



BRIEFING

Options for CRI Consolidation

Date:	14 August 2024	Priority:	High
Security classification:	In Confidence	Tracking number:	2425-0701

Action sought		
	Action sought	Deadline
Hon Judith Collins KC Minister of Science, Innovation, and Technology	Agree the preferred option for CRI consolidation is two to three PROs, clustered by sector and research capability	20 August 2024

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Landon McMillan	Manager, Science System Policy	Privacy of natural persons	✓
Linda Moore	Principal Policy Advisor, Science System Policy		

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved

☐ Declined

☐ Noted

☐ Needs change

☐ Seen

☐ Overtaken by Events

☐ See Minister's Notes

☐ Withdrawn

Comments



BRIEFING

Options for CRI consolidation

Date:	14 August 2024	Priority:	Medium
Security classification:	In Confidence	Tracking number:	2425-0701

Purpose

To provide you with options for consolidating Crown Research Institutes (CRIs).

Recommended action

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

- a **Note** the single Public Research Organisation (PRO) model (option 1) best meets the objectives of the reform to increase adaptability and facilitate reallocation of resources, but it also carries risks.
- Noted*
- b **Note** the two to three PRO option (option 2) reduces implementation and concentration risks, and leaves open the possibility of further future consolidation.
- Noted*
- c **Agree** the preferred option for CRI consolidation is to create two to three PROs clustered by sector and research capabilities (option 2):
- 1) A primary sector and environment PRO (AgResearch, Plant and Food Research, Scion, and Manaaki Whenua Landcare)
 - 2) A hazards, resilience, and energy PRO (NIWA and GNS Science including Metservice)
 - 3) with ESR either a separate entity, or part of the hazards, resilience and energy PRO.

Yes/No

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

14 / 08 / 24

Hon Judith Collins KC
Minister of Science, Innovation and Technology

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Background

1. You have received the report from the Science System Advisory Group (SSAG) which inter alia recommends merging Crown Research Institutes (CRIs) into a single public research organisation (PRO). (Briefing 2425-0432 refers.)
2. At your meeting with MBIE officials on 8 August, you asked for information on options for more than one PRO to derisk the process.

Public Research Organisations

3. The most important objective of the science system reform is to have a set of institutions with the mandate, status and authority to reallocate resources and adapt the science we deliver to changing Government priorities.

The SSAG report prefers a single PRO to deliver flexibility

4. The SSAG recommends merging all CRIs into a single PRO with a flat structure, shared back office and infrastructure, and single commercial and stakeholder-facing functions. The new PRO would have more science-led governance (on the how), international advisors, and transparency and accountability at the sub-unit level (similar to Singapore's A*STAR).
5. The full extent of the proposed changes could not be implemented on day one, so the SSAG report suggests initially focussing on strategic alignment. Efficiency gains and full transition to the new responsive model built around science teams would happen over time.

Key choices for the number of PROs

6. A single PRO achieves the overall policy objective the best, as it is able to make trade-offs and reallocate resources across the widest spectrum of science that Government funds. However, it poses risks, as it creates a single point of failure, concentrates power and raises asymmetric information (which makes it harder to benchmark performance). It could also potentially result in diseconomies of scope and implementation risks.
7. Creating more than one PRO would address many of these risks.
8. If there is more than one PRO, CRIs could be consolidated in several ways, although none of these delineations will be perfect or complete. You could cluster according to
 - sector focus, customers and stakeholders (option 2),
 - research capabilities (option 2), or
 - the delivery of (largely) public goods vs private goods (option 3).

Consolidation options

9. This paper looks at options on the different number of entities, but you will also want to consider implementation pathways and the best governance options to give effect to the objectives of the reform. We will provide further advice on this.
10. The choice on entity structure will give you more or less control. For example, a Crown agent model must give effect to Government policy, while a Crown company model places more accountability and autonomy on a board. MBIE's view is that a Crown agent might be a better entity structure for a single PRO but the Crown company model may have some advantages for options where you have multiple PROs and where one of the PROs retains a strong industry facing role.

