



BRIEFING

CRI consolidation – process overview

Date:	4 February 2025	Priority:	High
Security classification:	In Confidence	Tracking number:	0008426

Minister	Action sought	Deadline
Hon Dr Shane Reti Minister of Science, Innovation and Technology	Note progress to consolidate the CRIs into three new PROs, the merger timeline and upcoming key milestones Agree to sign and send the attached letters to CRI Chairs by 7 February	7 February 2025

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Landon McMillan	Manager, Science System Policy	04 978 3448	✓
Dr Nic Scott	Senior Advisor, Science System Policy		

The following departments/agencies have been consulted

Minister's office to complete:

Approved

Noted

Seen

See Minister's Notes

Declined

Needs change

Overtaken by Events

Withdrawn

Comments



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CRI consolidation – processes overview

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Purpose

To outline how MBIE is working with the Crown Research Institutes (CRIs) to design and establish the new Public Research Organisations (PROs) and to provide a high-level timeline and list of key milestones to achieve the mergers.

Recommended action

The Ministry of Business, Innovation and Employment recommends that you:

- a **Note** that the CRI Chairs and Chief Executives strongly support the Government’s decision to create three new PROs by transforming the current CRIs, and they are highly engaged with MBIE on the design and establishment process.
Noted
- b **Note** the recent milestones achieved towards creating the new PROs, and that the attached high-level timeline for achieving mergers is ambitious but achievable.
Noted
- c **Note** that your current levers over the CRI Boards, which rely mainly on engagement and communication, can be effective in influencing direction. This effectiveness is underpinned by your power to replace or appoint Board members at your discretion.
Noted
- d **Agree** to sign and send the attached letters to the seven CRI Chairs by 7 February to outline your expectations on this process and their roles.

Agree / Disagree

Landon McMillan
Manager, Science System Policy
Labour, Science and Enterprise, MBIE

04 / 02 / 25

Hon Dr Shane Reti
**Minister of Science, Innovation and
Technology**

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Background

1. After receiving a confidential briefing on the Science System Advisory Group first report, the Crown Research Institute (CRI) Chairs wrote to Minister Collins on 23 October 2024 indicating their support for consolidation and offering their assistance through the transition.
2. On 18 November Cabinet agreed to consolidate the CRIs into a Bioeconomy Public Research Organisation (PRO), an Earth Science PRO, and a Health and Forensic Science PRO, and to establish a new Advanced Technology PRO (on which MBIE will provide separate advice). (*CAB-24-MIN-0445* refers.)
3. The Bioeconomy cluster consists of AgResearch, Manaaki Whenua Landcare Research, Plant & Food Research and Scion. The Earth Science cluster consists of GNS Science and NIWA, and will incorporate Metservice after it is acquired by NIWA. The Health and Forensic Science PRO will be formed by repurposing ESR.
4. On 16 December Cabinet further agreed to guiding parameters for establishment of the PROs and agreed in principle to establish them as Crown Agents (*CAB-24-MIN-0504.02* refers). Following these decisions, Minister Collins invited the CRI Chairs to consider merging (letter attached as Annex One - *briefing 0006625* refers).
5. On 30 January 2025 you met with the CRI Chairs to convey your expectations on the consolidation process and the contributions their organisations can make to the Government's economic growth agenda.

MBIE is working closely with the CRIs to achieve consolidation at pace

6. By remaining close to the PRO design process, while utilising CRI resources and organisational and sector knowledge to do the heavy lifting, MBIE can ensure the new PROs align with the wider SI&T system reform and the Government's economic growth agenda.

