Statement of Performance Expectations

FOR THE YEAR ENDING 30 JUNE 2016

Callaghan Innovation

BUSINESS TECHNOLOGY SUCCESS

G49 (SPE)

Foreword

This Statement of Performance Expectations enables the public, Parliament, Ministers and the Ministry of Business, Innovation and Employment (MBIE) to track Callaghan Innovation's progress against the commitments made in our Statement of Intent 2015–2019.

Together these two documents describe Callaghan Innovation's purpose, the strategy for the next four years, and how Callaghan Innovation will measure success.

Callaghan Innovation's purpose is to grow New Zealand's innovation economy by helping businesses succeed through technology. The following output classes are funded by the Government through Vote Science and Innovation:

Output Class 1: Building Business Innovation
Activities that raise awareness about and increase business investment in R&D

Output Class 2: Research and Development Services and Facilities for Business and Industry
Providing research and technical expertise and facilities to business and industry

Output Class 3: Business Research and Development Contract Management
Managing the contracts and administration of our funding programmes

Output Class 4: National Measurement Standards
Providing specified standards to satisfy the needs for traceable physical measurement in New Zealand

In addition, Callaghan Innovation administers three funding programmes on behalf of MBIE:

Research and Development Growth Grants
Supporting established business through additional investment in R&D

Targeted Business Research and Development Funding
Supporting established businesses with smaller R&D programmes and those that are new to R&D, and hosting student interns that bring leading-edge knowledge and expertise

Accelerating Start-ups
Funding founder and technology incubators to support development and growth of business start-ups.

Over the past financial year, Callaghan Innovation has continued to define the suite of services provided to customers. A review of the output class structure was completed by MBIE and the Treasury, resulting in the consolidation from five to four output classes with clearer scope statements. The performance measures have been updated to reflect these changes and enable the public to monitor the aspects of Callaghan Innovation's core function of delivering services to business.

The following pages detail

In accordance with the Crown Entities Act 2004, we present, on behalf of Callaghan Innovation, the Statement of Performance Expectations for 2015/16.

Sue Suckling
Chair

Richard Janes
Board Member

Our purpose

Callaghan Innovation's mission is to accelerate the commercialisation of innovation by New Zealand businesses. We grow New Zealand's innovation economy by helping businesses succeed through technology.

To achieve our purpose we have refined our strategy so that all our attention and energy is focused on:

- Delivering innovation services to businesses
- Building New Zealand's innovation capability

We work in close partnership with other organisations that also contribute to increasing business R&D to ensure a comprehensive and integrated response to the opportunities and challenges that our customers face.

Our customers

Callaghan Innovation applies a number of principles that help to sharpen our focus on those businesses where we can add the most value.

'High-value' manufacturing and services (HVMS) sector

Our primary focus is on businesses within the HVMS sectors – these businesses are export and R&D intensive and are more likely to innovate than other sectors.

Ambitious to grow

We support businesses that have ambitions to significantly increase their share of existing markets (domestically and internationally) or create new markets through innovation. Innovation does involve risk. Our services help to increase the odds of success for those businesses that have the guts to take on the risks and reap the rewards of innovation.

Technology driven

We recognise that businesses can grow through a variety of means (for example, by expanding into new overseas markets), but our strategy is to focus on those businesses that want to grow through technology. We are particularly interested in those businesses that want to disrupt markets through their technology, rather than merely keep up with their competitors.

Māori economy

A key part of Callaghan Innovation's role is supporting Māori businesses to embrace innovation as a catalyst to unlocking the potential of the Māori economic asset base.

What we do

Callaghan Innovation's strategy is focused on:

Delivering innovation services to businesses

Building New Zealand's innovation capability

A summary follows with further detail available in our Statement of Intent 2015–2019.

Delivering innovation services to businesses

We provide services that meet a diverse range of needs depending on where our customers are in their innovation journey – from supporting start-ups to assisting the most experienced R&D performers.

We set businesses on the fastest and most effective pathways to achieving growth and success through technology.

Our service mix ranges from self-help and on-demand through to deep customised engagement for those businesses that have unique technical and commercial requirements. As businesses' needs evolve, so does our service mix.

Our services currently include:

Technology and product development
Helping businesses take an idea from concept to commercial reality

Access to experts
Opening doors for New Zealand businesses seeking innovation advice, skills, support and technical expertise

Innovation skills
Helping businesses build in-house innovation skills and capability

Business collaborations
Leading collaborative innovation projects and technology missions for businesses

R&D grants
Adding scale to businesses' R&D investment for greater impact.

Building New Zealand's innovation capability

Business success depends on a strong innovation system and Callaghan Innovation plays a critical role in building and strengthening New Zealand's innovation capability.