11. ESR may usefully be considered separately for the options presented below, given it largely delivers laboratory-based services to Ministry of Health and Police. Initially it could be a stand-alone entity or ring-fenced within a bigger organisation as a subsidiary, then later it could be incorporated to better leverage health innovation and medtech opportunities.

Three options for the number of PROs

12. There are three options, noting the possibility for ESR to be a separate entity. Annex One provides more detail on the pros and cons of each option.
- 1) **Option 1: A single PRO** – with the ability to make choices and trade-offs across the system. Its weaknesses are that there is a single point of failure for delivery of public research, concentration of power (more so than market competition), a lack of performance benchmarking and asymmetric information. (**SSAG recommendation**)
 - 2) **Option 2: Two PROs by merging entire organisations** – trade-offs are limited by the bounds of each organisation, but there is less risk of single point of failure. There may be clearer direction and alignment with existing customers and stakeholders. We recommend splitting by sector and typical research outputs/capabilities:
 - i. Primary sector and the environment (AgResearch, Plant and Food Research, Scion, and Manaaki Whenua Landcare)
 - ii. Hazards, resilience, and energy (NIWA and GNS Science, with MetService and ESR as ringfenced subsidiaries providing science services)
 - 3) **Option 3: Two PROs by mixing and matching** to bring together components of CRIs that provide more private goods/commercial revenue into one PRO and the more public good/stewardship activities into another. This option is **not recommended** as it would have high upfront disruption, and there are likely to be overlaps and gaps over time as a clean split would be difficult. One option is:
 - i. Food and Fibre (parts of AgResearch, Plant and Food Research, Scion, Manaaki Whenua, NIWA).
 - ii. Environment, Natural Resources, Health (parts of NIWA, Manaaki Whenua Landcare, GNS, AgResearch, ESR, Scion, MetService).

Other considerations

Any consolidation of CRIs will bring increased scale and improve scope and flexibility to prioritise.

13. However, on its own a simple consolidation of CRIs will not deliver change – the reforms need to shift what the public research system does, including by stopping some things, and changing the way it operates. This includes how the PRO(s) is funded/incentivised.

You have choices about implementation and its effect on physical footprint

14. Potential implementation pathways range from CRI-led amalgamations (where all boards agree), shareholder-led consolidation (selling shares to a holding company), to mergers enforced through legislation.
15. In line with the revised SSAG paper, we recognise that the implementation does not need to happen on day one and that there might be options on how get to the desired model. For example, you could start with merging CRIs into two, and then consolidate into one at a later date.
16. All consolidation options will take time to consolidate the physical footprint, and have the ability to maintain a regional presence. You will have time to consider options and whether and how to influence location through funding or ownership levers.

A key intent of the reform is to reduce duplication, but we need to consider competition

17. While we would need to follow Commerce Commission's process, our view is that any "competition issues" are less about the traditional lessening of market competition and/or price discovery and more to do with concentration of power, and asymmetric information between a single provider and the policy/monitoring agency, including the benchmarking of performance.
18. There is a natural trade-off between reducing duplication (and efficiency gains for scarce resources) and competitiveness. The seven CRIs do not produce homogenous outputs, as their research is specialised, and there is some but limited competition on services to the market. However, there is extensive and costly competition for limited discretionary Crown funds such as Endeavour and Marsden.

Next steps

19. You may wish to discuss these options when you meet with the Prime Minister to discuss proposed reforms. We will continue to develop policy options for CRI mergers to support your upcoming discussions with Cabinet on science system reform.

Forthcoming advice regarding innovation institutions

20. We have provided you with an early response to the SSAG's recommendations about reforming government innovation institutions. We agree with the SSAG's assessment of current issues and future direction in terms of objectives. Policy goals need to be balanced with deliverability regarding the number and scale of entities recommended to be established, whether these entities would be of sufficient scale to be effective, and how they would be incentivised to remain aligned given their closely related functions.
21. We will provide initial advice on form and function of innovation agencies by 28 August.