Free and frank opinions

7. MBIE began meeting with the CRI Chairs late last year to generate early CRI buy-in. We view maintaining buy-in through ongoing, meaningful engagement as critical to a successful outcome, and helps ensure that new organisations deliver to government's objectives, rather than simply carrying over existing capabilities, structures and ways of working. This has been a key lesson from recent public sector organisational reforms.
8. All seven CRI Chairs and Chief Executives (CEs) are strongly supportive of consolidation and the goal to more strongly align the PROs with the government's strategy for economic growth. They emphasise that consolidation is best done quickly but carefully, with government and the CRIs working closely together.
9. While not merging, ESR is closely involved in the collective design process and will undertake its own transformation to better align the organisation with the Government's vision.
10. Initial indications from the CE's are that CRI staff and key stakeholders also support consolidation as this will draw a line under an extended period of significant uncertainty.

Some concerns remain around timing and ongoing certainty of science funding, but these can be mitigated through transparent communication, including around funding at the appropriate time of the Budget cycle.

Mergers can proceed ahead of legislation with CRI cooperation

11. As the CRIs are currently constituted as Crown Companies the decision to merge sits with the individual CRI Boards, with subsequent approval from shareholding Ministers.
12. MBIE has developed, and the CRI Chairs have endorsed, a three-stage plan to work together to establish the new PROs. The process and timeline are detailed in Annex Two, but to summarise:
 - a. **Phase 1: Proposal development and coordination of shared settings (Dec - > May):** Establish transition government groups, who will develop merger proposals (including required due diligence), and identify opportunities for streamlining corporate functions and employment settings and better ways of working together.
 - b. **Phase 2: Pre-merger establishment and planning (Jun -> Oct):** Subject to due diligence, clusters present merger proposals to shareholding Ministers. Following Ministers' approval, transition governance groups will undertake detailed organisational design and rationalisation of capabilities, science and infrastructure while MBIE works with you to identify suitable members for the Boards of the new PROs. This includes agreeing science focus and identifying the best home for any areas of overlap not resolved by the mergers. Culminates in legal merger of entities and formal appointment of new boards.
 - c. **Phase 3: Post-merger implementation and integration (Oct -> mid 26):** New PROs begin formal operation. New boards work to integrate the CRIs into the new PROs, including recruiting full leadership teams. We expect this phase to be ongoing as the PROs adapt to wider system changes, including legislation.
13. MBIE will work with the organisations across the transition and establishment phases to identify the areas of science they will prioritise to deliver against Government's goal of maximising national benefit and opportunities to drive economic growth. This will include work, informed by government agencies and the CRIs, to identify and maintain critical public good science services.
14. MBIE and the CRIs have agreed to form two transition governance groups to drive forward the merger process. In February MBIE, with CRI endorsement, will appoint two independent convenors who will lead the mergers for the Bioeconomy and Earth Science PROs. The convenors will report to MBIE and ensure the perspectives of the new entities rather than the needs of the individual CRIs, are kept at the forefront of the consolidation process.
15. The CRIs will employ two program coordinators to manage the work program for each merger. The CRIs have set up workstreams to do the financial and legal due diligence needed for merger proposals, and to identify and strengthen synergies from corporate functions. Science prioritisation and infrastructure stocktake workstreams will follow shortly.

16. The phase timings are ambitious but achievable while CRI Boards continue to be highly engaged. The below table summarises recent milestones and the immediate next steps towards consolidation with indicative timings. The overall timeline is attached in Annex Two.
17. The target date for the creation of the Bioeconomy and Earth Science entities is 1 October. At that time, all going well, two new legal entities will exist under the CRI Act, a Bioeconomy CRI and an Earth Science CRI, each with a single board and Chair. At that point the current CRIs will cease to exist as legal entities, Confidential advice to Government

Immediate milestones	Timing
MBIE began meeting with CRI Chairs to build buy-in for consolidation	4 Dec 24
Minister Collins wrote to CRI Chairs (Annex One), inviting them to consider merging through short-form amalgamation	16 Dec 24
Prime Minister announced Cabinet’s decision to create three new PROs by consolidating and repurposing current CRIs	23 Jan 25
Key workstreams established (eg HR, IT, finance, legal), including identifying CRI staff to lead each stream.	29 Jan
MBIE appoints independent convenors to lead the development of merger proposals and coordinate the work across the clusters. Transition governance groups established.	early Feb
CRI Chairs’ due to respond to you on the invitation to consider a merger	1 Mar
Report back of transition workstreams	March
Budget decisions Confidential advice to Government	May
CRI Boards likely in a position to present merger proposals to shareholding Ministers	May/June

18. Before they can agree to merge, the Boards must undertake due diligence to be satisfied that they can meet their statutory obligations under the Companies Act; primarily that the post-merger entities are able to pass the solvency test and operate as a going concern.