We use our knowledge and understanding of business innovation needs to:

Drive better integration across the component parts of the system

Improve coordination and networking amongst the many players, both in the public and private sectors

Identify and understand the gaps and opportunities where key players, including ourselves, can add the most value

Our activities in this area include:

Inspiring current and future innovators
We help to inspire businesses and individuals to be excited by the possibilities that innovation holds and be ambitious about growth

Technology networks
We provide line of sight between research, technology and industry and ensure businesses have access to a single front door to the innovation system

International partnerships
We build and maintain strategic international partnerships to assist us, and the wider New Zealand innovation system, to be at the forefront of innovation best practice and to take advantage of technological trends and opportunities

Pilot plants, incubators and innovation precincts
We are part of a networked system of shared innovation facilities and pilot plant services for businesses. We also support two types of incubators that work with start-up businesses to speed up their path to market

National Science Challenge: Science for Technological Innovation
Callaghan Innovation hosts the National Science Challenge: Science for Technological Innovation. The Challenge aims to enhance New Zealand's ability to use physical and engineering science for economic growth.

What success looks like

Callaghan Innovation’s strategy is closely aligned to the Government’s Business Growth Agenda (BGA) and in particular the target of increasing business expenditure on research and development (BERD) to 1% of GDP by 2018.

We use performance measures to understand how we are contributing to this goal as well as our ultimate goal of more and bigger HVMS businesses in the New Zealand economy.

In four years’ time, we will know that we are being successful when …

Externally

More businesses are successfully developing new and improved products, processes and services through technology-driven innovation.

Our customers have access to the most relevant expertise and facilities to conduct their R&D, either with us or at other R&D organisations, nationally and internationally.

There is more coherence and coordination occurring across the innovation system so that customers can enter the system at any point and easily navigate their way through.

Callaghan Innovation is regarded by its customers, key stakeholders and the New Zealand public as a proactive, value-adding entity demonstrated by an increase in the number of new high-tech products and services launched into global markets.

Callaghan Innovation is regarded as supportive and responsive to the needs of Māori businesses.

Internally

Callaghan Innovation is a fit for purpose organisation, with a highly engaged and energised workforce, working towards a shared purpose, aligned with a core set of values and supported by effective and efficient infrastructure and systems.

Commercial revenue targets are consistently met and plans are in place to ensure future sustainability.

Callaghan Innovation has an improved understanding of its customers through the better collection and use of high-quality information and data and has used this knowledge to tailor its offerings.

Callaghan Innovation is strongly connected and aligned with partner organisations, including NZTE and regional business partners, so that customers’ experiences are seamless.

Our performance measurement framework

As a priority, we have been strengthening our performance measurement framework and indicators to monitor our progress.

This includes collecting baseline data on HVMS businesses so that we can monitor the impact of our services down to an individual business level.

Our suite of performance measures is detailed in our performance measurement framework, while our core external accountability measures are set out in the following pages against our output classes.

We have included specific examples of the services we provide under each output class.

Glossary

BERD: Business expenditure on R&D
CEC: Customer Engagement Centre
EBIT: Earnings before interest and taxes
FTE: Full time equivalent
GDP: Gross Domestic Product
HVMS: High-value manufacturing and services
IAW: In accordance with
MoU: Memorandum of Understanding
RBP: Regional Business Partner
R&D: Research and development

Government Outcome

New Zealand has a more competitive and productive economy

2025 Goal:
Exports to 40% of GDP

2018 Goal:
BERD to 1% of GDP

Key

- 2015/16 external accountability measures
- Internal measures
- Potential measures for/under development

Callaghan Innovation

More HVMS businesses successfully develop new and improved products, processes and services

Measured by a suite of proxy indicators:

Callaghan Innovation Customers

- Revenue
- EBIT
- R&D spend (BERD)
- Total FTEs
- R&D FTEs
- Exports

Headline Measures

- Growth rate of companies using Callaghan Innovation's services
- Total number of current and new customers using Callaghan Innovation's Services
- Number of new products or services developed with customers
- Value and number of R&D subcontracts between Callaghan Innovation and other R&D providers

