG have been excluded from consideration based on prior Ministerial decisions. These include previous innovation proposals, such as the establishment of an overarching agency providing trade promotion and export, investment and innovation support to businesses, which have been deemed not appropriate and are not to be revisited in

this regulatory impact statement. Similarly, the option of merging all seven CRIs into a single PRO has been ruled out under Ministerial guidance and will not be explored further.

Problem 1: A lack of strategic oversight and priority setting means our scarce SI&T resources are spread too thinly

53. The SI&T system lacks a clear strategic direction to prioritise and direct research. Without defined strategic functions within regulations, priorities remain fragmented and poorly aligned with government objectives[17]. The regulatory framework loosely addresses funding allocation but lacks directives impact, system priorities, or coordination. As a result, investments are unfocused, institutions struggle to adapt to emerging challenges, and decision-making is dispersed, leading to inefficiencies and missed opportunities for collaboration.

54. This section explores regulatory options to enhance strategic oversight and priority setting in the SI&T system. Strengthening these functions will help define national priorities, improve institutional responsiveness and ensure investments are targeted to the highest-value science and research.

55. Science advisory councils are an effective mechanism to allow government to direct strategic priorities, raise system-wide issues and monitor the overall system.

56. Most OECD countries adopt advisory councils to advise their governments on longer-term and higher-level SI&T priorities. A PMSITAC will provide strategic oversight and unify system-wide direction. PMSITAC will offer advice on how to better leverage SI&T to drive economic growth and enhance the quality of life for New Zealanders, both now and in the future.

57. The role of the PMSITAC will be distinct from that of the Prime Minister's Chief Science Advisor and the network of departmental science advisors. The role of the Council is strategic and will focus on priorities for the SI&T system (eg advice on the prioritisation of public investment in science to support economic growth). Whereas the role of the science advisors is more technical and focused on the provision of scientific advice (eg coordinating science advice across Government in the event of a natural disaster).

58. For all options, membership of the Council will collectively have:

- experience in the commercialisation of science
- strong connections with users of science and technology
- experience in international SI&T; and
- expertise on iwi, hapū and Māori perspectives and interests in SI&T, and the Māori economy.

59. This collective experience will ensure the Council is well positioned to credibly deliver advice on the future of New Zealand's SI&T system. This chapter examines the four following options for its establishment and function.

Option 1.1: No advisory council (PMSITAC)

60. This option would keep the SI&T system in its current form where there is a lack of strategic direction in the sector and minimal coordination and coherence, especially in funding decisions.

[17] The SSAG has also identified that as a small nation, New Zealand needs a mechanism, which enables the Government to set priorities for the SI&T system, particularly in relation to funding. The establishment of the PMSITAC will create this mechanism and enable the Government to make trade-offs on how and where it invests resources.

Option 1.2: Do not legislate PMSITAC

61. The PMSITAC is not legislated and is established through Cabinet. The Council will report to Ministers who uses executive powers to give effect to priorities.

62. This option is the most flexible and easiest to implement, as it does not require legislative changes, but it lacks the formal authority and influence needed to drive significant change in the SI&T system.

Option 1.3: Legislate and issue some powers to the PMSITAC

63. In this option the PMSITAC is established through legislation, which would ensure its legitimacy and enduring impact on the SI&T system.

64. The PMSITAC would be able to determine and publish priorities and have the power to direct PROs and funding decision-makers directly.

65. The PMSITAC through consensus would have the ability to advise on priorities and directions for the system, monitor its effectiveness, and influence investments and funding. This option could confuse some aspects of accountability and assumes a level of collective decision-making, both of which could slow the system's ability to respond to priorities.

Option 1.4: Legislate and issue some powers to the SI&T Minister (MBIE preferred option)

66. This option also establishes the PMSITAC through legislation, but it empowers the Minister to direct the system.

67. The PMSITAC would provide advice to the Minister on priorities and performance of the SI&T system. The Minister would be required to publish priorities and be empowered to direct PROs and funding decision makers to respond to priorities.

A lack of strategic oversight and priority setting means our scarce SI&T resources are spread too thinly. How do the options compare to the status quo?

Criteria	1.1 No PMSITAC	1.2 Do not legislate PMSITAC	1.3 Legislate and issue powers to PMSITAC	1.4 Legislate and issue powers to Minister of SI&T
Clear strategic settings	**– –** No defined strategic framework, relies on other mechanisms.	**+** No defined strategic framework in legislation, relies on other mechanisms, and possibly not enduring. However would give some certainty in direction.	**+** Defined parameters for operation, accountability, and scope.	**++** Defined framework with strategic direction and accountability.
Coordination and coherence	**– –** Lack of coordination and coherence.	**+** Advisory capacity only; some central coordination, but may be challenging to get clear cut through to impact the system.	**+** PMSITAC requires information to enable it to coordinate and understand what is needed for the system's success. Potential for Minister and PMSITAC to operate at cross purposes.	**++** PROs and funding decision makers directed by Minister of SI&T.
Responsiveness to Government steering	**– –** No clear mechanism that ensures alignment to Government priorities**.**	**+** Limited influence, advisory capacity with minimal levers to steer.	**+** PMSITAC can influence SI&T priorities, but less direct involvement.	**++** Minister of SI&T can significantly influence SI&T priorities and investments.
Effectiveness	**– –** No clear mechanism means there is a lack of legitimacy or impact on wider sector.	**+** Somewhat strong legitimacy (due to seniority of members) and effectiveness; potential for minimal influence.	**++** Stronger legitimacy, direct impact on policy system and system performance.	**++** Highly effective in shaping SI&T priorities and providing leadership.
Efficiency	**– –** Current system lacks efficiency in delivering priorities for wider sector.	**+** Requires less formal process and no legislation required, making it flexible and easy to implement, however, it lacks the authority to drive meaningful change, which could undermine the system's efficiency in the long run.	**–** Some formal processes are introduced through legislation, which may slow down decision-making. The role of PMSITAC in collective decision-making could create inefficiencies and ambiguity in accountability, slowing the implementation of advice.	**++** Establishes clear authority, enabling efficient execution of recommendations and clear accountability lines. This increases the potential for timely influence on SI&T priorities, investments and funding.
Feasibility	**–** Feasible as no change is required.	**+** Feasible as it requires no legislation and can be implemented quickly, allowing for flexibility in responding to changes in the SI&T system. However, it may not be effective in addressing the system's long-term needs.	**+** Requires legislative changes, which may introduce complexity and slow down the process. The lack of clear accountability and the potential for collective decision-making could hinder the effective implementation of the PMSITAC's recommendations.	**+** Requires legislative changes and introduces clear roles, but less flexibility compared to the status quo. While the Minister of SI&T's involvement enhances effectiveness, it could lead to delays in execution due to the need for higher-level consultation.
Legitimacy and permanence	**– –** No clear mechanism means a lack of legitimacy and permanence.	**–** Has legitimacy due to inclusion of Prime Minister, lacks enduring mechanisms, no guarantee of lasting strategic direction.	**+ +** Legislation ensures enduring legitimacy, accountability, and strategic direction beyond political cycles. Level of flexibility in the system allows for minor disruption.	**+ +** Provides strong, permanent, legitimacy, creating trust and continuity for long-term strategic direction. Level of flexibility in the system allows for minor disruption.
Overall assessment	**– –**	**+**	**+**	**+ +**

++ Significantly better than the status quo; **+** Better than the status quo; **0** No better or worse than the status quo; **–** Worse than the status quo; **––** Significantly worse than the status quo

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

68. The preferred option is **Option 1.4 Legislate and issue powers to SI&T Minister.** This approach establishes the PMSITAC through legislation, ensuring its legitimacy and long-term impact on the SI&T system. In turn, the Minister of SI&T will have the authority to determine national priorities and direct the system accordingly.