19. Confidential advice to Government

20.

You have levers to progress consolidation without CRI board agreement

21. Crown Companies are designed to be arms-length organisations insulated from direct Government intervention, which is reflected in the kind of levers you have to influence Boards. Annex Three provides an overview of those levers.
22. In the current cooperative environment, we judge regular communication and setting clear expectations as sufficient to keep the process moving quickly and focused on delivering Government's objectives.
23. The most significant risk to achieving rapid mergers is that directors consider they cannot satisfy their fiduciary obligation to remain a 'going concern'. This can be managed through clear communication about available funding, and right-sizing delivery expectations to the available funding and resources.
24. If the environment changes, your most effective lever is your ability to remove or appoint Chairs or Directors. This has been extremely effective in ensuring CRI cooperation in the recent past but is considered a very significant intervention. Your soft levers such as communicating expectations, are largely underpinned by your power to appoint directors.
25. Ultimately, the desired system changes can be achieved through legislation without the cooperation of CRI Boards. However, this will significantly delay implementation and likely lead to poorer outcomes without the knowledge and experience of the CRIs.

Next steps

26. We recommend you sign and send letters to CRI Chairs confirming your expectations regarding the transition to PROs, including an increased focus on science that for long-term economic benefit (Annex Four).
27. MBIE will work with the transition governance groups to provide you with a detailed plan for the transition by the end of February. We will provide you with regular updates on the CRI merger process, including any potential delays or risks, as soon as these are identified.
28. MBIE will provide further advice on the later stages of the establishment process in due course, including science prioritisation and the process to identify and appoint the Boards for the new PROs.
29. MBIE will also provide you with advice on the legislative settings to support effective operation of PROs in the future, including mechanisms for Government to regularly communicate its objectives and priorities to guide PRO strategy and decisions.

Annexes

Annex One: Copy of Minister Collins' letter to CRI Chairs, 16 December

Annex Two: Merger process and high-level timeline

Annex Three: Your levers for influencing Crown Research Institutes

Annex Four: Letters of expectation to CRI Chairs

Annex One: Copy of Minister Collins' letter to CRI Chairs, 16 December

Hon Judith Collins KC

Attorney General
Minister of Defence
Minister for Digitising Government
Minister Responsible for the ŌCŠB
Minister Responsible for the NZSIS
Minister of Science, Innovation and Technology
Minister for Space



Kim Wallace
Chair, AgResearch

Privacy of natural persons

Dear Kim,

Thank you for your letter of 22 October 2024 on behalf of the CRI chairs where you expressed your collective support for both the proposed SI&T reforms and for merging like-oriented CRIs, and where you offered the chairs' assistance in both creating this new system and in guiding your organisations through this transition.

SI&T reforms

As you are aware, Cabinet has decided to make wide-ranging changes to the science system with the objective of driving economic growth. New Zealand needs a dynamic science, innovation and technology system to provide for our future prosperity. We need to invest in science with a purpose, and focus our spending and incentives to make sure the system is generating greatest value for New Zealand. The objectives of this reform are to:

- focus the science system on NZ Inc and economic benefit (including more commercialisation).
- build a more adaptive and responsive SI&T system.
- improve the prioritisation and direction setting mechanisms.

The reforms will establish a prioritisation mechanism, create more adaptive institutions and strengthen the system's focus on commercial and economic outcomes. Institutional change to CRIs is required to realise the full economic benefit of these reforms. The CRIs are a vital component of our system, and we need to ensure they are positioned to create the science that will drive New Zealand's economic prosperity.

