

Hon Dr Megan Woods

MP for Wigram

Minister of Housing
Minister of Energy and Resources
Minister of Research, Science and Innovation
Associate Minister of Finance



Pete Hodgson
Chair
Callaghan Innovation
PO Box 11529
WELLINGTON 6142
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16 DEC 2021

Dear Pete

ANNUAL LETTER OF EXPECTATIONS FOR 2022/23

I write to convey my strategic and performance expectations for Callaghan Innovation in relation to the 2022/23 financial year and beyond, on behalf of shareholding Ministers.

Our research, science and innovation sector has an important role in supporting Aotearoa New Zealand's economy and society, addressing environmental challenges and underpinning our response to the COVID-19 pandemic. I appreciate the contributions from research, science and innovation Crown entities in delivering Government priorities, supporting critical functions and being a vital part of our science system.

We would like to acknowledge the challenges faced by entities over the past 18 months as a result of the impact of COVID-19 both in New Zealand and internationally, especially those who have continued to undertake essential services and work under lockdowns and uncertainty. We appreciate the dedication of your Board, senior leadership team, scientists and staff in contributing to the Government's response and strategy to COVID-19.

As we look to the future, we recognise the importance of creating a modern, future-focused research system for New Zealand, which should reflect our unique opportunities and challenges. It would embed Te Tiriti across the design and delivery attributes of the system and enable opportunities for mātauranga Māori, while seeking to stand alongside the best systems in the world.

Looking forward to the 2022/23 financial year and beyond, we have a number of expectations for your entity and for the wider sector. I expect you to keep my officials from the Ministry of Business, Innovation & Employment (MBIE) up to date with progress towards the following areas.

Te Ara Paerangi - Future Pathways

The Te Ara Paerangi – Future Pathways Green Paper is starting an open and wide-ranging consultation on how best to position Aotearoa New Zealand's research system for the future. The Green Paper emphasises the importance of having a modern, future-focused research system that is adaptable, resilient and connected.

Thank you for your collective and individual involvement on this work so far. We want to reiterate that we are not pre-committed to any solutions in the process, and we would appreciate open engagement from all levels of your organisation during the consultation process.

We would expect you to continue to engage with officials on ongoing initiatives, as these should not necessarily be paused in anticipation of any Future Pathways reforms.

We would also expect research, science and innovation entities to continue to contribute to the work being undertaken by MBIE to inform Te Ara Paerangi.

RSI Property Portfolio

We want to ensure the research system is better positioned to meet future challenges by investing capital not simply to meet infrastructure requirements, but by putting that infrastructure where it is has the potential to materially improve research system performance.

There is significant potential for research system performance improvements from co-location of research facilities with Crown Research Institutes and with Universities. We expect you to continue to work in good faith with my officials on this process, and we expect any business cases you develop for significant capital investments to clearly articulate how you have considered co-location of research facilities. Shareholding Ministers' approval of business cases will in part be contingent on co-location being adequately considered.

Deliver on Government priorities

We expect that entities will:

- Continue to contribute and engage with relevant government and industry strategies, such as MBIE's *Circular Economy Strategy* and *Business Productivity Goals*, the *Fit for a Better World Roadmap*, and the *Conservation and Emissions Reduction Plan*.
- Continue to contribute to work undertaken in relation to our response to climate change, including the climate change programme and in relation to the Carbon Neutral Government Programme.

Well-being and workforce inclusion

Entities should support well-being, while growing an equitable, diverse and inclusive workforce at all levels within the research, science and innovation sector. We expect entities to continue work in this area, including that entities will:

- Continue to act as a good employer and in accordance with corporate social responsibility practices, and have a positive culture.
- Have employer policies and procedures that support diversity and inclusion (gender, age, ethnicity, disability and sexual orientation), and maintain a diverse workforce at all levels.
- Align with work undertaken in relation to the *Public Service Pay Gaps Action Plan* to ensure your workplace is fair and equitable, especially for women, Māori, Pacific and ethnic employees.
- Align relevant decisions with MBIE's *Diversity in Science Statement*, including in relation to advisory panels, boards and committees, to help ensure there is a diversity of people and perspectives in advisory, assessment and decision-making bodies.

Te Ao Māori

We expect entities to continue developing capability, skills and networks between Māori and the RSI system, implement a co-development approach and strengthen Tiriti based relationships in the science sector to deliver benefits for Aotearoa New Zealand. I expect you will keep my MBIE officials updated on your work, including in relation to performance measures and indicators in this area.

eResearch and use of technologies

The growth of eResearch is necessary in the research, science and innovation space, but it is important entities continue to manage and support technologies appropriately. We expect that entities will:

- Support and contribute to the eResearch process, and work with MBIE and other stakeholders to consider new approaches to investment in eResearch infrastructure and services.

- Engage with MBIE officials on your approach on how to identify and manage risk of sensitive technologies.
- Support technology adoption and transfer for public research and use in the country.
- Implement up-to-date cyber security measures, procedures and policies and regularly engage with staff on cyber security where appropriate.

