

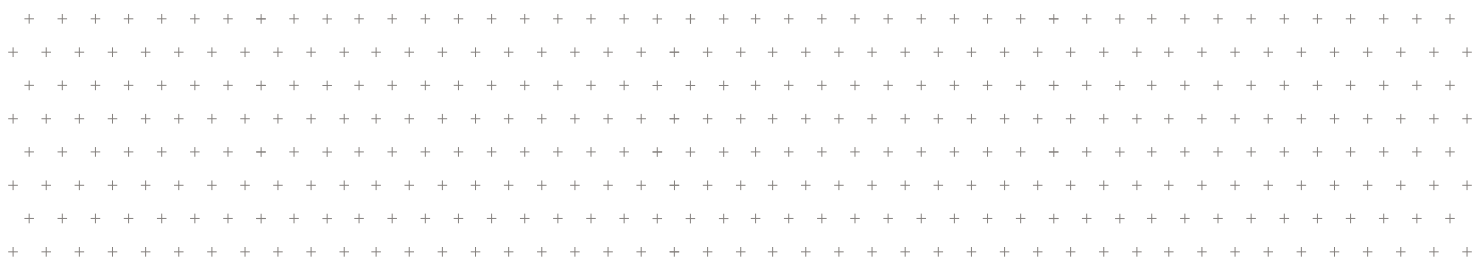


2019  
2020

STATEMENT OF  
**PERFORMANCE  
EXPECTATIONS**

1 July 2019 – 30 June 2020

**CallaghanInnovation**  
New Zealand's Innovation Agency



WE

**activate innovation**  
and **accelerate**  
**commercialisation**  
for a better  
New Zealand



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# Introduction

## Foreword

Callaghan Innovation's mission is to activate innovation and to accelerate commercialisation for a better New Zealand. We grow New Zealand's innovation economy and contribute to improved social outcomes by helping businesses succeed through technology.

Callaghan Innovation is New Zealand's Innovation Agency. Last year Callaghan Innovation refreshed its five-year organisational strategy. Our strategy is to show New Zealand what the future looks like and how we will get there. We stimulate demand for New Zealand innovation and connect New Zealand innovators into, and remove friction from, the innovation ecosystem. We partner with businesses to empower them to innovate.

This *Statement of Performance Expectations* sets out Callaghan Innovation's priorities in 2019/20, the second annual plan under our *Statement of Intent 2018 – 2022* (SOI).

This statement of performance expectations enables the government and New Zealanders to track Callaghan Innovation's progress against the commitments made in our SOI. Together these two documents describe Callaghan Innovation's purpose, the focus for the next three years and how Callaghan Innovation will measure success.

Callaghan Innovation works directly to support the Government's goal to increase overall R&D expenditure in New Zealand to 2 percent of GDP by 2027. This year the implementation of the R&D Tax Incentive will be a high priority. We will work closely with Inland Revenue to educate businesses and assist them to navigate the new system.

This year we will also continue our significant investment in our Gracefield site in Lower Hutt, Wellington, where we have over 200 world-leading scientists and engineers working. We are supporting our High-Value Manufacturing and Services sectors to undertake R&D, commercialise ideas and knowledge, and contribute to New Zealand's economic growth, prosperity and wellbeing targets. As part of this work we will develop a long-term strategic vision for the site.

We will continue to support start-ups who play a vital role in the innovation ecosystem. We will oversee and administer a high impact programme of incubators and accelerators, including a refreshed Technology Incubator programme. This support will assist entrepreneurs to grow and commercialise their research and products both here and abroad.

Callaghan Innovation will be leading a new initiative to future-proof New Zealand's manufacturing sector by driving Industry 4.0 uptake and skills development, improving the productivity and competitiveness of New Zealand firms. We will also be supporting the New Zealand Food Innovation Network (NZFIN), a national network of food processing pilot plants that provide firms with the facilities and knowledge needed to commercialise new products and processes. This will ensure NZFIN's sustainability while a new funding model is developed.