I would like to see the following benefits from the changes to CRIs:

- greater focus in areas critical to NZ's economic future
- increased scale and depth of capabilities, with the ability to apply a range of disciplines to develop economic opportunities for New Zealand
- increased adaptability to reallocate resources to evolving priorities
- increased responsiveness, transparency, and accountability to government, supported by stronger stewardship and direction from the centre and a willingness to accept trade-offs
- greater use of common pool resources, including corporate and science infrastructure.

It is our intention to pass legislation to give effect to these changes, which will likely include changes to the CRI Act 1992. The full announcement of the proposed changes will be made in the new year. Further details of a future science system, including the design and introduction of a legislation programme, will be agreed by Cabinet in due course. I anticipate that legislation will be introduced to the House in the middle of 2025.

Moving to a Bioeconomy Public Research Organisation

As part of the reforms Cabinet intends to create a new bioeconomy-focused PRO by combining AgResearch, Manaaki Whenua Landcare Research, Plant and Food Research and Scion. The new PRO would focus on driving innovation and enhancing the value of New Zealand's bioeconomy, fostering economic growth and ensuring environmental and social prosperity.

I am keen for you to be closely involved in the transition and encourage you to continue working alongside officials at the Ministry for Business, Innovation and Employment. In particular, I would like to invite you to work with the boards of Manaaki Whenua Landcare Research, Plant and Food Research and Scion to consider a merger of your respective entities, such as through a short-form amalgamation, and, should such a merger prove acceptable to your boards, to develop a merger proposal for the shareholding Ministers.

I recognise that the legislative process will take time to pass through the House, and there would be great benefit to the system to move faster with potential mergers, shorten the period of uncertainty and create an environment more conducive to scientific productivity.

Should you decide to put forward a merger proposal under existing legislation, I envisage it focusing on the due diligence needed to satisfy your legal obligations as directors. The due diligence required will depend on the legal form of the merger you choose. Should you choose to consider short-form amalgamations, my officials have advised me that this could focus on satisfying the solvency test and ensuring the new entity can comply with its obligations under the CRI Act; and that you would not need to resolve that the merger is in the best interest of your organisation.

The merger proposal would also likely set out, at a high-level, how the new entity will deliver the desired benefits I have identified. I expect the new organisation to be designed to meet future science needs, rather than a simple merger of existing organisations. This includes considering how to create critical mass and focus by bringing together key science capabilities and functions from across the system. Final details of the new organisation can be developed further into the implementation process.

I understand that, in developing any proposals, you will need to consider the future revenue of the new organisation, including the revenue from government. I will provide guidance on your government revenue as soon as Budget processes allow, [REDACTED]

Confidentiality

[REDACTED] acknowledge your organisations have already made hard choices in focusing your activities, and this merger process will require further prioritisation. MBIE will work closely with you to support you in this work,

The final form of the proposed changes will be determined through the legislative process, however I am considering the following guiding principles for public research organisations:

Purpose	To undertake research to meet the long-term needs of New Zealand
High-level functions	Undertake research in priority areas, including those identified by government, that have long-term economic, environmental and social impact. Provide stewardship research and science services needed to inform key regulatory and policy decisions, and give confidence to markets, government and the public.

	Facilitate clustering of knowledge bases and collaboration on large-scale opportunities to achieve technological breakthroughs that kick-start internationally competitive innovation ecosystems.
Design principles	<p>National Benefit: Public research organisations will always aim to maximise the long-term NZ Inc benefit. While the emphasis will shift to commercialisation and delivering economic outcomes, organisations will still need to deliver critical public good knowledge and services.</p> <p>Adaptable and Responsive to Government: Public research organisations will deliver to government priorities for science innovation and technology.</p> <p>Accountability: Transparency between public funding and activity in public research organisations, with appropriate cost recovery models.</p> <p>Rationalisation, alignment and coordination: with mechanisms to prioritise, avoid unnecessary duplication, resolve trade-offs and support consistency and coordination within and between research organisations.</p> <p>Partnership with private investors: Public research organisations will look for opportunities to coinvest in research capability, facilities and knowledge production.</p>

Working through the transition process

I appreciate the value that comes from CRIs taking an active role in this transition. I understand that you have had initial discussions with MBIE on how to realise the potential benefits of this merger in a way that minimises uncertainty for your staff and stakeholders and I encourage you to continue working closely with my officials throughout this process.