Output and Activity Measures

Building Business Innovation	# CEC business contacts
	# Business engagement plans
	# Māori innovation projects
	Total # customers using each innovation service
	# Referrals to other R&D providers completed by Callaghan Innovation
	# Views on Callaghan Innovation's self-help portal
	# New Zealand businesses participating in projects with business clusters
	# of initiatives to connect New Zealand business to international innovation
	% of customers surveyed that agree or strongly agree that Callaghan Innovation has added value to their business
R&D Services and Facilities for Business and Industry	Commercial revenue from domestic customers
	# New Zealand businesses with research and technical service contracts
	10 R&D subcontracts between Callaghan Innovation and other R&D providers totalling more than $2 million
R&D Business Grants and Incubators	# Grant recipients (Growth/Project/Student/Incubator)
	# First-time grant recipients
	% of growth, project and student fellowship applications approved within 30 working days of receipt of the completed application
	% of repayable grant applications processed within five working days
	% of surveyed recipients who would recommend the R&D experience grants to others
	% Businesses completing R&D project grants that positively rate Callaghan Innovation's assistance as valuable
	% Businesses receiving a growth grant that maintain or increase their R&D expenditure over the grant period
	% Businesses from technology-focused incubators entering into repayable loans agreements
	% Incubator contracts that are assessed as delivering as required (founder-focused and technology-focused)
	Contracts are monitored and managed to maximise the likelihood of delivering on the contract outcomes
National Measurement Standards	Provision of services IAW section 4 of the Measurements Standards Act
	Maintenance of standards IAW the Metre Convention

Statement of Performance Expectations

Our Board and Executive Leadership team monitor organisational performance monthly against our internal business plan and a series of key performance measures.

Output Class 1: Building Business Innovation

Scope of Appropriation

This appropriation is limited to activities that raise awareness about and increase business investment in R&D.

What does this mean?

Raising awareness of and increasing business investment in R&D is a core function for Callaghan Innovation. We accelerate the growth of innovative companies and build the effectiveness and skills of New Zealand's innovation system. The services we provide support New Zealand's high-value manufacturing and services businesses in overcoming information problems and transaction costs in sourcing advice, technical expertise and training.

Examples of services provided

- Customised one-on-one advice and information for businesses
- Connection services for businesses to access domestic or international expertise, facilities, training, knowledge and technology infrastructure
- Innovation training services
- Access to international innovation partnerships e.g. Enterprise Europe Network
- Networking events, tradeshows and sponsorships
- Distinguished speakers for seminars to business and industry
- Incubator and Accelerator programmes for business
- Customer Engagement Centre services.

Cost and Funding

	2015/16 ($M)
Revenue	
Crown Revenue – Appropriation	32.4
Other Revenue	1.4
Total Revenue	33.8
Expenses	33.8
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
Percentage of surveyed customers that agree or strongly agree that Callaghan Innovation has added value to their business	New measure	Establish baseline
Number of business-related contacts to Customer Engagement Centre seeking access to business services	>100 average per month	> 200 average per month
Total number of customers using each innovation service[1]	New measure	Establish baseline
Number of business engagement plans agreed with customers	New measure	130

[1] This measure has replaced 'Number of New Zealand businesses accessing Accelerator Services' and will measure the total number of customers using each innovation service funded from Output Class 1

Output Class 2: Research and Development Services and Facilities for Business and Industry

Scope of Appropriation

This appropriation is limited to providing research and technical expertise and facilities to business and industry.

What does this mean?

We meet the R&D needs of businesses and industry to help them grow. Our R&D services provide New Zealand HVMS businesses outsourced access to product development expertise, open labs, engineering workshops and pilot plants. We have specialist equipment, facilities and technological expertise to assist business and industry to increase their R&D activity. Our staff work diligently to find solutions that solve our customers R&D challenges. We also facilitate interactions with other research providers, where they have complementary technical expertise.

Examples of services provided

- Access to specialist equipment, facilities pilot plants and laboratories
- Design and prototype development services
- Technical expertise and facilities.

Cost and Funding

	2015/16 ($M)
Revenue	
Crown Revenue – Appropriation	19.5
Crown Revenue – Contestable	4.6
Crown Revenue – National Science Challenge	4.6
Commercial Revenue – Domestic	7.8
Commercial Revenue – International	8.9
Other Revenue	0.5
Total Revenue	45.9
Expenses	45.6
Net funded to/(from)	0.3

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
10 R&D subcontracts between Callaghan Innovation and other R&D providers totalling more than $2 million[2]	New measure	Achieved
Number of New Zealand businesses with research and technical service contracts[3]	Establish baseline	150
Commercial revenue from domestic customers	New measure	$6 million[4]

[2] This measures the subcontracts that Callaghan Innovation outsources to other R&D providers such as universities, Crown research institutes and polytechnics.

[3] This measures the number of New Zealand businesses that have research and technical contracts with Callaghan Innovation.

[4] When estimates measures were developed as part of the budget process, this measure was set at $6m for 2015/16. More detailed modelling at a later date has led to a revised forecast of $7.8 million.

Output Class 3: Business Research and Development Contract Management

Scope of Appropriation

This appropriation is limited to the selection of businesses or individuals for either the provision of Research Science and Technology output, or the award of grants, and to negotiate, manage and monitor appropriate contracts with these businesses or individuals.

What does this mean?