69. This option addresses the core issues of fragmented strategic direction and limited coordination in the system. It will enhance the Government's ability to set clear priorities, improve institutional responsiveness, and maximise the benefits of government investment in the SI&T system.

70. In comparison:

- **Option 1.1: No PMSITAC** would fail to address the existing problems, allowing the lack of strategic direction, minimal coordination, and incoherent funding decisions to persist.
- **Option 1.2: Do not legislate PMSITAC** would provide flexibility and ease of implementation but lack the formal authority required to drive meaningful change across the SI&T system. Without legislative backing, the PMSITAC's influence would be limited, potentially reducing its effectiveness in setting and implementing priorities.
- **Option 1.3: Legislating and issuing powers to PMSITAC.** Although this option would solve some of the negative aspects of the status quo, it would also reduce flexibility, could lead to slower decision-making and lead to some confusion in accountability for direction of the SI&T system, and for the Minister of SI&T and PMSITAC.

What are the marginal costs and benefits of the option?

71. Additional **costs** of the preferred option compared to taking no action.

Affected groups	**Comment** **Nature, upfront/ongoing, evidence and assumption, risk**	**Impact** **$X m; High / Med / Low**	**Evidence Certainty** **High / Med / Low**
Regulated Groups (PROs, CRIs)	There may be transition costs as a result of PMSITAC direction on SI&T investments.	Low to medium	Medium
SI&T system (Businesses, research groups)	Some initial disruption due to strategic changes and new priorities set by the PMSITAC.	Low to medium	Medium
Total monetised costs	Operational cost of the PMSITAC.	$2-3 million	
Total non-monetised costs		High	

72. Additional **benefits** of the preferred option compared to taking no action.

Affected groups	**Comment** **Nature, upfront/ongoing, evidence and assumption, risk**	**Impact** **$X m; High / Med / Low**	**Evidence Certainty** **High / Med / Low**
Regulators	$1.2 billion allocated to SI&T each year is invested in high impact areas to drive economic growth. PMSITAC provides advice on strategic direction and prioritisation for SI&T investments.	Medium	High
Regulated Groups (PROs, Innovation Agency, CRIs)	PMSITAC provides clear direction and a framework for aligning research with Government priorities and national needs.	Medium	Medium
Researchers	Researchers will benefit from clearer strategic direction, better alignment of funding with priorities, and a more coordinated research system.	Medium	Medium
New Zealand Economy	Potential increased in the production of spillover benefits once reforms settle and relationships between research organisations and businesses develop, noting there is a level of uncertainty.	Low	Low
Total monetised costs			
Total non-monetised costs		Medium	

Problem 2: The SI&T system is slow to respond to priorities and CRIs struggle to align their scarce resources to best meet New Zealand's needs

73. CRIs are established as Crown entity companies, which operate at an arms-length from the government and primarily respond to price signals of a quasi-market for science. This arrangement operates well under the assumption that government is largely agnostic about the outputs and outcomes from CRIs. However, government has an increasing interest in directing science investments, capability building, outputs and outcomes, including investing into advanced technologies, to maximise overall benefits to New Zealand over time.

74. This section explores legislative and institutional options for CRIs to address the government's inability to direct them, their lack of flexibility to adapt to government direction, them duplicating resources and engaging in unproductive competition in applying for funding, and other counterproductive behaviours, while improving the coordination and coherency of the system. This chapter explores four options, which revolve around the interplay of two key legislative design features: the chosen entity form, and the powers of the Minister or Government to direct the entities.

75. Cabinet has already agreed to progress work to form three new research organisations focussed on the Bioeconomy, Earth Sciences. and Health and Forensic Sciences. Relevant CRIs are in the process of considering mergers under the CRI Act 1992:

    a. the Bio-economy CRI will be formed through consolidating AgResearch, Plant and Food Research, Scion, and MWLR

    b. an Earth Sciences CRI will be formed by consolidating NIWA and GNS Science

    c. a Health and Forensic Sciences CRI will be formed by re-purposing the Institute of Environmental Science and Research.

76. For all four options, the same opportunity exists to embed the appropriate regulatory and policy settings for PROs to support the Crown's obligation under the Treaty by:

    a. Operating in such a way that they consider, recognise, respond and deliver to relevant iwi, hapū and Māori rights, interests and aspirations.

    b. Have appropriate practices related to the management and utilisation of taonga in accordance with the Crown's Treaty obligations.

Option 2.1: Counterfactual – Maintain CRIs' existing Crown entity company format with limited ability to direct (no legislation required).

77. The counterfactual option looks to solve the presenting problems **solely** through the consolidation of CRIs but operating as they currently do under the CRI Act 1992, and without any **further ability to direct them to give effect to Government priorities**.

78. The consolidation can address some of the challenges, without the need for legislative changes, through centralising back-office functions and infrastructure, creating greater scale with associated balance sheet benefits, attracting talent by presenting better career progression opportunities. The benefits include increased efficiency, effectiveness, breadth of experience, capability and flow of knowledge. For system actors seeking research and science services, they will experience fewer entities to navigate, increasing the realised opportunities. This addresses many of the systemic issues mentioned earlier, such as fragmentation and siloing, counterproductive behaviours, and duplication of resources. It also creates opportunities to better leverage and connect a broader set of science capabilities that are now housed within the same organisation.

79. Under this option, CRIs will remain Crown entity companies with a high degree of independence from government. Government will continue to purchase science from the CRIs, but the CRIs will not be required to give effect to government science priorities. In a fiscally constrained environment, it is likely that the CRIs will continue to focus on small

niches where they can build competitive advantage and generate revenue, without necessarily adhering to central direction and areas of national priorities, or pooling resources for the common good. CRIs will remain underfunded when attempting to meet all stakeholder expectations (sector and public), and potential to under-deliver public good science.

80. There will be potential costs and savings associated with the mergers, such as campus and back-office rationalisation, reduced governance requirements. These are being worked through as part of the merger process.

Option 2.2: Transition CRIs to new Crown entity company format with strengthened ability for Government to direct (MBIE preferred approach)

81. The new consolidated 'PROs' would remain Crown entity companies but would be subject to directions from Government to coordinate and take common approaches to investment or science delivery, align with Government direction and national priorities. This would require legislative changes to introduce new expectations and powers of direction, which could be carried out in a new Act or by amending the CRI Act 1992. Boards would retain independence over company operations.

82. The envisaged direction setting powers provide for greater clarity of Government expectations, and stronger escalation of direction setting powers:

    a. Updated operating principles that set expectations for PRO Boards to prioritise national benefit, collaborate and take common approaches.

    b. An expectation that Boards act in accordance with regularly reviewed Statements of Purpose that set out scope and expectations for each PRO as the basis for the Statements of Corporate Intent and Performance Expectations, with the Statements of Purpose formalised as secondary legislation after consultation with affected organisations and Ministers

    c. The ability of the minister to direct PROs to give effect to government policy relevant to their functions and objectives, or requirements related to efficiency, effectiveness. This could include direction on government science priorities following advice from the PMSITAC. These powers would be consistent with the legislative settings for PROs (eg purpose, functions, operating principles), and the Statement of Purpose and subject to the relevant limitations in the Crown Entities Act 2004 (including section 113).

    d. Ability for the Minister to appoint special advisors to assist PRO Boards to align with government strategies.

    e. Ability for the Minister to appoint expert advisory groups to advise PRO Boards or the Minister science performance and delivery of objectives.

    f. Other related legislative changes that could complement the direction setting mechanisms include greater monitoring and reporting requirements that stipulate monitoring beyond financial metrics.