Specific priorities for Callaghan Innovation

During the 2022/23 financial year, in addition to my expectations above, I expect Callaghan Innovation will focus on the following:

- The implementation of the Research and Development Tax Incentive (RDTI) should continue to be prioritised as the government's flagship R&D programme. Good progress has been made to increase the support available to businesses on the RDTI in line with my expectations, this should continue to be built upon and strengthened. I also expect Callaghan Innovation to work closely with officials from MBIE to ensure that the landscape of support, including grant programmes and other (funding) programmes, complement the RDTI and promote a vibrant innovation system.
- Improving research-industry connectivity was a strong theme in the RSI strategy and will be reflected in the work on Future Pathways. While Callaghan Innovation has strong connections with innovative businesses, I would like to see the organisation strengthen its contribution to connect these businesses to the research sector, particularly the Universities and Crown Research Institutes. I expect that Callaghan Innovation will strengthen its relationships across the research sector and that this will underpin the contribution the organisation is making to work across government including the Industry Transformation Plans.
- Last year I raised the issue of the long period of disruption due to various internal reviews and business transformation projects. I understand that much of this work is now at the implementation stage, and that you have begun implementing the new operating model. It is important for this work to be completed so that the organisation can focus on its mission and related government policy.
- I note that Callaghan Innovation has planned for three years of deficits while it implements organisational change to return to financial sustainability. Financial management and forecasting have been challenging for Callaghan Innovation in recent years, but is important that the accuracy of the forecasts improves to ensure that the path to financial sustainability is managed within existing funding and available reserves.
- It is important for progress to be made on the Gracefield redevelopment and I know that delays have not been helped by COVID-19 and supply chain issues. I note that, with the support of MBIE, you plan to re-phase funding for the redevelopment by an additional year with a completion date of June 2024. It is important that completion of the project is achieved by this date and within the existing funding envelope. I expect Callaghan Innovation to continue to work with stakeholders and MBIE to ensure the site meets the needs of current and future members of the RSI that utilise Gracefield.

I also expect you to follow the advice provided in the Minister of State Services and Minister of Finance's Letter of Enduring Expectations, the Ministry of Business, Innovation and Employment's *Monitoring Arrangements for MBIE-monitored Crown entities*, and the general and good governance expectations outlined in Annex One.

Response

Your advice by 25 February 2022 on how you propose to respond to the expectations set out in this letter would be appreciated. I expect that you will keep my officials up to date on your progress towards meeting my expectations throughout the year, including when my priorities are not being progressed.

Thank you again for the hard work and contributions of the Board, management team and staff.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Woods', with a yellow highlight effect around the text.

Hon Dr Megan Woods

Minister of Research, Science and Innovation

Copy to: Vic Crone, Chief Executive, Callaghan Innovation

Annex One: General and good governance expectations

Effective boards

Ensuring the Board is, and remains, high performing is essential. Performance evaluations help boards to improve performance and contribute to the Ministry of Business, Innovation and Employment's (MBIE) advice to Ministers on Board composition. I expect you to carry out an annual evaluation that is ideally conducted by an independent evaluator. Please provide me and MBIE with a summary of the results of the assessment, including the steps the Board is taking to respond to the results, and your view of the competency mix you need to work well as a board.

Deliver responsible governance with a broader measure of success

I ask you to be part of a public sector that builds a New Zealand we can all be proud of; a public sector that recognises the value of every New Zealander and backs all our people. To do this I expect you to think holistically about the impact of your organisation's plans and programmes, prioritising interventions that make the biggest difference to lifting the current and future wellbeing of New Zealanders. In particular, I ask you to strengthen your efforts to partner with Māori organisations to improve services and outcomes for Māori.

I expect you to actively promote and develop the diversity of your workforce for the long term to encompass a broad spread of the experience, culture, perspective and lifestyle of those who live in New Zealand.

Executive remuneration

Ministers acknowledge that boards are involved in setting the remuneration for the executive team. I expect that remuneration will be appropriately linked to performance and set at a level sufficient to attract and retain the necessary skills within the executive to enable you to operate successfully. At the same time, I expect boards to adopt good practice disclosure when reporting on executive remuneration and, if required, to be able to justify publicly the remuneration decisions that they have made. Shareholding Ministers remain focused on executive remuneration being communicated transparently, and it is expected this will be reflected in detailed disclosures in your annual reports.

Well-being

Ministers expect all boards to be cognisant of the Government's focus on well-being. The Government's well-being approach is based on a balance of the four capitals in the Treasury Living Standards Framework – Financial, Human, Natural and Social Capital. Boards should consider and reflect the broader impact of their decisions and initiatives in planning and performance reporting. In this respect, some important aspects include corporate social responsibility and acting as a good employer, particularly if boards need to make decisions to respond to commercial or financial challenges such as the impact of COVID-19.

Effective monitoring of entity performance by boards and relationship with MBIE

In addition to setting and driving a strategy that delivers on government priorities, your Board is the most important monitor of entity performance. I expect the Board to provide me with high quality information and analysis on entity performance against plan, implications for future performance, and risks and opportunities facing the entity.

I expect you to have a constructive working relationship with your monitor within MBIE. This relationship should include active participation and engagement with my officials in the process of setting your organisation's strategic direction and in any review of existing strategies, priorities and plans, and data systems.

I also expect you to work with and across government to integrate the work of your organisation with the role and work of other agencies, and to support the state sector stewardship of government departments. Furthermore, it is expected that you collect stakeholder feedback annually to help inform key aspects of your business.

I also ask you to avoid 'pre-judging' my potential responses to risks and opportunities. I expect to hear about emerging issues and what major actions the Board is considering. My reactions will be based on a range of factors, including the benefits of new initiatives and of taking different approaches to achieve our goals.