Given the clear direction of travel from government, our expectation is that public research organisations will work more closely together. As shareholding ministers, the Minister of Finance and I expect that you start to give effect to that direction of travel from today. As such, we expect that you will not make any capital or other significant decisions that would foreclose any future opportunities, or if pressing, that those are agreed to with other relevant CRIs and discussed with MBIE.

I will write to you again in the new year with further details as the science reforms progress. At the same time I will set out my expectations for your Statement of Corporate Intent to cover this transition period.

I anticipate you would be able to provide a formal response to the invitation to consider a merger

Confidentiality

Yours sincerely,

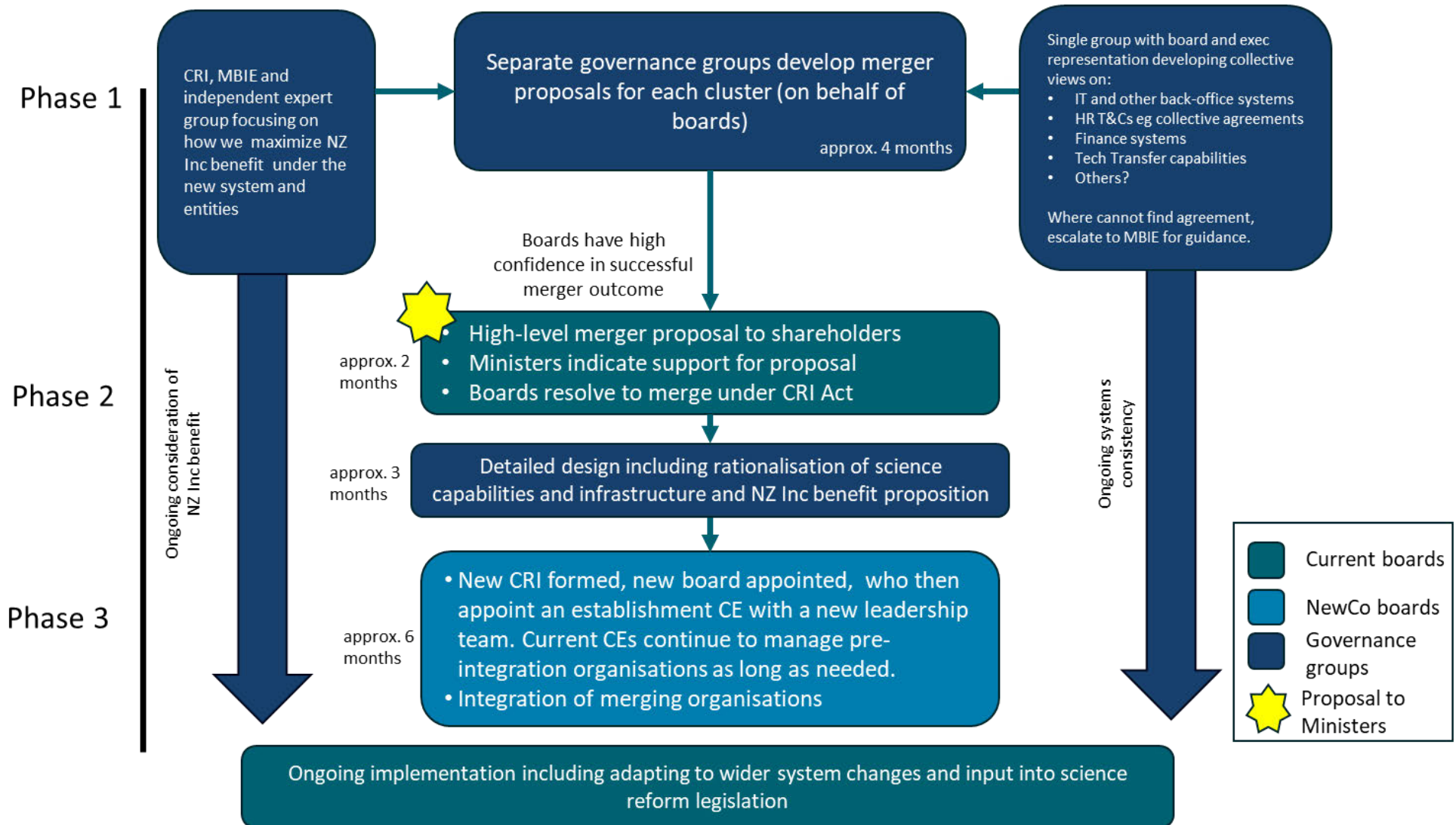


Hon Judith Collins KC

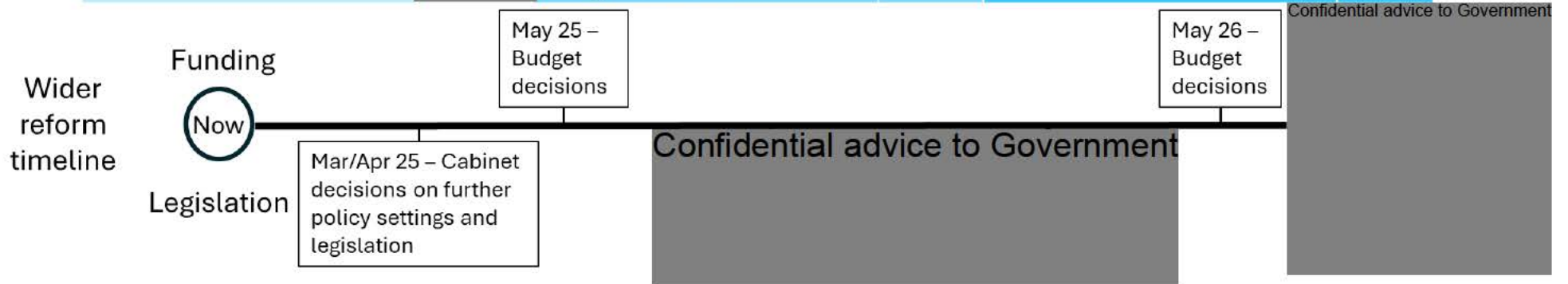
Minister of Science, Innovation and Technology

for and on behalf of shareholding Ministers

Annex Two: Merger process and high-level timeline



Initial design of new entities Dec 24 – Apr 25		Final design and decisions on new entities May 25 – Sep 25	Implementation and integration of new entities Oct 25 – June 26