Callaghan Innovation currently manages three R&D grant funds on behalf of MBIE. We provide robust, transparent and efficient allocation and monitoring services of these grants to business. See page 12 for further detail on the three R&D grant funds.

Examples of services provided

- Assessment and due diligence of grant recipients
- Monitoring of contracts and incubators
- Funding and monitoring outsourced partner organisations who promote Callaghan Innovation's services.

Cost and Funding

	2015/16 ($M)
Revenue	
Crown Revenue – Appropriation	7.7
Other Revenue	0.3
Total Revenue	8.0
Expenses	8.0
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
Contracts are monitored and managed to maximise the likelihood of delivering on the contract outcomes[5]	100%	100%
Percentage of growth, project and student fellowship applications approved within 30 working days of receipt of the completed application	New measure	90%
Percentage of repayable grant applications processed within five working days[6]	New measure	90%

[5] This measure applies to contracts greater than six months in duration and/or greater than $30,000 in value. Callaghan Innovation maximises the likelihood of delivering on the contract outcomes by reviewing client progress reports. This involves a check that the businesses' R&D expenditure is in accordance with the project objectives. Callaghan Innovation monitors and manages contracts by regular reporting and review of contract conditions.

[6] Five working days is counted from the day of receipt of the application.

Output Class 4: National Measurement Standards

Scope of Appropriation

This appropriation is limited to providing specified standards to satisfy the needs for traceable physical measurement in New Zealand.

What does this mean?

We contribute to the global success of businesses selling products and services that are dependent on accurate and internationally accepted traceable physical measurements. Our Measurements Standards Laboratory is New Zealand's national metrology institute, ensuring that New Zealand's units of measurement are consistent with the International System of Units. Delivery of services is provided by the Measurement Standards Laboratory in accordance with its role assigned under the Measurement Standards Act 1992.

Examples of services provided

- Specialist measurement services
- Expert consultancy, including advice on difficult measurements
- R&D on measurements or measuring instruments
- Field measurements or surveys
- Calibration services.

Cost and Funding

	2015/16 ($M)
Revenue	
Crown Revenue – Appropriation	5.8
Commercial Revenue – Domestic	0.7
Other Revenue	0.1
Total Revenue	6.6
Expenses	6.6
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures[7]	2014/15 Performance Standard	2015/16 Performance Standard
Provision of national measurements and standards and related services in accordance with statutory obligations under section 4 of the Measurement Standards Act 1992, reported annually to the Minister and accepted	Reports accepted	Achieved
All technical procedures related to the maintenance of national measurement standards (in accordance with the resolutions and recommendations of the Metre Convention) independently reviewed and validated, with all external review actions completed by 30 June 2016	Reviews completed	Achieved

[7] Both performance measures for Output Class 4: National Measurement Standards have been updated for the 2015/16 financial year

Commercial Revenue

We earn commercial revenue for our research and technical services domestically and internationally. Below is a summary of our total commercial revenue. Further detail of our commercial revenue is provided under Output Class 2 and Output Class 4.

Our commercial revenue is reinvested back in to our services to ensure our capabilities are up to standard to continue to deliver and improve our services to meet the immediate and future needs of business and industry.

Commercial Revenue	2014/15 Budget ($M)	2015/16 Budget ($M)
Domestic revenue	9.1	8.5
International revenue	7.0	8.9
Total commercial revenue	16.1	17.4

Non-departmental Capital Expenditure

Scope of Appropriation

This appropriation is limited to capital expenditure to support the establishment and development of an advanced technology institute.

What does this mean?

This capital expenditure is capital to support the purchase or development of assets by and for the use of Callaghan Innovation to ensure we have the appropriate infrastructure to enable us to provide the best possible services to business.

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
Any physical and virtual infrastructure investment is aligned with the overall strategy, mix of services and business engagement model	Achieved	Achieved
Any major capital project proposal is developed in accordance with published Treasury business case guidance	Achieved	Achieved

Business Research and Development Grants

In addition to our four output classes, Callaghan Innovation administers three funding programmes aimed at helping businesses invest more in R&D. We administer a range of R&D grants to add scale to businesses' own R&D investment for greater impact. Our R&D grants are structured to meet a range of business needs, whether those businesses are young start-ups or established R&D performers.

Research and Development Growth Grants

Growth grants are designed to increase R&D investment by businesses that have a strong track record for R&D spending in New Zealand. We provide 20% co-funding for R&D for three to five years, capped at $5 million a year. Growth grants are funded by the Crown through a multi-year appropriation.

Cost and Funding

	2015/16 ($M)
Revenue	
Crown Revenue – Appropriation	134.8
Total Revenue	134.8
Expenses	134.8
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
Percentage of businesses receiving a growth grant that maintain or increase their R&D expenditure over the grant period	70%	70%

Targeted Business Research and Development Funding

R&D project grants support greater investment by businesses in R&D, especially those with less established R&D programmes. We provide 30-50% co-funding of R&D costs.