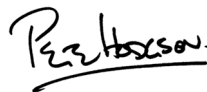
Two programmes that support innovation and help the transition to a low-emissions economy will transfer to Callaghan Innovation in 2019/20. The Product Accelerator helps develop technologies that create new products, new market opportunities and grows New Zealand's exports. The Bioresource Processing Alliance (BPA) co-funds and co-develops innovative products or processes to turn low value biological waste streams into new high-value products.

Callaghan Innovation continues to place significant emphasis on its people, culture and work practices. This year we will develop a programme to increase organisational alignment and improve engagement. Continued implementation of our digital strategy will deliver productivity increases and improve digital services. We also intend to replace our business intelligence (BI) systems.

Delivering better outcomes for innovative New Zealand businesses lies at the heart of everything we do. To achieve that, this year we will complete our customer journey work to better understand the lifecycle of innovative businesses, develop services to support high impact entrepreneurs, and implement a new strategy for our Research and Technical Services. We will also expand our recently launched digital platform, Scale-Up New Zealand, that will decrease fragmentation in the innovation ecosystem and provide data driven insights to New Zealand's businesses and policy makers.

Callaghan Innovation cannot achieve its mission alone. Many organisations and individuals contribute to building New Zealand's innovation economy. Our people will be out listening to and engaging with a wide range of stakeholders, including strategic partners, regional economic development agencies, government agencies and Crown Research Institutes, playing our role as a super-connector of the innovation ecosystem.

Our work this year will support more New Zealand businesses to be successful through technology, enriching our innovation ecosystem and contributing to the Government's goal of building a productive, sustainable and inclusive economy for a better New Zealand.



**Pete Hodgson**  
Chair



**Vic Crone**  
Chief Executive

## Statement of Responsibility

This Statement of Performance Expectations sets out Callaghan Innovation's planned activity, performance targets and forecast financial information for the financial year 1 July 2019 to 30 June 2020.

It has been prepared in accordance with the Crown Entities Act 2004 and should be read together with Callaghan Innovation's Statement of Intent 2018 – 2022.

Signed on behalf of the Board



**Pete Hodgson**  
Chair  
28 June 2019



**Frances Valintine**  
Board member  
28 June 2019

# Our organisation

## Who we are

Callaghan Innovation's mission is to activate innovation and to accelerate commercialisation of ideas for a better New Zealand.

We support the Government's economic strategy to improve the wellbeing and living standards of New Zealanders through productive, sustainable and inclusive growth.

We grow New Zealand's innovation economy and contribute to improved social outcomes by helping businesses succeed through the use of technology and innovation.



# Last year we started to implement our new long-term organisational strategy. Callaghan Innovation's strategy is focused on:

Show the future – Showing New Zealand where technology is taking the world, how we must adapt and how innovation drives success

\*\*\*\*\*

Fuel demand – Fuelling demand for New Zealand innovation and being a voice for innovators

\*\*\*\*\*

Connect the ecosystem – Connecting innovators into local and global ecosystems and collaborating to remove friction in the R&D ecosystem

\*\*\*\*\*

Empower innovators – Empowering innovators by partnering with businesses and delivering the right services and funding support at the right time, for the greatest impact.

\*\*\*\*\*

We work in close partnership with other organisations that also contribute to increasing business expenditure on R&D (BERD) and innovation in New Zealand. Together we ensure a comprehensive and integrated response to opportunities and challenges that our customers face.





# Our strategy

WE ARE  
NEW ZEALAND'S  
**INNOVATION  
AGENCY**

**We activate innovation & accelerate commercialisation** for a better New Zealand



## SHOW THE FUTURE

Show New Zealand where technology is taking the world, how we must adapt, and how innovation drives success.



## FUEL DEMAND

Be an exemplar for innovation and a voice for innovators. Showcase innovation as a pathway to success.