Annexes

Annex One: Comparison of Options

Annex One: Comparison of Options

	Description	Policy advantages	Policy disadvantages	Structure and Ownership and implementation considerations	Summary
Option 1: One PRO	Brings everything together, Board rationalises and prioritises over time, in response to government direction Choices <ul style="list-style-type: none"> to include ESR or not entity form governance features of internal organisation eg subunits, shared functions funding settings 	<ul style="list-style-type: none"> Greatest flexibility to shift resources/widest canvas for trade-offs, both initially and over time Can prioritise across organisation Largest opportunity for cultural change Significant reduction in competition for funds, and duplication of capability, Single brand Greatest scale efficiencies: around 4000 staff, \$1bn activities. 	<ul style="list-style-type: none"> A seven-entity horizontal merger poses 'over-conglomeration' implementation (and ongoing operations) risk Single point of failure/delivery risk Concentration of power, and lack of performance benchmarking Diseconomies of scope/lack of focus Little market competition or alternatives Trade-offs could involve loss of critical services and relationships 	<ul style="list-style-type: none"> Single board and CE with 2-3 deputy CE and capabilities organised in clusters Costs: largest Board and C-suite savings, unclear extent of other costs and savings (eg IT systems, property) but largest canvas Greatest complexity to merge cultures, business processes etc but not clear that this will necessarily increase costs compared with other options 	Best flexibility, but will require use of governance, funding and accountability levers to address concentration of power and ensure PRO stays true to intent and government priorities
Option 2: Two PROs - merge entire CRIS	Merges entire CRIs, grouping like with like One option is <ul style="list-style-type: none"> Primary sector and environment Hazards, weather, resilience and health 	<ul style="list-style-type: none"> More purpose-driven, focused PROs. Synergies through closer matching of business models, capabilities, activities, customer (and ministerial) groupings Achieves critical mass and related scale efficiencies: around 2000 staff, \$500m activities in each entity. Contestation of good ideas (important for particular funds) Benchmarking of performance 	<ul style="list-style-type: none"> Harder to reallocate resources to new innovative and commercial things Lose some potential synergies – eg aquaculture split across multiple orgs Even with 2, little competition or alternatives Less scale to address unhelpful competition for funds, duplication, gaps 	<ul style="list-style-type: none"> 2 Boards, 2 CEs Ringfence key services (eg Measurement Standards Laboratory, public health/forensics) Option to give MPI ownership stake in primary sector org Recommend Crown entity/company structure Costs: Slightly lower savings on boards and C-suite, other costs and savings unclear but may be less complexity in merging systems for fewer organisations. May have greater support from CRI staff and leadership 	Potential for more purpose driven entities, with greater coherence of business models, and critical mass. However less adaptability and would still require collaboration between the two PROs on cross cutting opportunities and issues.
Option 3: Two PROs - mix and match along commercial and stewardship lines	Cuts out parts of organisations to group as public and private facing Eg: <ul style="list-style-type: none"> Food and Fibre (commercial) Hazards, natural resources, resilience (stewardship) 	<ul style="list-style-type: none"> Greater opportunity for cultural change and to address duplication and gaps at design compared with merge entire CRIs Better opportunity to align capabilities than merge 2 (as per options 2) Opportunity to link organisations to key customer and govt stakeholders Increased scale compared to status quo 	<ul style="list-style-type: none"> Greatest disruption Less adaptable: narrower organisational boundaries on public vs private lines Less scale to address unhelpful competition for funds, duplication, gaps Some duplication likely to remain as some areas not clearly split between public and private May be financial implications if one has greater commercial partners Little competition or alternatives 	<ul style="list-style-type: none"> Either 2 Boards, 2 CEs, etc (recommended) OR 2 CEs, single board with holding company (less control for shareholding Minister) Ringfence key services (eg Measurement Standards, public health/forensics) Option to give MPI ownership stake in primary sector org Option to tailor entity form – eg Crown company for commercial facing org, and crown entity for public good org, Costs: Lowest savings on boards and C-suite, other costs unclear Requires upfront decisions on how to distribute capabilities Would require legislation 	<i>Not recommended</i> Scale and flexibility compared with status quo, but large disruption up front and not guaranteed to remove all overlaps

For each option, ESR could be separate or incorporated.