Our R&D experience, career and fellowship grants support undergraduate and graduate students to work in a commercial R&D environment as interns in New Zealand's excellent commercial R&D facilities; this is a win-win solution for both industry and the students. These grants are funded by the Crown through a multi-year appropriation.

Cost and Funding

	2015/16 ($M)
Revenue	
Crown Revenue – Appropriation	45.7
Total Revenue	45.7
Expenses	45.7
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
Percentage of businesses completing R&D project grants that positively rate Callaghan Innovation's assistance as valuable in their final reports[8]	New measure	80%
Percentage of surveyed recipients who would recommend the R&D experience grants to others	New measure	80%

Repayable Grants for Start-ups

Our Incubator Support Programme accelerates the growth and success of high-value New Zealand start-up businesses through a range of services and funding. We intend to support development and growth of new technology-focused business start-ups.

Cost and Funding	2015/16 ($ M)
Revenue	
Crown Revenue – Appropriation	15.0
Total Revenue	15.0
Expenses	15.0
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2014/15 Performance Standard	2015/16 Performance Standard
Percentage of incubator contracts that are assessed as delivering as required (founder-focused and technology–focused)	90%	90%
Percentage of businesses from technology-focused incubators entering into repayable loans agreements	New measure	90%

[8] This performance measure is in relation to the value that the customer perceives from Callaghan Innovation's assistance and service, not the value of the grants received.

Financial forecasts to 30 June 2016

The prospective financial statements are presented in accordance with generally accepted accounting principles and the Crown Entities Act 2004.

They comply with New Zealand equivalents to International Financial Reporting Standards Public Benefit Entity FRS No 42 – Prospective Financial Statements and other applicable financial reporting standards, as appropriate for Public Benefit entities.

The prospective financial statements have been prepared on the basis of government policies and Callaghan Innovation outputs at the time the statements were finalised. This is forecast information and therefore the actual results achieved for the period will vary from the information presented, due to external factors.

The prospective financial statements rely on the Budget 2016 assumptions noted on page 15. The Callaghan Innovation Board, which is responsible for the preparation of these prospective financial statements, believes the assumptions adopted provided at the time of preparation the best estimate of the future financial performance and state of Callaghan Innovation for the year ended 30 June 2016.

Authorisation statement

The forecast figures reported are those for the year ending 30 June 2016. These were authorised for issue on 12 June 2015 by the Callaghan Innovation Board, which is responsible for the forecasted financial statements as presented.

Budget 2015/16 financial assumptions

Profit and Loss

1. The 2016 budget is consistent with Callaghan Innovation's strategic direction and is considered appropriate and achievable.
2. Increased equity due to $0.3 million net surplus and $4.3 million Crown capital appropriation to fund further capital investments, moving Callaghan Innovation into a more "fit for purpose state". The $4.3 million capital appropriation is subject to completion of a business case and ministerial approval.
3. Commercial revenue increase of 5%, compared with the latest 2015 commercial revenue forecast ($16.5 million).
4. Expenditure

Subcontracts and programmes – increased expenditure due to the new National Science Challenge (NSC) programme, partially offset by reduced contestable funding and GlycoSyn subcontracts with the Ferrier Research Institute
Salaries and wages – total net increase due to annualised effect of the establishment of the new teams and allowance for a modest pay adjustment
Property and insurance – decrease in insurance, repairs and maintenance more than offset by increase in rental and utility costs for consolidation of premises in Auckland and Christchurch
Strategic and targeted initiatives – increased expenditure due to continuation and start of new initiatives, including Inspire, Innovation IP, Agile Innovation, International Connections, Māori Economy programmes and Strategic Initiatives Fund
Professional services, communications and marketing increased due to the NSC and the move of our IT data services to a cloud infrastructure
No provisions for abnormal costs e.g. Gracefield Innovation precinct (should this proceed), redundancies, or the exit of premises at Auckland or Christchurch.

Balance Sheet and Cash Flow

Balance sheet opening balances are based on Callaghan Innovation's forecast to 30 June 2015

Increased equity due to $0.3 million net surplus and $4.3 million Crown capital appropriation to fund further capital investments, moving Callaghan Innovation into a more "fit for purpose state". The $4.3 million capital appropriation is subject to completion of a business case and ministerial approval.

Increase in fixed assets and decrease in cash is due to capital expenditure planned for 2016. Capital expenditure of $16.6 million is made up of investment in scientific plant and equipment, infrastructure (buildings/laboratories) and information systems strategic plan projects.