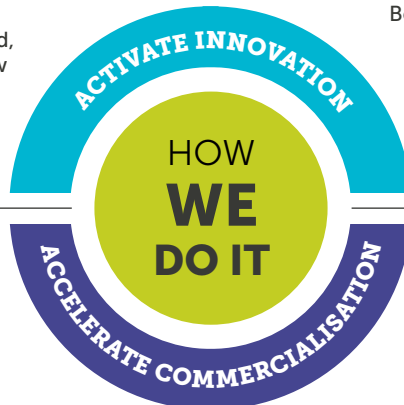
## CONNECT THE ECOSYSTEM

Actively connect people, opportunities and networks. Collaborate to remove friction.



## EMPOWER INNOVATORS

Be a partner – offer the right service and funding at the right time for greatest impact.



## Our customers

Our customers are at the heart of everything we do. At Callaghan Innovation we talk our customers' language, understand the challenges they face and bring specialist skills to the sectors our customers operate in.

Our customers are diverse. This year, as part of the implementation of our new strategy, we will be focussed on ensuring our service mix meets our customers' needs at each stage of the innovation journey. To that end, this year Callaghan Innovation will complete its customer journey project, identifying the critical needs of growing innovative businesses and tailoring customised services to suit those needs.

A key part of Callaghan Innovation's role is supporting Māori business to embrace innovation as a catalyst to unlock the potential of the Māori economic asset base. Our service mix and deep sectoral expertise enables us to work directly with Māori businesses to accelerate commercialisation of ideas to support the sustainable growth of the Māori economy.

To focus our efforts we work to identify innovators and organisations capable of delivering the greatest innovation impact and the highest chance of success.

## What we do

Callaghan Innovation's objective is to activate innovation and accelerate commercialisation, for a better New Zealand. To do this we stimulate discussion about the future of innovation and the role of disruption and new technologies in a changing New Zealand economy. Our goal is to develop a shared vision of where New Zealand needs to go and how we should get there.

Callaghan Innovation supports the Government's goal for R&D expenditure to grow to two percent of GDP by 2027. That requires another \$1.8 billion<sup>1</sup> in R&D investment and at least a doubling of the number of companies making those investments. While New Zealand's national investment in R&D and innovation is growing, it comes from a low base and New Zealand lags behind other advanced economies.

Callaghan Innovation works to show businesses how to get started on their innovation journey and to stimulate local and global demand for New Zealand innovation. We work to reduce fragmentation in the innovation ecosystem, helping businesses to identify opportunities and work together to achieve shared goals. This year we will work closely with Inland Revenue to support the implementation of the R&D Tax Incentive, which will support a greater range of businesses to increase their investment in R&D.

We offer businesses fast and easy access to experts and expert teams that provide tailored solutions to meet their needs. Our experts partner with businesses on long and short-term projects, big and small. We invest in, develop and use cutting-edge technology to create competitive market advantage and promote New Zealand's high value export economy.

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<sup>1</sup> Please note this figure is calculated from the most recent R&D survey data from Statistics New Zealand for the 2018 year.

# Measuring our performance

## What success looks like

We will know that we are being successful when:

### Externally

More businesses are innovating to successfully launch new and improved products, processes and services.  
+++++

Callaghan Innovation customers are growing at a faster rate than average in terms of FTE, revenues, exports, investment deals or improved productivity.  
+++++

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 it.  
+++++

Our customers regard their entire experience with Callaghan Innovation as effortless and seamless – from the initial point of contact through to connecting into other agencies, applications for services and consuming services.  
+++++

Our customers consider Callaghan Innovation consistently offers the right service mix at the right stage of their business' life stage.  
+++++

Callaghan Innovation is recognised by its customers and key stakeholders as a leader and voice on innovation.  
+++++

Callaghan Innovation is recognised as helping to drive the growth of Māori business with demonstrated impacts on the Māori economy.

### 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.

# Statement of Performance Expectations<sup>2</sup>

## Callaghan Innovation Operations: Multi-Category Appropriation

This appropriation will enable us to broker and provide innovation services to businesses and deliver programmes that enhance New Zealand's innovation system. We can then provide more support for businesses to successfully develop new and improved products, processes and services through R&D and technology-driven innovation.