Chairs invited to consider merging	16 Dec 24	CRI boards approve merger proposals and present to shareholding Ministers Shareholding Ministers approve merger proposals CRI Boards resolve to merge Shareholding Ministers approve merger resolutions MBIE begins search for Chairs and directors of new PROs APH process to appoint new PRO boards New PRO boards take ownership of establishment work Final design and day one readiness preparations Bioeconomy CRI and Earth Science CRI become legal entities through execution of mergers under CRI Act	Confidential advice to Government
PM announces consolidation	23 Jan 25		
Transition governance arrangements in place, including MBIE-appointed independent convenors	Feb 25		
Workstreams, staffed by CRIs but with MBIE input deliver: <ul style="list-style-type: none"> Financial and legal due diligence Opportunities across corporate functions, back-office and infrastructure Initial science prioritisation 	Feb – Apr 25		
CRI Boards provide initial response on feasibility and timing of mergers	1 March 25		
Transition governance groups prepare detailed merger proposals	Confidential advice to Government	Aug – Oct 25	1 Oct 25



Assuming a short-form amalgamation under the Companies Act. These timings are based on the 2009 short-form amalgamation of Hort Research and Crop & Food Research that resulted in Plant & Food Research. However the present mergers will have more complexities to manage, including the four-way nature of the Bioeconomy PRO merger and the NIWA/Metservice acquisition.

