

10 June 2020

Hon Dr Megan Woods
Minister of Research, Science and Innovation
Parliament Buildings
Wellington

Tēnā koe Minister

ESR Strategic Issues Letter

It was a pleasure to host you at our Kenepuru Science Centre on Wednesday 3 June 2020 and be part of your announcement of the Government's investment in research, science and innovation through Budget 2020 and COVID Response and Recovery Fund.

At that event, some of the ESR Management team and I had the opportunity to raise with you a number of the issues outlined in this letter. We are keen to meet with you soon to discuss these matters further and what can be done to address them.

We value the trust and confidence you have shown in us through recent funding boosts

The funding you announced for ESR's future science and the redevelopment of the Kenepuru Science Centre are vital expressions of confidence and support at a time that is full of opportunities and challenges. On behalf of the ESR Board and Management, I would like to thank you for your commitment to our future.

Since January 2020, our people have been working at the forefront of the national response to COVID-19 and supporting our common goal of eliminating COVID-19 from New Zealand.

As the CRI that is all about people, the expertise and responsiveness of our scientists has been a key part of the public health response to COVID-19. As well as adeptly stepping up to support the national crisis response, we have pivoted existing research and initiated new programmes to grow understanding of COVID-19 and actively progress New Zealand's economic and social recovery.

Your public acknowledgement of our contribution, and time visiting with the ESR's teams doing this work, was a particularly proud and welcome moment for us.

Unfortunately, like many entities across New Zealand, COVID-19 has increased our risk profile and we face financial uncertainty.

We are grateful for the additional **s 9(2)(b)(ii)** Strategic Science Investment Funding per year, the **s 9(2)(b)(ii)** COVID Response and Recovery Fund, and \$25 million for Kenepuru Science Centre redevelopment. This investment will mitigate the short term financial challenges we face as a result of the pandemic.

Despite these positive developments, and recent success in securing COVID-19 related research funding, we continue to be tightly constrained in our ability to fund ESR's science, research and transformation.

In FY21, we now expect our revenue to drop by around s 9(2)(b)(ii) as a result of reductions in domestic and commercial revenue. This presents the ESR Board and Management with deeply challenging choices as we look to balance our responsibilities as stewards of critical scientific capability for New Zealand and as prudent financial managers.

We are actively working to contain costs and expenditure, pursue new revenue opportunities (particularly those relating to COVID-19), and define our critical services and what will be needed to sustain them. Even so, our financial prospects mean we will need to make some difficult trade-offs.

All of which are compounding the long term pressures on our operations.

In making the aforementioned funding announcements, you called out the strong, clear science voices providing informed and considered science communication and vital dialogue during the COVID-19 crisis, noting the depth of critical science capabilities that New Zealand relies on that are held by Crown Research Institutes (CRIs).

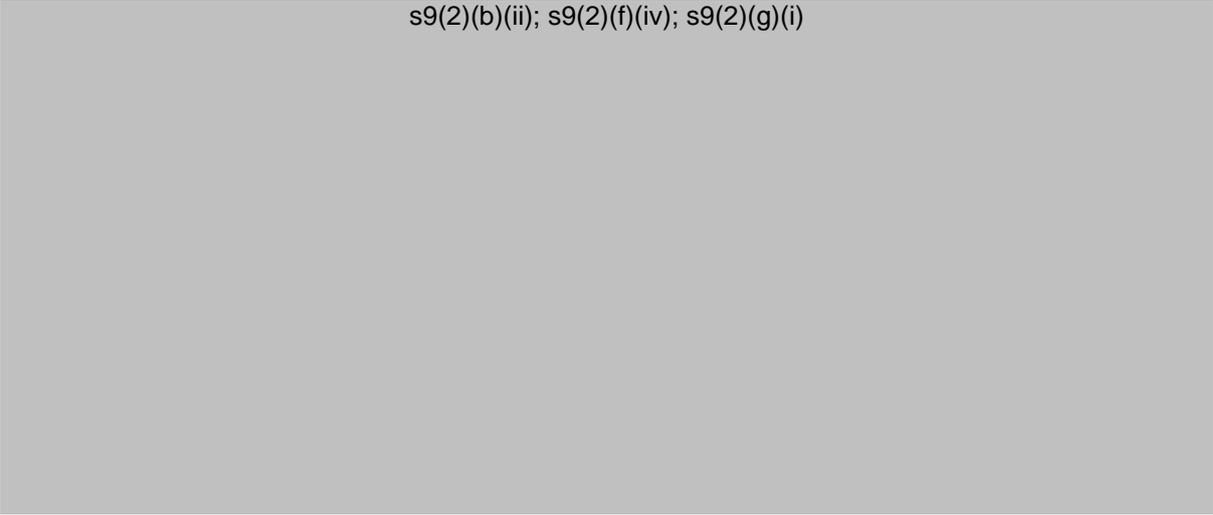
As you know, the innovation, insight and expert advice provided by ESR's scientists does not happen by chance. It is the cumulative result of sustained, strategic investment in critical disciplines, novel ideas and diverse talent.