Option 2.3: Transition CRIs into Crown agents and allow greater financial freedom than usually afforded to agents

83. The entity form of CRIs will transition from Crown entity companies into PROs as Crown agents, moving them closer to government. This will give the government a strong ability to coordinate PROs through directing them to align with its strategic direction and areas of national priorities, as they now must give effect to government policy. This also means they are no longer operating under the Companies Act 1993 and Directors have less focus on their entity's own interests. This option would require legislative changes, amending the CRI Act 1992.

84. This option would require a number of exemptions to Crown Entities Act 2004 so as to enable the agents to continue to effectively conduct commercial operations, and plan and fund capital. These exemptions are already in place for CRIs and relate to acquisition of financial products, borrowing, guarantee, and derivative rules, exemption from payment of surplus, and freedoms for subsidiary entities.

Option 2.4: Transition CRIs into Crown agents adopting the default financial freedoms

85. The entity form of CRIs will transition from Crown entity companies into PRO as Crown agents and will have similar coordination and direction setting benefits as Option 2.3. However, they would not have the exemptions on financial controls, limiting their ability to manage capital programmes and partner with industry, with reduced commercial responsiveness and revenue. This option would require legislative changes, repealing the CRI Act 1992 and enacting a new one.

The SI&T system is slow to respond to priorities and CRIs struggle to align their scarce resources to best meet New Zealand's needs. How do the options compare to the status quo?

+ + Significantly better than the status quo; **+** Better than the status quo; **0** No better or worse than the status quo; **–** Worse than the status quo; **– –** Significantly worse than the status quo

Criteria	2.1 Maintain CRI Crown entity company format	2.2 Transition CRIs to new Crown entity company format with strengthened ability for Government to direct	2.3 Transitioning CRIs into Crown agents with legislated financial freedom	2.4 Transitioning CRIs into Crown agents with default financial settings
Clear strategic settings	**0** Consolidated CRIs still rely on direction setting mechanisms as under the CRI Act 1992; a limited set of levers (including statement of intent and letters of expectation or removing board members) and the CRIs remain more independent.	**+** Consolidated PROs have new legislative mechanisms that enable strategic direction settings, including revised operating principles and clearer Statements of Purpose which create more distinction between PROs.	**+** Consolidated PROs have new legislative mechanisms that enable strategic direction settings including revised operating principles and Statements of Purpose which create more distinction between the PROs. The Crown agent form, being closer to Government results in easier sharing of information and objectives.	**+** Consolidated PROs have new legislative mechanisms that enable strategic direction settings including revised operating principles and Statements of Purpose which create more distinction between the PROs. The Crown Agent form, being closer to Government results in easier sharing of information and objectives.
Coordination and Coherence	**-** In a fiscally constrained situation with decreased funding in real terms, organisations will be strongly incentivised to pursue and compete for revenue opportunities, regardless of national priorities, reducing coordination and coherence.	**+** Direction setting mechanisms and distinct Statements of Purpose – will delineate scope and ensure collaboration through better definition of responsibilities; with clear expectations of where PROs are expected to work together.	**+** Direction setting mechanisms and distinct Statements of Purpose – will delineate scope and ensure collaboration through better definition of responsibilities.	**++** All capital and research programmes are funded centrally, through budget allocation– meaning co-ordination by default. Coherence with sector facing private stakeholders is reduced due to reduced commercial orientation.
Responsiveness to Government steering	**0** The current CRI Crown entity company form does not have a requirement to give effect, or have regard, to government policy, limiting their responsiveness to strategic direction and national priorities. Government levers are limited.	**+** The PROs will respond to formal mechanisms to set expectations through legislated Statements of Purpose, and a requirement to give effect to Ministers direction on matters of Government policy. Ministers' directions would be consistent with legislative settings for PROs – eg purpose, functions, Statement of Purpose, and operating principles. As companies the Board will still have fiduciary duties as directors of companies.	**+ +** Crown agents must give effect to government policy, requiring them to respond to strategic direction and areas of national priorities. As part of core public service, Boards have focus on national benefit, rather than fiduciary duties of directors and entities benefit as stipulated in Company Act. The financial settings enable some ability and expectation to respond to commercial opportunities, but it would be secondary.	**++** Crown agents must give effect to government policy, requiring them to respond to strategic direction and areas of national priorities. Part of core public service. Boards have focus on national benefit, rather than fiduciary duties of directors and entities benefit as stipulated in the Companies Act 1993.
Effectiveness and commerciality	**0** CRIs will continue to respond to price signals and may prioritise institutional benefits over national benefits.	**++** In so far as PROs are required to be sector facing and partner with industry or supply commercial activities, the company model is best suited. Consolidated PROs will respond to both price signals and national priorities, creating a balance between sector science needs and public good science.	**-** In so far as PROs are required to be sector facing and partner with industry or supply commercial activities the Crown agent form with reduced financial constraints will allow many of the activities that the company form support, but with costs to ease of doing business (including speed of decision making, setting or exiting joint ventures, perception from the private sector). The agent form is however well suited in the role where PROs deliver public good services. This has potential impacts on revenue and uptake of science and technology.	**– –** Increased financial constraints will prevent many of the activities that the company form support, including commercial activities. While this form supports public good delivery, the science system relies heavily on commercial revenue. It also potentially impacts technology transfer, via joint venture and other partnerships. Capital programmes for science infrastructure will depend entirely on central budget (which may limit investment).
Financial feasibility and sustainability	**0** Consolidation into larger CRIs will solve some of the pressing capital and cost escalation issues through shared services and infrastructure but need rationalisation of scope.	**+** Consolidation into larger PROs will solve some of the pressing capital and cost escalation issues through shared services and infrastructure, but bigger gains will be through the rationalisation of expectations/scope, with distinct Statements of	**–** Consolidation into larger PROs will solve some of the pressing capital and cost escalation issues through shared services and infrastructure, but bigger gains will be through the rationalisation of expectations/scope, with distinct Statements of	**–** Consolidation into larger PROs will solve some of the pressing capital and cost escalation issues through shared services and infrastructure, but bigger gains will be through rationalisation of expectations/scope, with distinct Statements of

Criteria	2.1 Maintain CRI Crown entity company format	2.2 Transition CRIs to new Crown entity company format with strengthened ability for Government to direct	2.3 Transitioning CRIs into Crown agents with legislated financial freedom	2.4 Transitioning CRIs into Crown agents with default financial settings
	Company form continues to limit financial risk to the crown; companies are more focussed on bottom line and accumulated returns allow self-funding on capital.	Purpose and ongoing direction setting enabling this focus Company form continues to limit financial risk to the crown; companies are more focussed on bottom line and accumulated returns allow self-funding on capital.	Purpose and ongoing direction setting enabling this focus Agent form risks some impact to commercial revenue and places greater expectation on Crown to fund shortfalls. Agents can be less focussed on bottom line and cost cutting. Risks to the crown are not managed through tight financial controls.	Purpose and ongoing direction setting enabling this. Agent form risks some impact to commercial revenue. With no financial freedoms the Crown must fund all capital programmes. Financial controls allow management of Crown's financial risks.
Cost of change	+ No legislation required.	+ Legislation to enact new mechanisms to direct. Revised monitoring and accountability processes.	– Legislation to establish PROs as agents, with financial settings, and mechanisms to direct. More significant changes in culture and operations; including service agreements and contracts, needing to align public sector practices and accountability (procurement, employment, ability to attract talent or pay outside of bands etc). It will also require changes to monitoring and accountability processes.	– Legislation to establish PROs as agents, with financial settings, and mechanisms to direct. More significant changes in culture and operations; including service agreements and contracts, needing to align public sector practices and accountability (procurement, employment, ability to attract talent or pay outside of bands etc). It will also require changes to monitoring and accountability processes.
Overall assessment	**0**	**++**	**+**	**0**

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

86. Consolidating the seven CRIs to three CRIs will deliver benefits including increased efficiency, effectiveness, breadth of experience, capability and flow of knowledge. However, consolidation on its own does not change government's ability to coordinate and steer the organisations.