This appropriation has three categories:

- Building Business Innovation
- Research and Development Services and Facilities for Business and Industry
- Business Research and Development Contract Management

## How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Total number of organisations working with Callaghan Innovation on services this Financial Year	2600	2600
Net Promoter Score of all service touchpoints	+60	+60
Total number of organisations working with Callaghan Innovation and NZTE as a F700 customer.	300	300

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<sup>2</sup> Callaghan Innovation has made changes to some of its performance measures for 2019/20. These do not align with Vote Business, Science and Innovation 2019/20 Main Estimates, which will be updated through 2019/20 Supplementary Estimates.

## Building Business Innovation

### Scope

This category 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.

### Examples of services provided

- Customised one-on-one advice and information for business
- Connection services for businesses to access domestic or international expertise, facilities, training, knowledge and technology infrastructure
- Training services and programmes
- Networking events, tradeshow and sponsorships
- Incubator and Accelerator programmes for business

### Cost and Funding

<b>Cost and Funding</b>	<b>2019/20 (\$ M)</b>
Revenue	
Crown Revenue – Appropriation	32.4
Other Revenue	0.9
Total Revenue	33.3
Expenses	33.3
Net funded to/(from)	0.0

## How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Number of customers who worked with Callaghan Innovation in the following services: Events, International Missions and Programmes:	1500	1200
Net Promoter Scores for the following Callaghan Innovation Services:		
• Events	+50	+30
• International Missions		+60
• Programmes		+60



## Research and Development Services and Facilities for Business and Industry

### Scope

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

### What does this mean?

It is intended to achieve growth in businesses through meeting their research, development and commercialisation needs.

Callaghan Innovation meets the R&D needs of business by helping to de-risk innovation and get products, processes or services to markets quicker, so business can realise value faster and gain a greater return on investment. We do this by applying a commercial lens and our unique mix of world-class expertise and technology to each stage of a business's R&D journey. We invest in pioneering technologies and infrastructure and make this available to New Zealand businesses. We connect businesses to other technical experts and business collaborators, across New Zealand's innovation ecosystem and worldwide. We have expertise in the technologies that will transform our future, including advanced materials, biotechnologies, advanced manufacturing, artificial intelligence and the internet of things. We partner with business to solve tough technical problems and prototype, develop, test, improve and validate a product, process or service that can be delivered at scale. We also provide advice, consultancy and technical training and educate businesses on how to improve their R&D and innovation processes for the future. Our customers range in size and maturity from start-ups to multinational corporations, in public and private sectors, and across a host of industries.

### Examples of services provided

- Access to specialist equipment, facilities, pilot plants and laboratories
- Design and prototype development services
- Technical expertise and facilities
- Connections to external R&D capability fit for meeting business needs

## Cost and Funding

<b>Cost and Funding</b>	<b>2019/20 (\$ M)</b>
Revenue	
Crown Revenue – Appropriation	36.4
Crown Revenue – National Science Challenge	18.3
Commercial Revenue – Domestic	9.7
Commercial Revenue – International	13.3
Other Revenue	1.6
<b>Total Revenue</b>	<b>79.3</b>
Expenses	81.8
<b>Net funded to/(from)</b>	<b>(2.5)</b>

## How Callaghan Innovation’s performance is measured

<b>Performance Measures</b>	<b>2018/19 Performance Standard</b>	<b>2019/20 Performance Standard</b>
Number of customers with a Research and Technical Service project this financial year	175	240
Net Promoter Score from Research and Technical Services, services	+60	+50



## Business Research and Development Contract Management

### Scope

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?

This category is intended to achieve efficient and effective allocation and contracting of research, science and technology output, and grants to maximise their returns to New Zealand.

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.

