



MP for Wigram

Minister of Energy and Resources

Minister for Greater Christchurch Regeneration

Minister of Housing

Minister of Research, Science and Innovation

Pete Hodgson
Chair
Callaghan Innovation
PO Box 11529
WELLINGTON 6142

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Dear Pete

ANNUAL LETTER OF EXPECTATIONS FOR 2021/22

I write to convey my strategic and performance expectations for Callaghan Innovation in relation to the 2021/22 financial year and beyond.

The Government needs a future focussed and fit for purpose research, science and innovation (RSI) system to deliver transformative knowledge and innovations that will safeguard our future health, environment, and prosperity.

The past year has been challenging and demanding in ways that we could not have predicted. The Te Pae Kahurangi emphasised the importance of a collective approach to the RSI sector, which has underpinned our joint response to the challenges we have faced. Over the coming year, the Government will be progressing work to understand what measures could improve how the science system operates.

Looking forward to the 2021/22 financial year and beyond, I expect you to keep my officials up to date with Callaghan Innovation's progress towards the following areas.

Accelerate New Zealand's economic recovery and deliver on Government priorities

The economic recovery from COVID-19 requires a cross-government response, with each entity doing their part. It is expected that entities will:

- Assist in the implementation of government and industry strategies.
- Align with work undertaken in relation to the Carbon Neutral Government Programme.
- Act in accordance with the expectations of the Public Service Commission's key principles on pay restraint for executive remuneration, and senior staff when applicable, as a result of COVID-19.
- Ensure pay equity principles are implemented across the organisation, and that remuneration packages are in line with government organisations.

I expect that Callaghan Innovation will recognise that we are now in a period of fiscal restraint and will work within existing Crown funding.

Te Pae Kahurangi Report

The Te Pae Kahurangi Report outlined the importance of a research system that provides for greater connectedness across the research community and with stakeholders. It is expected that entities will look for opportunities to:

- Incorporate a system-wide perspective in collective strategic planning, and meaningfully engage with key participants in the system.

- Implement a collective approach to capital planning, co-locating and resource sharing with relevant parties where this opportunity exists, to provide resilient investments across the Crown.
- Build strategic relationships with government, other research organisations, Māori, businesses, international organisations and other key stakeholders.

COVID-19, hazard management and emergency response

RSI entities have an important role in the response to COVID-19, and in supporting hazards management and emergency responses. It is expected that entities will:

- Maintain critical scientific capability, build resilience and support the ongoing development of connected systems.

Vision Mātauranga

It is necessary for entities to strengthen capability, skills and networks between Māori and the RSI system, and increase understanding of how research can contribute to the aspirations of Māori and Māori organisations, strengthen Te Tiriti based relationships in the science sector, and deliver benefits for New Zealand. It is expected that entities will:

- Support Vision Mātauranga and develop appropriate capability and capacity to contribute to Māori aspirations, form strong relevant partnerships, and take a co-development approach in the science sector.

Well-being and workplace diversity

Entities should support well-being, while fostering diversity throughout the organisation. It is expected that entities will:

- Act as a good employer and act in accordance with corporate social responsibility practices.
- Have employer policies and procedures that support diversity and inclusion (gender, age, ethnicity, disability and sexual orientation) and have a positive culture.
- Continue to build and maintain a diverse workforce at all levels, including building Māori knowledge and expertise, the number of Māori researchers, and increase the level of diversity at the senior management level.

Specific priorities for Callaghan Innovation

During the 2021/22 financial year, in addition to my expectations above, I expect that Callaghan Innovation will focus on the following areas:

- The R&D Tax Incentive remains the Government's flagship R&D policy, and it is my strong expectation that progress is made on implementing recommendations from the recent review into the policy. Focus must first be on ensuring all customers with expiring Growth Grant contracts are contacted and transferred across to the R&D Tax Incentive if they qualify. I also expect to be involved in the promotion of the R&D Tax Incentive during the course of the year.
- The Project Grants programme should be managed to ensure expenditure remains within the constraints of the funding appropriation and the programme is able to remain open to applications through to June 2022. I expect Callaghan Innovation to use its operational discretion as a first step and seek my approval if changes to the Ministerial direction are required to achieve this priority.
- The Research and Technical Services (RTS) strategy implementation should be completed by the end of the year to provide certainty for staff and support improved performance of this service. Given that RTS forms part of Callaghan Innovation's commercial operations, the Board might consider reinstating revenue targets.

- There have been delays to the Gracefield redevelopment (Tactical Estates Continuity Programme) and I expect progress to be made on this project this year.
- I understand that Callaghan Innovation has been through a long period of disruption, including a culture transformation project, reviews of key aspects of your business, and associated organisational change. I expect Callaghan Innovation to imbed the recommendations of these initiatives so the organisation is better positioned to focus on supporting the Government's priorities and achieving good outcomes for New Zealand.
- Progress to be made on Callaghan Innovation's financial management and forecasting, and increased efforts to operate within existing funding.
- It is my expectation that Callaghan Innovation provide information requested by my monitoring officials about these, or any other, work programmes so that they can effectively assist me with my role as responsible Minister under the Crown Entities Act 2004.

Entities should work collaboratively to deliver on an integrated RSI system. 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 Friday 16 April 2021 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.

I appreciate the hard work and contributions of the Board, management team and staff during these difficult times.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Woods', written over a horizontal line.

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.