87. MBIE's preferred approach is **option 2.2, transitioning the CRIs into PROs as Crown entity companies with new powers for Government direction**. This would increase the PROs' accountability and responsiveness to government and would require them to give effect to relevant aspects of government policy. This would enable government to align the PROs strategic direction and areas of national priorities, ensuring that New Zealand is gaining long-term national benefits, while ensuring the new PROs remain responsive to private sector markets, with ability to seek commercial revenue and generate economic benefits from science uptake. This option best balances the benefits of the PROs being able to undertake commercial activity and generate revenue with the gains in strategic alignment and coordination coming from an increase in Government's ability to provide and maintain direction.

88. We believe that **option 2.1, retaining CRIs as Crown entity companies**, would not adequately mitigate existing incentives on CRIs to pursue and compete for revenue, even when this is clearly misaligned with maximising national benefit. Without strengthened direction-setting mechanisms, Government's ability to align CRIs to national priorities and increase coordination in a fiscally constrained environment will be undermined by incentives to prioritise institutional revenue. As commercially focused entities without clear direction from Government (supported by appropriate mechanisms to ensure alignment), CRIs will continue to prioritise their own benefit over the national interest, with a high likelihood for ongoing competition and duplication of activity between CRIs.

89. We similarly believe that **option 2.3 and 2.4, transitioning the CRIs to Crown agents with or without the default financial controls**, would also not be fit-for-purpose. While Government can direct agents they lack the commercial responsiveness of a company format, and the change in form would impose significant barriers to PROs partnering with the private sector to create opportunities for economic growth. Barriers to commercial activity may lead to a reduction in commercial revenue, with their increased proximity to government creating a commensurately greater expectation of Crown funding.

The Advanced Technology Research Organisation (ATRO)

90. **Option 2.2 - Crown entity companies with new powers for Government direction** - is also the preferred option for establishing an ATRO responsible for investing into advanced technologies. The modified Crown entity company format with strengthened ability for Government to direct, can enable commercial activities, stimulate growth in advanced technologies and build a critical mass of capability and support long term economic growth. This will ultimately reinforce the competitive strength of the economy and improve our technological sovereignty. This option has the benefit of commercial drivers as well as levers that enable alignment with Government strategy.

91. We believe that **option 2.1** is also a suitable form for an ATRO that enables it to provide the right commercial conditions that support translation of research to market applications and support new industries and create new competitive advantages creating economic growth for New Zealand. A classic company form is not required to align to government strategy. There is a risk that this form ATRO may be less aligned to government, though it is not inherently prevented from being aligned with government strategy.

92. We believe that **option 2.3 & 2.4, both Crown agent forms** are not suitable to enable the ATRO to pursue commercial activities, impeding its commercial growth and long-term economic growth. As such the Crown agent form is not an effective entity form for the ATRO.

What are the marginal costs and benefits of the option?

93. Additional **costs** of the preferred option compared to taking no action.

Affected groups	**Comment** **Nature, upfront/ongoing, evidence and assumption, risk**	**Impact** **$X m; High / Med / Low**	**Evidence Certainty** **High / Med / Low**
PROs Note that these costs are true for the counterfactual.	Confidential advice to Government		Med
SI&T system actors True for counterfactual.	In the short term, costs associated with shifting relationships and navigation of the new organisations and system structures.	Low / Med	Low
PROs	Changed monitoring and reporting requirements to reflect new expectations, changes to support greater agility and respond to changes in purpose and priorities.	Low	High
Government	Increased resourcing required to support more effective government stewardship of the PROs, with increased requirements to review scope and guide strategic direction of the organisations to align with national priorities.	Low	Med
New Zealand Economy & Society	More responsive towards government direction may have some risks to responsiveness to private sector market signals. What could be short-term losses would be gains in long-term national benefits.	Low	Med
Total monetised costs		Confidential advice to Government	
Total non-monetised costs		Medium	

94. Additional **benefits** of the preferred option compared to taking no action.

Affected groups	**Comment** **Nature, upfront/ongoing, evidence and assumption, risk**	**Impact** **$X m; High / Med / Low**	**Evidence Certainty** **High / Med / Low**
PROs Note that this benefit is true for the counterfactual.	Confidential advice to Government		Med
PROs	Greater clarity of government expectations on science focus and collaboration will support PRO Boards to focus on their distinct areas and to work together to: • address the highest priority areas of science • create critical mass to deliver excellent, high impact science, and build science reputation • reduce fragmentation and unproductive competition between PROs. New PRO settings will further emphasise cooperation between PROs via enduring legislative settings and the new direction setting mechanisms (the Statement of Purpose and Ministers direction), with potential for additional efficiency and effectiveness gains re common approaches, greater distinction and alignment and reduced fragmentation between organisations.	Med / High	Med
System actors including research partners and users	Statements of Purpose will provide clarity about the focus of each PRO; expectations for common approaches will mean that processes and systems are more coherent across PROs; making it easier for users and partners to navigate the organisations and reduce unnecessary competition between the PROs.		
Government	Increased government influence and engagement via new mechanisms for direction. Ministers to have more input on the organisational priorities of PROs, via Statements of Purpose and Ministers directions, and PROs will be more responsive due to the legislative requirements to act in accordance with these levers (noting that under current settings CRI Boards have fewer requirements to comply with Government priorities). The requirement to review Statement of Purpose every five years will ensure PROs are kept relevant and aligned to Government's evolving priorities, while the Statements remain sufficiently enduring to allow the PROs to plan for the longer term. In general, there will be more clarity about what PROs are focussed on, with ability for government agencies to have input via the Statements of Purpose as well as funding levers. This	High	Med

	will lead to greater understanding and more realistic expectations of how PROs are supporting government priorities.		
PROs, MBIE as monitor, funding bodies	Shift of reporting requirements focus from financial information to outputs, increasing insights gained, and ability to use these insights to guide decisions regarding PROS and SI&T funding.	Low / Med	High
New Zealand Economy	Stronger focus on delivering impact for New Zealand Inc, with long-term benefits via uptake of knowledge and technology.	Med/High over long term	Med
Total monetised costs		Confidential advice to Government	
Total non-monetised costs		Med	

Problem 3: Cabinet has decided to disestablish Callaghan Innovation as an innovation agency but some of its activities need to be retained in the system

Government's existing decisions

95. Callaghan Innovation is responsible for delivering innovation functions to support business innovation and research commercialisation across the economy. However, Callaghan Innovation's mandate is spread thin across many, often conflicting functions, impacting its ability to deliver support with high impact. Currently, it delivers a wide range of grants, advice, technical services and research alongside innovation support for business. It also manages GIQ, a complex and ageing asset on behalf of government.

96. As such, Cabinet has made and announced decisions to disestablish Callaghan Innovation as an innovation agency and to redistribute its most important functions to other parts of the system to better support and incentivise innovation for economic growth [ECO-24-MIN-0242 refers]. As authorised by Cabinet, the Minister of SI&T has made further decisions on which functions to transfer and the most appropriate entity to receive them based on a high-level analysis [CAB-24-MIN-0504.02 and BRIEFING-REQ-0008467 refers]:

    a. The R&D Tax Incentive (RDTI) technical assessments and engagement support, administration of all grants (eg Ārohia / Innovation Trailblazer, New to R&D, Student grants), and responsibility for the Technology Incubator Programme, the Founder and Start-up Support Programme, and the Health Tech Activator will transfer to MBIE.

    b. Responsibility for the Measurement Standards Laboratory (MSL) will transfer to the Earth Sciences PRO.

    c. Responsibility for the New Zealand Food Innovation Network (NZFIN) and Bioresource Processing Alliance (BPA) will transfer to the Bioeconomy PRO.

    d. Responsibility for the New Zealand Product Accelerator (NZPA) will transfer to the Advanced Technology PRO once established.

    e. The Biotechnologies Group of the R&D Solutions Division will be funded until June 2027 and will transfer to the Bioeconomy PRO once that PRO is established.

    f. The Minister of SI&T is progressing work to explore commercial solutions to retain the site as a centre for SI&T.

    g. Other activities not listed will wind down as Callaghan Innovation prepares for disestablishment. Funding for those activities will be reprioritised in the system to higher impact areas.