### 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 services.

### Cost and Funding

Cost and Funding	2019/20 (\$ M)
Revenue	
Crown Revenue – Appropriation	7.8
Other Revenue	0.4
Total Revenue	8.2
Expenses	8.2
Net funded to/(from)	0.0

## How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Number of new project and student grant applications received during the financial year	New measure	700
Percentage of project and student grant applications who have received a decision within 30 working days of receipt of the completed application	90%	90%



## National Measurement Standards

### Scope

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 success of companies 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

Cost and Funding	2019/20 (\$ M)
Revenue	
Crown Revenue – Appropriation	7.6
Commercial Revenue – Domestic	0.5
Commercial Revenue – International	0.1
Other Revenue	0.3
Total Revenue	8.5
Expenses	8.5
Net funded to/(from)	0.0

## How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 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	Achieved	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 2020	Achieved	Achieved

## Commercial Revenue

We earn commercial revenue for our research and technical services domestically and internationally. You can see a summary below of our total commercial revenue as well as a breakdown in Building Business Innovation and Business Research and Development Contract Management.

Our commercial revenue is reinvested back into 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	2019/20 Budget (\$ M)
Revenue	
Domestic Revenue	10.2
International Revenue	13.4
Total Commercial Revenue	23.6

## Non-Departmental Capital Expenditure

### Scope

This appropriation is limited to capital expenditure to support the development of Callaghan Innovation's strategic infrastructure.

### What does this mean?

This capital expenditure is 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.

Callaghan Innovation is expected to draw down a total of \$41.1 million in capital appropriation for 2019/20. This is separated into three programmes of work:

- \$29.0m for Gracefield property initiatives.
- \$8.6m m for specialised scientific and digital equipment.
- \$3.5m for the replacement of MSL equipment.

### How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 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

## Research and Development Growth Grants

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.

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 an initial three years with an extension option, capped at \$5 million a year. Growth Grants will be phased out with the introduction of the R&D Tax Incentive and closed to new applicants on 1 April 2019. Growth Grants are funded by the Crown through a multi-year appropriation.

### Cost and Funding

Cost and Funding	2019/20 (\$ M)
Revenue	
Crown Revenue – Appropriation	174.2
Total Revenue	174.2
Expenses	174.2
Net funded to/(from)	0.0

### How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Percentage of businesses receiving a Growth Grant that maintain or increase eligible R&D expenditure over the grant period <sup>3</sup>	70%	70%

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<sup>3</sup> This compares the average eligible quarterly R&D spend in the two years prior to the Growth Grant (the years used to enter the scheme) with the average eligible quarterly R&D spend during the Growth Grant period. Note: the wording about eligible R&D Spend being maintained or increased has changed in the latest Ministerial direction. It was previously 'the business has maintained or increased non-government funded eligible R&D expenditure over the two years of the grant period as compared to the two years prior to the grant period'. It is currently 'has maintained or increased eligible R&D expenditure over the two years of the grant period as compared to the two years prior to the grant period'.

## 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 up to 40% 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

Cost and Funding	2019/20 (\$ M)
Revenue	
Crown Revenue – Appropriation	32.5
Total Revenue	32.5
Expenses	32.5
Net funded to/(from)	0.0

### How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Number of active project grants this financial year	New measure	570
Net Promoter Score from Project Grants recipients	New measure	Baseline to be established
Percentage of project grant recipients who perceived that the grant-funded project had an overall positive impact on their business	New measure	95%
Percentage of project grant recipients who perceived that the grant-funded project increased knowledge acquisition	New measure	85%
Percentage of project grant recipients who perceived that the grant-funded project improved business productivity	New measure	85%
Net Promoter Score from Experience Grants recipients	New measure	+70

## Repayable Grants for Start-ups

This appropriation is limited to funding for early stage businesses and development of business incubators and accelerators. We intend to support development and growth of new technology focussed business start-ups.