Prospective Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Revenue	
Revenue from the Crown	74.9
Revenue from the Crown – Grants	195.5
Commercial revenue	17.4
Total revenue	287.8
Other income	2.1
Interest income	0.9
Total Revenue	**290.8**

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Expenditure	
Personnel costs	(43.4)
Science project and subcontract costs	(21.6)
Other expenses	(23.7)
Depreciation and amortisation expense	(6.3)
Grant expense	(195.5)
Total expenditure	**(290.5)**
Surplus	**0.3**
Other comprehensive revenue and expense	**-**
Total comprehensive revenue and expense	**0.3**

Prospective Statement of Changes in Equity

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Balance at 1 July 2015	60.0
Total forecasted comprehensive revenue and expense for the year	0.3
	60.3
Other transactions	
Capital contribution	4.3
Balance as at 30 June 2016	64.6

Prospective Statement of Financial Position

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Represented by: **Current assets**	
Cash and cash equivalents	16.8
Trade and other receivables	6.3
Crown – debtor grants	48.5
Work in progress	0.3
Inventories	0.2
Total current assets	**72.1**
Non-current assets	
Property plant and equipment	47.7
Investments	7.5
Total non-current assets	**55.2**
Total assets	**127.3**

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Current liabilities	
Trade creditors and other payables	7.4
Employee benefits	3.7
Grant obligations	48.5
Income in advance	2.6
Total current liabilities	**62.2**
Non-current liabilities	
Employee benefits	0.5
Total non-current liabilities	**0.5**
Total liabilities	62.7
Net assets	**64.6**

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Equity	
Contributed capital	52.9
Accumulated surplus	11.7
Total equity	**64.6**

Prospective Statement of Cash Flows

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Cash flows from operating activities	
Cash was provided from	
Receipts from Crown – operating	73.1
Receipts from Crown – grants	195.5
Receipts from commercial customers	19.4
Interest received	**0.9**
	288.9
Cash was applied to	
Payments to suppliers	(43.6)
Payments to employees	(43.2)
Payments to grant recipients	**(195.5)**
	(282.3)
Net cash flows from operating activities	**6.6**

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Cash flows from investing activities	
Cash was applied to	
Purchase of property plant and equipment	(16.6)
Net cash flows from investing activities	**(16.6)**
Cash flows from financing activities	
Cash was provided from	
Capital injection	4.3
Net cash flows from financing activities	**4.3**
Net increase (decrease) in cash and cash equivalents	**(5.7)**
Cash and cash equivalents at the beginning of the year	**22.5**

For the year ended 30 June 2016	2016 BUDGET GROUP $M
Cash and cash equivalents at the end of the year	16.8
Cash balance at end of the year comprises	
Cash and call call deposits	**16.8**
Cash and cash equivalents at the end of the year	**16.8**

Statement of Accounting Policies

Reporting entity

Callaghan Innovation is a Crown entity, as defined by the Crown Entities Act 2004, and is domiciled in New Zealand. The relevant legislation governing Callaghan Innovation's operations includes the Crown Entities Act 2004 and the Crown Services Enterprise Act 2002. Callaghan Innovation's parent is the New Zealand Crown. The consolidated financial Statements of the Group comprise Callaghan Innovation and its subsidiaries, associates and joint ventures. Callaghan Innovation Group commenced activities on 1 February 2013.

Callaghan Innovation's primary purpose is to provide services to the New Zealand public. Callaghan Innovation does not operate to make a financial return.

Basis of preparation

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the period.

Statement of compliance

The financial statements of Callaghan Innovation and Group have been prepared in accordance with the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP).

The financial statements have been prepared in accordance with Tier 1 Public Benefit Entity accounting standards. These financial statements comply with Public Benefit Entity accounting standards. These prospective financial statements are the first prospective financial statements presented in accordance with the new Public Benefit Entity accounting standards.

Presentation currency and rounding

The functional currency of Callaghan Innovation is New Zealand dollars (NZ$). The financial statements are presented in New Zealand dollars and all values are rounded to the nearest thousand dollars ($000).

Summary of significant accounting policies

Revenue

The specific accounting policies for significant revenue items are explained below. Revenue is measured at fair value of consideration received or receivable.

Revenue from the Crown – operational grants

Callaghan Innovation is primarily funded from the Crown. This funding is restricted in its use for the purpose of Callaghan Innovation meeting its objectives as specified in the Statement of Intent. The fair value of revenue from the Crown has been determined to be the amounts due in the funding arrangements.

Grants (Crown revenue)

Grants received are recognised in the income statement when the requirements under the grant have been met. Any grants for which the requirements have not been completed are carried as liabilities until all conditions have been fulfilled. Government grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and all the conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match on a systematic basis to the costs that it is to compensate.