97. These decisions will position continuing functions with complementary activities and draw on the expertise of the receiving entity to create opportunities for greater efficiency and effectiveness. Business innovation and research commercialisation support will be aligned with MBIE's other science and innovation investments. Initiatives intended to connect businesses with science and research providers to entities engaging in that research field and sector will be complementary to incentivising a stronger industry-facing role.

This section explores two sets of options for two different issues

98. Based on Cabinet decisions to date, the problem to be addressed is the approach to give effect to Government decisions to disestablish Callaghan Innovation, transfer specified functions, and provide for appropriate ongoing ownership and operations of GIQ. For ease of analysis, options to resolve this can be split into two sets.

99. Exploring commercial solutions for GIQ to retain the site as a centre of SI&T is a complex process and may take longer than the disestablishment of Callaghan Innovation. Option set 3.1 therefore explores the most appropriate approach to set up an entity to own and operate GIQ, explore commercial solutions and give effect to Government's decisions to give effect to

its future. The most appropriate option may be the determining factor to the legislative approach to disestablish Callaghan Innovation as an innovation agency.

100. There are several interdependencies with the transfer of activities to other entities, such as legislation being required to ensure mandate for transferring activities, readiness of receiving entities to take on activities, and costs and complexities in transferring staff and assets. Option set 3.2 therefore explores the most appropriate approach to transfer activities.

101. Across these two options sets, the Status Quo is defined as an option that requires minimal or no legislative change to give effect to it. However, as Callaghan Innovation was established via legislation, disestablishment also requires legislation. To disestablish the entity without legislation quickly creates an untenable situation, though this option remains useful for illustrative and analytical purposes.

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3.1a Status Quo – Callaghan Innovation continues to own and operate GIQ under the Callaghan Innovation Act 2012 (with no legislative change)

102. The Callaghan Innovation entity will continue to own and operate GIQ under the existing Callaghan Innovation Act 2012, meaning it retains a wide legislative mandate including functions of providing support to business innovation and R&D. Confidential advice to Government

103. The Callaghan Innovation Act 2012 does not have explicit mention to the ownership and operation of GIQ, but rather may be viewed as an activity that supports several of the entity's legislated functions, such as being a platform to provide services to businesses that contribute to Callaghan Innovation's main objective. Confidential advice to Government

3.1b Repurpose the Callaghan Innovation entity to own and operate GIQ (with legislative change to its purpose and functions)

104. The Callaghan Innovation entity structure would be renamed and repurposed as GIQ Holdings for the purpose of and functions for owning and operating GIQ, exploring commercial solutions for the retaining the site as a centre for SI&T and giving effect to the decision about GIQ's future. Other legislative functions no longer necessary for the Government's intentions for the entity will be removed.

105. This approach will require legislative changes, either through substantive amendments to the Callaghan Innovation Act 2012, or through provisions that shift the legislative basis for the entity into the proposed SI&T Bill and repealing the Callaghan Innovation Act 2012. This would have GIQ remain with the current entity removing the complexity and risks associated with sale or transfer to another or new entity.

3.1c Transfer GIQ to another entity or standalone entity to own and operate GIQ (requires legislative change)

106. The ownership and operation of GIQ would transfer either to another entity or into a new standalone entity, such as a Public Finance Act 1989 Schedule 4A Company. This approach would likely require legislative changes to establish a new entity and/or to transfer significant assets (and associated people). This option is likely to involve additional costs, risks and complexities with transfer.

Transfer of activities

3.2a Status Quo – Transfer activities without legislation (or with minimal legislative change) (does not require legislative change)

107. This option uses legislation only where essential to give effect to the specified transfers. People, assets and contracts would transfer through non legislative mechanisms of varying levels of complexity and cost.

108. There are two cases in which legislative change is required to ensure the entity receiving activities has the appropriate legal mandate to conduct them. This is for the provision of technical assessments for the RDTI (specified in the Tax Administration Act 1994) and provision of measurement standards through MSL (specified in the Measurement Standards Regulations 2019).

109. There is one activity specified for transfer to a wholly new public research organisation – the transfer of the NZPA to the Advanced Technology PRO. This cannot occur until the Advanced Technology PRO is fully established, which requires legislation. Without legislation and establishment of this entity, an alternative (existing) receiving entity would need to be agreed, such as transfer of responsibility to MBIE.

110. Where other activities are transferring to future PROs, these could transfer to an individual or merged CRIs without legislation.

3.2b Transfer activities with legislation (requires legislative change)

111. This option uses legislation to give effect to the transfer of activities via appropriate transition provisions. Negotiations and Commercial Information Overall, use of transition provisions in legislation lowers the cost and complexity of these transfers.

112. Negotiations

Cabinet has decided to disestablish Callaghan Innovation as an innovation agency but some of its activities need to be retained in the system. How do options on GIQ compare to the Status Quo?

Criteria	3.1a Status Quo – Callaghan Innovation continues to own and operate GIQ under current legislation	3.1b Repurpose the Callaghan Innovation entity to own and operate GIQ	3.1c Transfer GIQ to another entity or standalone entity to own and operate GIQ
Clear strategic settings	**0** The entity has the ability to set entity strategy, gain industry intelligence, and produce advice to MBIE and PMSITAC on relevant matters. Other mechanisms to set national strategy and priority areas.	**0** The entity has the ability to set entity strategy, gain industry intelligence, and produce advice to MBIE and PMSITAC on relevant matters. Other mechanisms to set national strategy and priority areas.	**0** The entity has the ability to support development of host entity or set entity strategy, gain industry intelligence, and produce advice to MBIE and PMSITAC on relevant matters. Other mechanisms to set national strategy and priority areas.
Coordination and Coherence	**0** The entity will continue to exist under the name Callaghan Innovation causing system confusion as Government announced its disestablishment as an innovation agency.	**+** The entity will continue to exist under the new name GIQ Holdings will signal a clear message to the system about its purpose and function.	**+** A new standalone entity will signal a clear message to the system about its purpose and functions. Transferring into another entity would result in fewer entities in the system but may not align with the receiving entity's purpose.
Responsiveness to Government steering	**0** As a Crown agent, the entity would be required to give effect to government policy. Confidential advice to Government	**++** As a Crown agent, the entity would be required to give effect to government policy. The entity's mandate will be focused on the Government intentions for ownership and management of the site and ability to explore commercial options for its future.	**0** The form of the receiving entity or standalone entity would determine its ability to respond to government direction or policy. A Public Finance Act 1989 Schedule 4A Company does not require the entity to give effect or have regard to government policy.
Effectiveness	**0** The entity will continue to lack a clear mandate and will be limited in its ability to carry out functions intended by Government, Confidential advice to Government	**++** The entity will have a clear and focused mandate enabling it to carry out all functions intended by Government.	**+** A standalone entity would have a clear and focused mandate, enabling it to carry out all functions intended by Government. Transferring into another entity could result in a mismatch of mandate and/or capability and reduce effectiveness of meeting government expectations and could reduce that entity's effectiveness against their existing mandate.
Efficiency	**0** Avoids cost and complexity of transferring the assets but creates inefficiencies Confidential advice to Government	**+** Efficient option as avoids cost and complexity of transfer, by retaining the assets in the same entity, while also retaining existing capability to operate the site. Resources will be provided to support mandated functions and objectives for the site.	**– –** Additional costs and risks associated with the transfer to a standalone entity or another entity, such as establishment and transfer costs, novation of contracts and leases, appointments processes and triggering potential requirements through transferring property to a different entity.
Feasibility	**0** Confidential advice to Government	**++** Legislative changes would be included as part of the wider reform legislation. Changes entail amendment of legislated objective and functions and change of name of the entity. The entity will have a mandate fit for purpose and will enable it to give effect to Government intentions for the site.	**+** Legislative changes would be included as part of the wider reform legislation. A standalone entity will have a mandate fit for purpose and will enable it to give effect to Government intentions for the site. Transferring into another entity risks adding complexity to their ability to may result mismatch of capability and therefore impacting functions and objectives for the site.
Overall assessment	**0**	**++**	**0**

++ Significantly better than the status quo; **+** Better than the status quo; **0** No better or worse than the status quo; **–** Worse than the status quo; **– –** Significantly worse than the status quo

Cabinet has decided to disestablish Callaghan Innovation as an innovation agency but some of its activities need to be retained in the system. How do the options on the transfer of activities compare to the Status Quo?