### Cost and Funding

Cost and Funding	2019/20 (\$ M)
Revenue	
Crown Revenue – Appropriation	16.2
Total Revenue	16.2
Expenses	16.2
Net funded to/(from)	0.0

### How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Number of customers that received a service from either an incubator or accelerator	New measure	180
Percentage of surveyed start-ups who agree that they have gained business or commercialisation skills as a result of working with the incubator/accelerator	60%	60%



## Future-proofing New Zealand's Manufacturing Sector by Driving Industry 4.0 Uptake and Skills Development

This appropriation is limited to a package of complementary elements that target different stages of Industry 4.0 uptake. We intend to increase the uptake of Industry 4.0, improve skills pathways and improve the productivity and competitiveness of New Zealand firms.

### Cost and Funding

Cost and Funding	2019/20 (\$ M)
Revenue	
Crown Revenue – Appropriation	1.4
Total Revenue	1.4
Expenses	1.4
Net funded to/(from)	0.0

### How Callaghan Innovation's performance is measured

Performance Measures	2018/19 Performance Standard	2019/20 Performance Standard
Number of customers who received a service during the financial year	New measure	Baseline to be established
Net Promoter Score from customers who receive a service during the financial year	New measure	Baseline to be established



## BUDGET AND FINANCIAL STATEMENTS

# Financial forecasts to 30 June 2020

The prospective financial statements are presented in accordance with generally accepted accounting principles and the Crown Entities Act 2004. They comply with Public Benefit Entity FRS No 42 – Prospective Financial Statements and other applicable financial reporting standards, as appropriate for Public Sector Public Benefit entities.

The prospective financial statements have been prepared on the basis of Crown 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 2020 assumptions noted on page 28. 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 to be the best estimate of the future financial performance and state of Callaghan Innovation for the year ended 30 June 2020.

### **Authorisation statement**

The forecast figures reported are those for the year ending 30 June 2020. These were authorised for issue on 28 June 2019 by the Callaghan Innovation Board which is responsible for the forecast financial statements as presented.

# Budget 2019/20

## Financial Assumptions

### Profit and Loss

1. The 2020 Budget is consistent with Callaghan Innovation's strategic direction and is considered appropriate and achievable.
2. Continued operational funding from the Crown. Budget bids (new funding) for the Gracefield Innovation Quarter (\$6.3m), Industry Futures (\$4.5m) and Food Innovation Network entities (\$4.7m) have been included in the FY2020 Budget. In addition to this funding for the National Science Challenge (NSC) programme of \$18.3 million has been included in the FY2020 Budget, this is offset by costs of the same amount.
3. The commercial revenue budget of \$23.6m represents a split between domestic and overseas of \$10.2m and \$13.4m respectively. This budget is similar to the latest FY2019 forecast.
4. Expenditure
  - Increases in business as usual costs such as insurance, depreciation and salary increases.
  - New costs for strategic initiatives such as the Gracefield Innovation Quarter, Industry Futures, Food Innovation Network programme and growth of the National Science Challenge.
  - No provisions for abnormal costs.

### Balance Sheet and Cash Flow

1. Balance sheet opening balances are based on the latest Callaghan Innovation forecast to 30 June 2019
2. Equity budgeted to move from \$92.7m to \$131.3m. Movements made up of decreased equity due to \$2.5 million net loss and \$41.1 million in Crown capital appropriation – capital injections for plant and equipment MSL \$3.5m, Commercial and RTS \$8.6m, and continued Gracefield Innovation Quarter development \$29.0m.

## Prospective Statement of Comprehensive Revenue and Expense

For the year ended 30 June 2020

**2020**  
**BUDGET GROUP**  
**\$M**

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### Revenue

Revenue from the Crown	102.5
Revenue from the Crown – Grants	224.3
Commercial revenue	23.6
Total revenue	350.4
Other income	2.7
Interest income	0.5

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<b>Total Revenue</b>	<b>353.6</b>
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### Expenditure

Personnel costs	(56.4)
Science project and subcontract costs	(37.7)
Other expenses	(28.3)
Depreciation and amortisation expense	(9.4)
Grant expense	(244.3)

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<b>Total expenditure</b>	<b>(356.1)</b>
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<b>Surplus</b>	<b>(2.5)</b>
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<b>Other comprehensive revenue and expense</b>	<b>–</b>
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<b>Total comprehensive revenue and expense</b>	<b>(2.5)</b>
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## Prospective Statement of Changes in Equity