On 6 March 2020, we wrote to you as a shareholding Minister, about ESR's increased risk profile and the negative impacts this may have on our future. Despite additional funding, ESR's operational and financial risk remain high. The COVID-19 related downturn exacerbates the financial uncertainty arising from the underlying issues we have already signalled.

Our key concerns relate to:

- **Stagnation across core contracts with the Ministry of Health and New Zealand Police (both of which are up for renewal in 2021)** means that neither of these contracts fully funds the renewal that is vital. As a result, we have had to drive our development and sustain capability from internal financial resources and reserves, substantially built from the success of STRmix.

s9(2)(b)(ii); s9(2)(f)(iv); s9(2)(g)(i)



- **Long term constraints in research funding remain.** The budget's SSIF funding addition of s 9(2)(b)(ii) increases this critical resource from s 9(2)(b)(ii). However, if ESR is to sustain and build research-based solutions to New Zealand's most pressing problems, that underpinning resource must double in size over the next 5 to 7 years, to reach a level comparable with other CRIs.
- **Acute reductions in commercial revenue,** both domestic and international, arise from COVID-19 conditions. s 9(2)(b)(ii)

We want to work with you to ensure we can serve New Zealanders now and in the future

If we are able to tackle the three funding challenges above, then ESR will be well positioned to make its best and vital contribution to New Zealand's future:

- **Securing essential transformation:** Our organisation must transform at multiple levels. ESR's science and services require continuing investment to transform with rapid changes in science, technology and societal needs. This critical investment requires us to deal with the long term pressures on our revenue, and confidently build key capability.
- **Mobilising the development of a fit for the future Kenepuru Science Centre:** Ensuring a modern, fit for purpose science infrastructure for ESR and the wider science system remains a priority. The recently announced capital injection of \$25m provides a game shifting opportunity; ESR is conscious that the development must serve New Zealanders and the science system into the future, and should not overstretch ESR's financial position to achieve this.
- **Building ESR's vital research platform for solutions to keep looking for new ways to apply our expertise to emerging problems:** We have been actively working on growing and maintaining our science to ensure that is impactful and relevant. This includes growing our impact with Māori, working with our partners on innovative approaches and building a portfolio of products and services to deliver the best outcomes for our customers and NZ.

The pathways we had identified to pursue these goals (such as fuelling science transformation from commercial revenues) are now unviable at the scale needed to drive ESR's future. We are also conscious that we do not currently have the financial resilience to weather another shock, such as a natural disaster.

The greatest concern for ESR's Board and Management is that at the time when the value of ESR's scientific capability has never been more evident, there is a real danger that we will have to substantially constrain or even reduce our services. This will have significant, negative impacts on our people capability and the positive impact that comes through well informed, smart choices about what New Zealand's recovery from COVID-19 looks like.

While there is much uncertainty in our operating environment, one thing is clear, we need to work closely with you now to ensure ESR has the support and resourcing to continue delivering critical science services for New Zealanders at this time, and in the long period of recovery to come. Finding ways to address the three funding challenges we have outlined is vital.

We look forward to working with you to bring ESR's potential to its fullest contribution to New Zealand.

Nāku iti noa, nā

s 9(2)(a)

Denise Church
Chair