Criteria	3.2a Status Quo – Transfer activities without legislation	3.2b Transfer activities with legislation
Clear strategic settings	**0** There are no implications to this criterion despite possible earlier transfer than with legislation as clear strategic setting is in relation to the end state of the SI&T reform.	**0** There are no implications to this criterion as clear strategic setting is in relation to the end state of the SI&T reform.
Coordination and Coherence	**0** There are no implications to this criterion despite possible earlier transfer than with legislation as coordination and coherency is in relation to the end state of the SI&T reform.	**0** There are no implications to this criterion as coordination and coherency is in relation to the end state of the SI&T reform.
Responsiveness to Government steering	**0** There are no implications to this criterion despite possible earlier transfer than legislation as responsiveness to government steering is in relation to the end state of the SI&T reform.	**0** There are no implications to this criterion as responsiveness to government steering is in relation to the end state of the SI&T reform.
Effectiveness	**0** The process to transfer staff, assets and liabilities is complex and may involve transfers to occur at multiple times or transfers to another receiving entity in the interim. This option risks poor transfer management which may result in the loss of capability to carry out the activities effectively. This may disrupt the provision of services to businesses more than other options.	**++** Legislation will provide for the transfer of staff, assets and liabilities which will reduces complexity and the need for multiple and / or interim transfers. This option will communicate clarity and certainty around the transfer process, likely to retain capability to carry out activities effectively. The provisions of services to businesses will therefore be least disruptive.
Efficiency	Negotiations	
Feasibility	**0** Feasible but complex and would not be able to immediately or fully transition to the desired future state. Confidential advice to Government Where amendment to other legislation is required to transfer mandates for activities, this could be achieved outside of an SI&T Bill, using other legislative processes (eg omnibus bills). Confidential advice to Government	**++** This approach of enabling transfers and consequential amendments to other legislation through an SI&T Bill will reduce complexity, risk of interim/multiple transfers, and could result in a smoother transition process creating better outcomes including better retention of capabilities through the transfer process. Confidential advice to Government
Overall assessment	**0**	**+**

++ Significantly better than the status quo; **+** Better than the status quo; **0** No better or worse than the status quo; **–** Worse than the status quo; **––** Significantly worse than the status quo

What options are likely to best address the problems, meet the policy objectives, and deliver the highest net benefits?

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113. To provide appropriate ongoing ownership and operations of GIQ, MBIE prefers **option 3.1b repurpose the Callaghan Innovation entity to own and operate GIQ**. This approach would provide a clear purpose and range of functions for the entity, squarely focused on owning, managing and preparing GIQ for the future. This option significantly lowers the complexity, cost and risks associated with transferring GIQ into a new entity. It reserves the option to transfer to a new entity in the future once more is known/decided on the future shape of GIQ and the government's role in that and ensure that the cost and complexity of transfer of GIQ to another entity occurs when it is more certain the most appropriate form of that future entity.

114. **Option 3.1c Transfer GIQ to another entity or standalone entity to own and operate GIQ** would enable the entity to perform similarly to option 4.1b, with a clear and focused purpose and range of functions. However, this approach includes additional costs and complexities, such as establishment of the entity and transfer of assets, novation of contracts and leases, appointments processes and other risks.

115. **Option 3.1a Status Quo – Callaghan Innovation continues to own and operate GIQ under the current Callaghan Innovation Act 2012** entails legislation that is substantially not fit for purpose and will mean this approach has poor legislative and regulatory practice. The inability of the entity to fulfil its legislative mandate creates significant governance and accountability risks. This option quickly becomes untenable as a Board is not able or enabled to deliver as required by legislation.

Transfer of activities

116. On the most appropriate mechanism by which to transfer activities to other entities, MBIE prefers **option 3.2b Transfer activities via legislative provisions**. This option is similar to option 3.2a in that it would ensure receiving entities would have proper mandate to deliver the transferring activities. However, this option provides the more efficient, lower cost and complexity mechanism for transferring activities, particularly for staff, assets and liabilities. This could, at the margin, reduce risk of disruption to services and provide greater clarity and certainty to staff and customers.

117. **Option 3.2a Status Quo – Transfer activities with minimal legislative change** may disrupt the provision of services to businesses. Transferring staff, assets and liabilities through non-legislative means will significantly increase the complexity of the transfer process. This is because the process is likely to involve the novating and renegotiating contracts and leases and increase costs due to redundancy costs. Commercial Information [redacted] This option therefore has higher costs and complexities compared to option 3.2b.

What are the marginal costs and benefits of both these options?

119. Additional **Costs** of the preferred option compared to the Status Quo.

Affected groups	**Comment** **Nature, upfront/ongoing, evidence and assumption, risk**	**Impact** **$X m; High / Med / Low**	**Evidence Certainty** **High / Med / Low**
All parties	No observable costs compared to the Status Quo.		
Total monetised costs		N/A	
Total non-monetised costs		N/A	

120. Additional **benefits** of the preferred option compared to the Status Quo.

Affected groups	**Comment** **Nature, upfront/ongoing, evidence and assumption, risk**	**Impact** **$X m; High / Med / Low**	**Evidence Certainty** **High / Med / Low**
Innovating businesses, start-ups, entrepreneurs	The lower cost and complexity of the preferred approach may reduce the risk of significant disruption to provision of services through the transition and may provide greater certainty and lower cost to business e.g with regard to contract changes	High	Med
Entity responsible for ownership and operations of GIQ (GIQ Holdings)	Clear purpose and functions, enabling good governance and accountability.	High	High
Receiving entities (MBIE, PROs)	Receiving entities will be in their final state, meaning they will have the mandate to carry out transferred activities. Lower cost to receiving entity. Legislation will have a date set for the transfer, providing certainty and clarity to all parties.	High	High
Government	Lower risk, complexity and costs of transferring activities, such as assets and people, as legislation provides provisions for transfer Commercial Information	High	High
New Zealand Economy	Transfer process designed to be least disruptive may reduce the impact on spillover benefit production from business innovation and R&D using activities that are transferred.	Low	Low
Total monetised costs		N/A	
Total non-monetised costs		Med	

Section 3: Delivering an option

How the proposal will be implemented

121. All proposals in the reform package will be progressed through one legislative vehicle. Legislation is intended to be drafted and introduced Confidential advice to Government

122. Detailed implementation design will occur in 2025, on the assumption that the supporting legislation will be enacted in Confidential advice to Government For details of the implementation of the science reform and breakdown by workstreams see Annex Two – SIT Reforms Implementation report.

PMSITAC

123. Members of the PMSITAC will be appointed via the Cabinet Appointments and Honours Committee (APH) in Q2 of 2025. Confide ntial , legislation will be enacted to enable a facilitating structure for the PMSITAC to advise on SI&T system priorities.