For the year ended 30 June 2020

2020  
BUDGET GROUP  
\$M

Balance at 1 July 2019	92.7
Total forecast comprehensive revenue and expense for the year	(2.5)
	90.2
<b>Other transactions</b>	
Capital contribution	41.1
<b>Balance as at 30 June 2020</b>	<b>131.3</b>



## Prospective Statement of Financial Position

As at 30 June 2020

2020  
 BUDGET GROUP  
 \$M

### EQUITY

Contributed capital	127.2
Accumulated surplus	4.1
<b>TOTAL EQUITY</b>	<b>131.3</b>

*Represented by*

### CURRENT ASSETS

Cash and cash equivalents	52.9
Trade and other receivables	6.4
Crown – debtor grants	105.0
Inventories	1.7
<b>Total current assets</b>	<b>166.0</b>

### NON-CURRENT ASSETS

Property plant and equipment	79.1
Investments	9.4
<b>Total non-current assets</b>	<b>88.5</b>

### TOTAL ASSETS

**254.5**

### CURRENT LIABILITIES

Trade creditors and other payables	11.7
Employee benefits	4.6
Grant obligations	105.0
Income in advance	1.6
<b>Total current liabilities</b>	<b>122.9</b>

### NON-CURRENT LIABILITIES

Employee benefits	0.3
<b>Total non-current liabilities</b>	<b>0.3</b>

### TOTAL LIABILITIES

**123.2**

### NET ASSETS

**131.3**

## Prospective Statement of Cash Flows

For the year ended 30 June 2020

2020  
 BUDGET GROUP  
 \$M

### CASH FLOWS FROM OPERATING ACTIVITIES

#### *Cash was provided from*

Receipts from Crown – operating	101.6
Receipts from Crown – grants	224.3
Receipts from commercial customers	25.6
Interest received	0.5
	352.0

#### *Cash was applied to*

Payments to suppliers	(64.9)
Payments to employees	(56.3)
Payments to grant recipients	(224.3)
	(345.5)

**Net cash flows from operating activities 6.5**

### CASH FLOWS FROM INVESTING ACTIVITIES

#### *Cash was applied to*

Purchase of property plant and equipment	(31.7)
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**Net cash flows from investing activities (31.7)**

### CASH FLOWS FROM FINANCING ACTIVITIES

#### *Cash was provided from*

Capital injection	41.1
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**Net cash flows from financing activities 41.1**

**Net increase (decrease) in cash and cash equivalents 15.9**

**Cash and cash equivalents at the beginning of the year 37.0**

**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR 52.9**

#### *Cash balance at end of the year comprises*

Cash and call deposits	52.9
------------------------	------

**CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR 52.9**



# 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 Callaghan Innovation Act 2012.

Callaghan Innovation's parent is the New Zealand Crown. The consolidated financial Statements of the Group consist of those of Callaghan Innovation and its controlled entities, associates and joint ventures.

Callaghan Innovation's primary purpose is to grow New Zealand's innovation economy by helping businesses succeed through technology.

Callaghan Innovation does not operate to make a financial return.

Callaghan Innovation is designed as a public benefit entity for financial reporting purposes.

## 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 comply with Public Sector PBE accounting standards.

## Functional 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 million dollars (\$1,000,000).

## Summary of significant accounting policies

### Revenue

The specific accounting policies for significant revenue items are explained below.

### Revenue from the Crown – operational funding

Callaghan Innovation is primarily funded from the Crown. This funding is provided for the purpose of Callaghan Innovation meeting its objectives as specified in the Statement of Intent and Statement of Performance Expectations and is recognised as revenue at the point of entitlement.

The fair value of revenue from the Crown has been determined to be equivalent to the amounts due in the funding arrangements.

### Grants (Crown revenue)

Grants received are recognised in the income statement when they become receivable unless there is an obligation in substance to return the funding if the requirements under the grant have not been met. Any grants for which the requirements have not been completed are carried as liabilities until all conditions have been fulfilled and recognised as revenue when conditions of the grant are satisfied.