Annex Three: Your levers for influencing Crown Research Institutes

Levers are ordered from softest to hardest

Lever	Reference	Comment
Conversations with Chair/ Board	N/A	Providing clear expectations and listening to issues raised.
Letter of Expectation	MBIE's 'Monitoring Arrangements'	Letters of expectation have been a very powerful signalling tool that the Boards take very seriously.
Agree with Board to include additional content in Statements of Corporate Intent (SCIs)	CRI Act 16(2)(j)	SCIs can include "such other matters as are agreed by the shareholding Ministers and the board".
Shareholding Ministers have opportunity to comment on a CRI's draft SCI	Section 16(4) CRI Act	16(4) 'The board shall consider any comments on the draft statement of corporate intent that are made to it not later than 14 days before the commencement of the financial year by the shareholding Ministers.'
New Statements of Core Purpose	Cabinet approval to update EGI (10) 236	Prepare updated or new Statements of Core Purpose. The current statements date from 2010, and were approved by Cabinet under EGI (10) 236.
Direct changes to Statement of Intent. Such Directions must also be gazetted and presented in the House.	Section 15(1)(a) CRI Act and (for process) section 115 Crown Entities Act	Key lever for control. Can direct addition/omission of things covered under 16(2)(a) to 16(2)(h). Key things would be 16(2)(a) 'the objectives of the group', 16(2)(b) 'the nature and scope of the activities to be undertaken' and 16(e) 'the performance targets and other measures by which the performance of the group may be judged in relation to its objectives'. The Crown Entities Act limits this power of direction so that Ministers cannot direct the performance or non-performance of a specific act.
Board can invite MBIE to engage on strategic matters	N/A	Based on a sound and trusted relationship.
Work with the board with a view to improving the entity's performance	MBIE's 'Monitoring Arrangements' pg 4	If the responsible Minister considers that an entity is not performing as expected, the Minister's options include working with the board with a view to improving the entity's performance
Funding	N/A	Under the CRI Act, s5(3)(b), CRIs need to operate as a successful going concern. According to Audit New Zealand, this requires looking forward at least 12 months. Changes to public funding, including the quantum and associated KPIs, act as a significant incentive for CRI behaviour.
Discuss the appointment of a special advisor to the board	MBIE's 'Monitoring Arrangements' pg 4	There is no specific provision for a Crown Observer or similar role in the CRI Act, so this role would be primarily to enhance information flows without statutory authority.
Appoint /remove directors and or Chairs (constitutions tend to specify numerical limits of 2-9 directors)	Section 88(a) CE Act Sections 150 - 159 of the Companies Act and relevant CRI's constitution Section 7(1A) CRI Act	<div style="background-color: #cccccc; padding: 10px;"> <h1 style="margin: 0;">Free and frank opinions</h1> <h2 style="margin: 0;">Confidential advice to Government</h2> </div>
Legislate		

- If concerns are expressed by Chairs or Directors, it is important to identify whether the concerns are fair and reasonable and whether there are steps that can be taken to resolve the issues raised.
- Do not underestimate the impact of communications from a Minister setting out shareholder expectations – Boards are aware that they serve at the Minister's (i.e. shareholders) pleasure.
- Care must be taken to avoid the Minister or an MBIE official becoming a deemed a director, which can happen if instructions or directions are improperly given. Doing so exposes the Crown to significant liabilities and invites legal challenge to any directions and their resulting actions.

Annex Four: Letters of expectation to CRI Chairs

Attached separately:

Annex 4a – Letter to AgResearch

Annex 4b – Letter to ESR

Annex 4c – Letter to GNS

Annex 4d – Letter to MWLR

Annex 4e – Letter to NIWA

Annex 4f – Letter to PFR

Annex 4g – Letter to Scion