Public research organisations

124. Work has begun on the establishment of the Bioeconomy, Earth Science, and Health and Forensic Science CRIs through the amalgamation of the seven existing CRIs following Cabinet agreement in December 2024.

125. Detailed due diligence, design and implementation work continues through Q2-3 2025. ATRO establishment will take a phased approach starting with new investments in early 2025 and ramping up over time.

126. The amalgamated CRIs and incubated ATRO will be transitioned PROs once the legislation has been enacted.

Callaghan Innovation

127. Other activities not listed will wind down as Callaghan Innovation prepares for disestablishment. The intention is that other activities not listed to continue will no longer be funded from 30 June 2025, except for the Applied Technologies Group of the R&D Solutions Division having extended funding until 30 September 2025, with the funding being reprioritised to other parts of the SI&T system between financial years 2025/26 and 2026/27.

Transfer of activities from Callaghan Innovation

128. The legislation will provide for the transfer of staff, assets and liabilities of activities to the PROs. Commercial Information The approach will be determined during the drafting process.

129. The legislation will amend other legislation required by certain activities that specifies Callaghan Innovation (MSL under the Measurement Standards Regulations 2019 and RDTI technical assessments under the Tax Administration Act 1994), which will enable the receiving entities to carry out the transferred activities.

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130. The legislation will provide for renaming the entity currently known as Callaghan Innovation to GIQ Holdings, and re-define the main objective to own and operate GIQ and explore commercial solutions to retain the site as a centre for SI&T. The entity will

retain its status as a Crown agent and will exist indefinitely until Government's decisions about its future.

Implementation timelines

131. The key milestones and timeframes for implementation are summarised below.

Milestone	Description	Responsible Parties	Timeline
Cabinet agree on legislative approach	The Minister of SI&T seeks Cabinet agreement to proceed to drafting instructions.	Minister, Minister's office, Cabinet	Confidential advice to Government
PMSITAC appointed	PMSITAC members appointed via APH. First meeting will be held shortly afterwards.	MBIE, Minister's office, Cabinet	
Legislation drafting and introducing legislation	PCO will draft legislation in consultation with MBIE, followed by the Bill's introduction.	Minister, PCO, MBIE, Leader of the House	
Legislation introduced	The Bill will go through the parliamentary process of first reading, Select Committee, second reading, Committee of the Whole House, third reading and Royal Assent.	Minister, PCO, MBIE	
Detailed implementation design	*CRI mergers* Detailed design proposals and implementation and integration plans progressed.	MBIE, Callaghan Innovation, CRIs	
	Callaghan Innovation Substantive worked required for detailed implementation process design, particularly for the transfer of activities (eg employment processes).		
Legislation in effect	Secondary legislation or Gazette Notices issued (as appropriate to): • formalise the status of the PMSITAC • transfer operation of current funding decision making boards to current legislation • transition CRIs to PROs. Callaghan Innovation disestablished as an innovation agency, GIQ Holdings set up and some activities (including staff, assets and liabilities) transferred to other parts of the system.	MBIE, PROs, Callaghan Innovation	

Risks and mitigations

132. We have identified three groups of risks: unanticipated costs and complexities, misalignment of timeframes and loss of capability and staff.

Misalignment of timeframes

133. Complex process with lots of moving parts with some parts depending on others being actioned before they can progress. Potential for delays in the legislative process, detailed design processes or implementation processes could happen, for example significant engagement in the select committee process.

134. Strong cross-agency communication facilitated by MBIE will help to mitigate this risk.

Loss of capability and staff

135. Loss of capability and staff followed by a loss of productivity, is a risk for the CRI amalgamation process ahead of PRO establishment, transfer of activities from Callaghan Innovation to other parts of the system and the setup of GIQ Holdings.

136. For PRO establishment, this risk can be mitigated by CRI boards and leadership teams focussing on continued delivery of business-as-usual activities during the merger process, with clear internal and external communications. MBIE follows good practice as set out in the Public Service Commission's Board Appointment and Induction Guidelines and recommends that Ministers follow the appointment process as set out by the Cabinet Office in the CabGuide to ensure continuity of governance. MBIE can provide further support by working closely with CRIs on these factors.

137. For GIQ Holdings, it is essential that sufficient capability is retained as Callaghan Innovation winds down its wider operations to ensure appropriate leadership and governance of GIQ Holdings. Loss of capability risks limiting the ability to carry out activities and/or its effectiveness. Strong communications by Callaghan Innovation and MBIE to relevant staff may partially mitigate this risk.

Unanticipated costs and complexities

138. Unanticipated costs and complexities are a concern for implementing these decisions. The process to transfer activities is complex which may result in unanticipated costs and risks. Overestimations and early surfacing of costs and risks through collective due diligence prior to legislation can mitigate this risk. Strong communications and collective due diligence between MBIE, Callaghan Innovation and relevant CRIs will help mitigate this risk.

139. Some mechanisms to reduce the complexities and costs for the CRI transition include workstreams provide legal and financial due diligence; governance arrangements including Confidential advice to Government convenors; and governance groups provide detailed merger proposals.

Transition to emerging SI&T priorities

140. There is a possibility that the priorities:

    a. are narrowly scoped and miss important, underpinning research (for example, hazards research)

    b. shift relatively frequently.

141. In the absence of new funding, funding for new and emerging priorities could be reprioritised away from that important research. Depending on the areas from where funding is reprioritised, there is a risk that New Zealand does not have the necessary capability to respond to emergent threats.

142. Long timeframes and continuity of funding are often needed for research to generate the outcomes sought. If priorities shift too frequently, there is a risk that the benefits sought in earlier investments will not be realised.

143. Alternatively, priorities can be difficult to identify and agree. Should the agreed priorities be cast too widely, our investment in those areas may be sub-scale and not deliver the benefits sought.

Monitoring, evaluation and review

144. Overarching oversight of the implementation of the SI&T reforms and overall performance of the SI&T system will be provided by two groups.

a. The **PMSITAC** will, in addition to its role of providing advice on priorities, be tasked with monitoring and providing advice to Ministers on the overall performance of the SI&T system. This role is wide ranging and could include responsiveness to priorities, impact of funding, and institutional performance among other things.

b. The **Going for Growth Plan Ministerial Group** will also have oversight of the implementation of the SI&T reforms. This is a relatively new group, whose interest is likely to focus on the SI&T system's in contribution to economic growth and productivity.

145. A performance framework to inform the work of the above groups is being developed and includes a synopsis of intended benefits and associated performance measures. The intended benefits for the SI&T reform relate to the objectives of the reform to:

a. create strategic alignment

b. develop world class research with economic impact

c. ensure organisational effectiveness

d. attract and retain talent and capability

e. strengthen global connectivity.

146. The intended system benefits are being used to inform the monitoring and evaluation frameworks for each of the reform components addressed in this regulatory impact statement, as shown below.

PMSITAC

147. MBIE will oversee the initial establishment and monitor progress against milestones such as legislative drafting, member appointments, and operational readiness via our programme management office and its reporting to its governance board and the Minister for SI&T.

148. A process review is likely to commissioned around 18 months after the PMSITAC has been established to consider the effectiveness of the processes supporting its work. This will probably be completed by an independent expert commissioned by MBIE.

149. The impact of the PMSITAC's advice will be incorporated into its advice on the performance of the overall system. Indicators of success for an effective PMSITAC include but are not limited to:

Benefit	**Success Indicators**
System effectiveness: Strategic alignment Research investment aligned with national priorities.	Confidential advice to Government
System effectiveness: Improved Resource Allocation Resources flowing to highest impact areas.	
System effectiveness: Reduced Duplication Reduced duplication in administrative and research functions across the system.	
Economic growth: Increased Commercialisation Outcomes Greater conversion of research outputs into commercial applications.	
International Positioning: Technology Transfer and Exports Increased export of high value knowledge-intensive products and services.	