Provision of goods and services (commercial revenue)

Revenue from the sale of goods is not recognised until the goods have been shipped and the customer invoiced.

Revenue from research contract services is recognised by reference to the stage of completion. The stage of completion is measured by reference to project milestones or costs incurred to date as a percentage of the total cost for each contract.

Interest

Interest income is recognised using the effective interest method.

Royalty and licensing income

Royalty and licensing income arises from income earned from patent royalties and licensing of patents. Royalty and licensing income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Grants expenditure

Grants are approved and administered by Callaghan Innovation for the funding of research and development activities by New Zealand business and enterprise. Grant expenditure is recognised in the Statement of Revenue and Expenses when the third party recipient can demonstrate they have incurred expenditure that meets the grant conditions. An operating commitment is disclosed in the notes to the accounts for those grant contracts awarded but yet to be drawn down.

Basis of consolidation

The consolidated prospective financial statements combine the financial statements of Callaghan Innovation, its subsidiaries, associates and joint ventures as at 30 June 2016 ("the Group").

Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

The financial statements of subsidiaries are prepared for the same reporting period as Callaghan Innovation using consistent accounting policies.

All inter-company balances and transactions, including unrealised profits and losses arising from intra-Group transactions, have been eliminated in full. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Callaghan Innovation has control. The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given and liabilities incurred at the date of exchange. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Investment in joint ventures

A joint venture is a contractual arrangement whereby the parties undertake an economic activity that is subject to joint control. Joint ventures are accounted for using the equity method from the date on which it becomes a joint venture.

On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as follows:

(a) Goodwill relating to a joint venture is included in the carrying amount of the investment.

(b) Any excess of the investor's share of the net fair value of the joint venture's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method of accounting interests in joint ventures are initially recognised at cost and adjusted to recognise the Group's share of the its interests in the joint ventures (which includes any long term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Investment in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Group investments in associates are accounted for using the equity method. The financial statements of the associate are used by the Group to apply the equity method. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investment in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by Callaghan Innovation on the basis of dividend received and receivable. Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Foreign currency

Transactions in foreign currencies are initially recorded in the functional currencies at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date. Exchange gains, losses and hedging costs arising on contracts entered into as hedge firm commitments are deferred in equity as qualifying cash flow hedges until the dates that the underlying transactions affect profit and loss. All other foreign currency translation differences in the consolidated financial statements are taken to the Statement of Revenue and Expenses. Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currencies are translated using the exchange rate at the date when the fair value was determined.

Property, plant and equipment

Property, plant and equipment consists of land, freehold buildings, fittings, building auxiliary services, computer equipment, Plant and scientific equipment, motor vehicles and office furniture. Property, plant and equipment are shown at cost less accumulated depreciation and impairment losses.

Additions

The cost of an item of property, plant and equipment is recognised as an asset only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably. Where an asset is acquired at no cost or for a nominal cost, it is recognised at fair value when control over the asset is obtained.

Disposals

Gains and losses on disposals are determined by comparing the disposal proceeds with the carrying amounts of the assets. Gains and losses on disposals are included in the Statement of Comprehensive Revenue and Expenses.

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably. The costs of day-to-day servicing of property, plant and equipment are recognised in the Statement of Comprehensive Revenue and Expenses.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment at rates that will write off the costs of the assets to their estimated residual values over their useful lives. The useful lives and associated depreciation rates of major classes have been estimated as follows:

	Estimated useful life	Rate
Freehold buildings	10–40 years (depending on age)	2.5%–10%
Building auxiliary services	8–20 years	5%–12.5%
Computer equipment	3–5 years	20%–33%
Plant and scientific equipment	3–15 years	6.7%–33%
Motor vehicles	3–5 years	20%–33%
Office furniture, fittings and equipment	3–10 years	10% –33%

Intangible assets

Research and development costs

Research costs are expensed as incurred.
Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure from the point at which the asset is ready to use the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project from the point the asset is ready for use. The amortisation period and amortisation method for development costs are reviewed at each financial year end. If the useful life or method of consumption is different from that in the previous assessment, changes are made accordingly. The carrying value of development costs is reviewed for indicators of impairment annually.

Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and gain the right to use the specific software. Computer software development costs recognised as assets are amortised over their estimated useful lives (between three and five years). The costs of maintaining computer software are expensed as incurred.

Patents

Costs associated with the registration of patents are expensed immediately due to the uncertainty of deriving economic benefits from the commercial use of the patents.

Impairment of non-financial assets

Plant and equipment and intangible assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) for the purposes of assessing impairment. Non-financial assets that are impaired are reviewed for possible reversal of the impairment at each reporting date.