### Provision of goods and services (commercial revenue)

Revenue from the sale of goods is recognised when the risk and reward of ownership have been transferred to the buyer.

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. Where the project outcome cannot be measured reliably revenue is recognised only to the extent of the expenses recognised that are recoverable.

### 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.

### Rental revenue and other income

Lease receipts and expense charges under an operating sublease are recognised as revenue on a straight line basis monthly over the lease term.

### Grants expenditure

Grants are approved and administered by Callaghan Innovation for the funding of research and development activities by New Zealand business and enterprise in accordance with Ministerial guidelines.

Grants expenditure is recognised in the Statement of Comprehensive Revenue and Expense when the third-party recipient can demonstrate they have incurred expenditure that meets the grant conditions.

### Basis of consolidation

The consolidated prospective financial statements combine the financial statements of Callaghan Innovation its controlled entities, associates and joint ventures as at 30 June 2020 ("the Group").

Controlled entities 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 controlled entities are prepared for the same reporting period as that of 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 controlled entity, the consolidated financial statements include the results for the part of the reporting year during which Callaghan Innovation had control. The purchase method is used to account for the acquisition of controlled entities 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 the agreed sharing of control over an activity by a binding arrangement 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:

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 post-acquisition surpluses or deficits and movements in other comprehensive revenue. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint venture (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.

### **Foreign currency**

Transactions in foreign currencies are initially recorded in the functional currencies in the New Zealand dollar using the spot rates ruling at the date of the transaction. 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 will affect surplus or deficit. All other foreign currency translation differences in the consolidated financial statements are taken to the Statement of Comprehensive Revenue and Expense. 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 to the New Zealand dollar using the exchange rate at the date when the fair value was determined.

### **Property, plant and equipment**

Property, plant and equipment consist 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. In most instances an item of property, plant and equipment is initially recognised at its cost. Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at the date of acquisition.

### **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 Expense.

### **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 Expense.

## 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 property, plant and equipment, and intangible assets

The Group held both cash-generating assets and non-cash-generating assets. Assets are considered cash-generating where their primary objective is to generate a commercial return. Property, plant and equipment, and intangible assets held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount 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. If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written-down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

### **Cash-generating assets**

Value in use for cash-generating assets is determined by the present value of the estimated future cash flows expected to be derived from the continuing use of the assets and from their disposal at the end of their useful life. The Group uses a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

### **Non-cash-generating assets**

Value in use for non-cash-generating assets' is determined by the present value of the asset's remaining service potential and is determined using an approach based on a depreciated replacement cost approach, a restoration cost approach or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

### **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, it 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 consist of "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.

### **De-recognition of financial instruments**

The de-recognition of a financial instrument takes place when the Group no longer controls the contractual rights that make up 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 re-measured 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 Expense. Amounts accumulated in equity are recycled in the Statement of Comprehensive Revenue and Expense 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 Expense. 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 Expense.

### **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 Comprehensive of Revenue and Expense.

### **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 costs 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**

Receivables are reported at their face value, less an allowance for expected losses.

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 Revenue and Expense. 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 financial 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 and retirement and long service leave entitlements expected to be settled within 12 months. No provision is made for sick leave because absences are not expected to exceed the annual entitlement of staff and calculations show any amounts involved are likely to be immaterial.

### **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 Kiwi Saver 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 Expense as incurred.

## Income tax

Callaghan Innovation is a Crown Agent and is consequently exempt from paying income tax. The 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 then 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.





**Rukuhia te wāhi ngaro,  
hei maunga tātai whetū.**

Explore the unknown,  
pursue excellence.

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[callaghaninnovation.govt.nz](http://callaghaninnovation.govt.nz) / [info@callaghaninnovation.govt.nz](mailto:info@callaghaninnovation.govt.nz) / 0800 422 552

# CallaghanInnovation

New Zealand's Innovation Agency