Benefit	Success Indicators
International Positioning: International Research Partnerships Development of globally unique niches of excellence in key research areas.	Confidential advice to Government
International Positioning: Global Science Standing Development of globally unique niches of excellence in key research areas.	
Capability and talent: Researcher Attraction and Retention New Zealand to attract and retain world-class research talent in key fields.	
Capability and talent: Skills Development and Career Pathways Enhanced development opportunities and career progression for researchers and innovation professionals.	
Capability and talent: Cross-Organisation Collaboration Research teams working across organisational boundaries (PROs, universities, and industry).	

Public Research Organisations

150. Business as usual monitoring and reporting as required under the Crown Entities Act 1992 will continue. Both MBIE and the Treasury have a role in those activities which will continue as the CRIs are transitioned into PROs under the new legislation. Regular monitoring will inform our assessment of impact and performance.

151. MBIE is considering what additional monitoring maybe needed to ensure the CRIs are well supported through the change process (amalgamation and then transition into PROs). A monitoring framework will be developed and is likely to include maintaining close communications between MBIE and the CRIs, regular meetings with the Minister, and a senior MBIE official to support the board and keeping the process aligned with government intentions or as a platform to raise issues.

152. PROs will have regular reporting requirements on their performance, which will be updated to reflect the new expectations beyond financial health (science against priorities) in line with the CRIs' new Statements of Purpose and operating principles. PROs will continue to report on delivery to Crown funding contracts. In addition to the current CRI monitoring processes, Government official may be appointed as observers on PRO boards.

153. The Minister can appoint advisory boards to assess and report on PRO performance.

154. The PRO Operating Principles and Statements of Purpose will serve as a key framework against which their performance can be evaluated. Indicators of success include but are not limited to financial performance and sustainability and the indicators in the table below:

Benefit	Success Indicators
System effectiveness: Strategic Alignment Research investment aligned with national priorities.	Confidential advice to Government
System effectiveness: Organisational Agility PROs able rapidly to respond to emerging opportunities and priorities.	
System effectiveness: Reduced Duplication Reduced duplication in administrative and research functions across the system.	

Benefit	Success Indicators
System effectiveness: Improved Resource Allocation Resources flowing to highest impact areas.	Confidential advice to Government
Economic growth: Increased Commercialisation Outcomes Greater conversion of research outputs into commercial applications.	
Economic growth: Advanced Technology Investment Growth (specific to the ATRO) Shifting investment balance toward advanced technology fields.	
Economic growth: Foreign Direct Investment (FDI) Attraction (specific to the ATRO) Increased R&D investment from multinational companies.	
Economic growth: Industry-Research Partnerships More effective collaboration between research organisations and industry.	
Capability and talent: Researcher Attraction and Retention New Zealand to attract and retain world-class research talent in key fields.	
Capability and talent: Skills Development and Career Pathways Enhanced development opportunities and career progression for researchers and innovation professionals.	
Capability and talent: Cross-Organisation Collaboration Research teams working across organisational boundaries (PROs, universities, and industry).	
International positioning: Global Science Standing Development of globally unique niches of excellence in key research areas. Science excellence and strategic internation collaboration.	

Callaghan Innovation including Gracefield Innovation Quarter

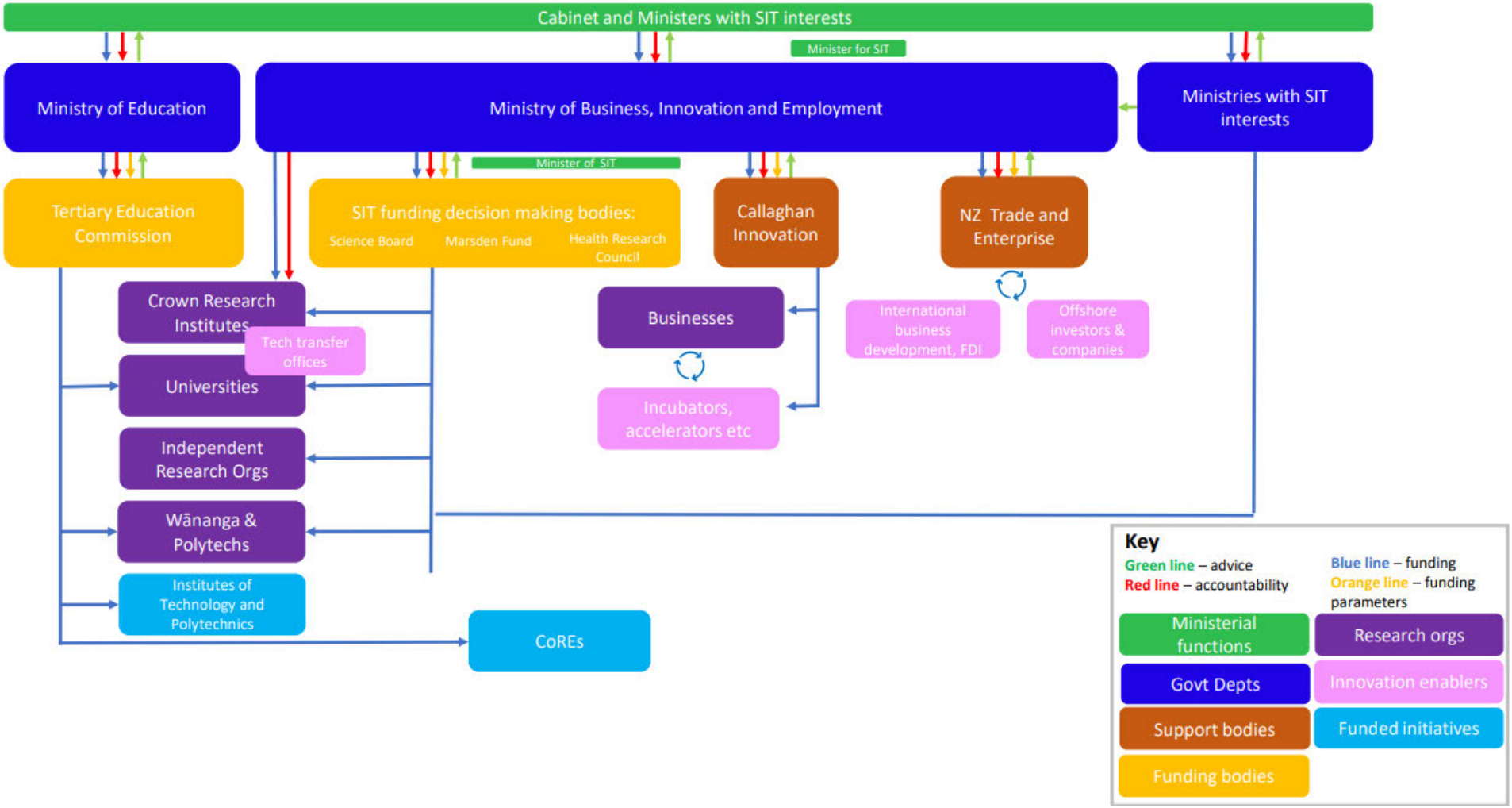
155. Business-as-usual monitoring and reporting will continue in the lead up to Callaghan Innovation being disestablished as an innovation agency. However, the level of engagement and communication between MBIE and the agency has increased given the intricacies of, and decisions to be made, in the lead up to disestablishment.

156. These activities are augmented by regular meetings with the Minister and a senior official from MBIE serving as special advisor to the Callaghan Innovation.

157. GIQ Holdings is expected to have standard reporting and monitoring as required under a Crown agent model.

158. Confidential advice to Government

Annex One – Current SI&T System Architecture



Annex Two – SIT Reforms Implementation Report

Confidential advice to Government

[redacted]