Recoverable amount of non-current assets

The Group assesses whether there is any indication that a non-current asset may be impaired at each reporting date. Where an indicator of impairment exists the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset is considered impaired and is written down to its recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use for an individual asset or cash generating unit as appropriate. In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

The Group classifies its financial assets in two categories: at fair value through profit or loss, and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and those designated at fair value through profit or loss at inception. Derivatives are also categorised as at fair value through profit and loss unless they are designated as hedges.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for those with maturities greater than 12 months after the balance sheet date are classified as non-current assets. The Group's loans and receivables comprise 'cash and cash equivalents' and 'trade and other receivables' in the Statement of Financial Position. Regular purchases and sales of financial assets are recognised on the dates on which the Group commits to purchase or sell the assets. Loans and receivables are carried at amortised cost using the effective interest rate method. The Group assesses whether there is objective evidence that a financial asset or a group of financial assets is impaired at each balance date.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

Derivative financial instruments

Derivatives are initially recognised at fair value on the dates that derivative contracts are entered into and are subsequently remeasured to their fair value. The method of recognising a resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). The Group documents at the inception of a transaction cash flows of hedged items.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Statement of Comprehensive Revenue and Expenses. Amounts accumulated in equity are recycled in the Statement of Comprehensive Revenue and Expenses in the periods when the hedged items will affect profit or loss (for instance when a forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability. When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Revenue and Expenses. When a forecast transaction is no longer expected to occur the cumulative gain or loss that was reported in equity is immediately transferred to the Statement of Comprehensive Revenue and Expenses.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting, or hedge accounting has not been adopted. Changes in the fair value of those derivatives that don't qualify for hedge accounting are recognised immediately in the Statement of Comprehensive Revenue and Expenses.

Inventories

Inventories are valued at the lower of cost and net realisable value (NRV), where NRV is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale. Raw materials are recognised initially at purchase cost on a first-in, first-out basis.

Work-in-progress

Work-in-progress comprises the cost of any direct materials and labour incurred where a project milestone has not yet been met such that the client has not yet been invoiced.

Trade and other receivables

Debtors and other receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method less any provision for impairment.

The impairment of a receivable is established when there is objective evidence that Callaghan Innovation will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired. The amount of the impairment is the difference between the carrying amount of the asset and the present value of estimated future cash flows using the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. When the receivable is uncollectible, it is written off against the allowance account for receivables. Overdue receivables that have been renegotiated are reclassified as current (i.e. not past due).

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with both domestic and international banks, And other short-term, highly liquid investments with original maturities of three months or less.

Trade and other payables

Short term payables are recorded at their face value.

Provisions

Callaghan Innovation recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Leases

Finance leases – lessor

Leases that transfer substantially all the risks and rewards incidental to the ownership of an asset, whether or not title is eventually transferred, are classified as finance leases. When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Operating leases – lessor

Leases that do not transfer substantially all the risks and rewards incidental to the ownership of an asset are classified as operating leases. When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight line basis.

Operating leases – lessee

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to Callaghan Innovation are classified as operating leases.

Employee benefits

Short-term employee entitlements

Employee entitlements that Callaghan Innovation expects to be settled within 12 months of balance date are measured at undiscounted nominal values based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, retirement and long service leave entitlements expected to be settled within 12 months and sick leave. Callaghan Innovation recognises a liability for sick leave to the extent that compensated absences in the coming year are expected to be greater than the sick leave entitlements earned in the coming year. The amount is calculated based on the unused sick leave entitlement that can be carried forward at balance date to the extent that Callaghan Innovation anticipates it will be used by staff to cover those future absences.

Long-term employee entitlements

Entitlements that are payable beyond 12 months, such as long service leave and retirement leave, have been calculated on an actuarial basis. The calculations are based on:

Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information.

The present value of estimated future cash flows. The discount rate is based on risk-free discount rates published by the New Zealand Treasury. The inflation factor is based on the expected long-term increase in remuneration for employees.

Superannuation schemes

Obligations for contributions to KiwiSaver and the Government Superannuation Fund are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the Statement of Comprehensive Revenue and Expenses as incurred.

Income tax

Callaghan Innovation is a Crown agent and is consequently exempt from paying income tax. Subsidiary company Callaghan Innovation Research Limited is a taxable entity and subject to income tax.

Goods and Services Tax (GST)

All items in the financial statements are presented exclusive of GST, except for trade receivables and trade payables, which are presented on a GST inclusive basis. Where GST is not recoverable as an input tax it is recognised as part of the related asset or expense. The net amount of GST recoverable from or payable to the Inland Revenue Department is included as part receivables or payables in the Statement of Financial Position. The net GST paid to or received from the Inland Revenue Department, including the GST relating to investing or financing activities, is classified as an operating cash flow in the Statement of Cash Flows. Commitments and contingencies are disclosed exclusive of GST.

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