

Challenge to opportunity

Statement of Performance Expectations

1 July 2020 – 30 June 2021



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1.0

Welcome to Callaghan Innovation

Who are we?

Callaghan Innovation is the Government's innovation agency. Our namesake Sir Paul Callaghan once said, "One hundred inspired entrepreneurs can turn this country around. That is the challenge for all of us".

Our vision

Inspired by Sir Paul Callaghan, our vision is 'New Zealand is a place where talent wants to live'.

Our purpose

Callaghan Innovation uses its expertise, influence and mana to support business research and development, accelerate commercialisation and empower New Zealand's innovators.

What we do

Callaghan Innovation works to:

- Increase New Zealand business investment in R&D by challenging companies to create / improve R&D programmes, by providing funding (R&D Tax Incentive and grants) as well as technical expertise and equipment to support companies' R&D activity.
- Grow New Zealand's innovation economy by supporting ideas to commercialise faster through investment in incubators / accelerators, skills programmes and connecting our firms to experts across the innovation ecosystem.

- Grow young science and technical talent. The Wonder Programme inspires young children through opportunities in science and technology, and we administer the Student Grants programme which facilitates technical talent into firms.

How we are funded

Callaghan Innovation is funded through Vote Business, Science and Innovation. In 2020/21 our operations appropriation will be \$116.1m, and we administer a further \$188.8m for R&D grants. We also anticipate smaller than usual commercial revenue of \$18.4m due to impacts of COVID-19 on our commercial customer base.

Our customers

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

1. Firms that are innovating using technology and need access and support to our services and others across the innovation ecosystem.
2. Firms that require our technical service support offered via our Research and Technical Services team.

Our partners

With over 200 players in the innovation ecosystem in New Zealand, Callaghan Innovation works with these organisations to support and connect firms to the wide range of expertise they offer. We also work with NZ Inc partners including New Zealand Trade and Enterprise (NZTE), the Ministry of Business, Innovation and Employment (MBIE) and the Ministry of Primary Industries (MPI).

How we measure performance

Callaghan Innovation's performance measures are set out in our performance measurement framework which aligns to the delivery of our five-year strategy. This framework covers our organisational performance, our impact for firms and our innovation impact on New Zealand.

Our governance

The Minister of Research, Science and Innovation is responsible for Callaghan Innovation. Our Board provides governance over our strategy and performance with five subcommittees supporting the Board in their obligations under the Callaghan Innovation Act 2012 and the Crown Entities Act 2004 (Grants, Audit and Risk, Health and Safety, Gracefield Redevelopment Governance Group, and People, Culture and Diversity).

2.0

COVID-19 recovery will dominate 2020/21

In 2019 the Government set out an economic plan for a productive, sustainable and inclusive economy, following on from establishing the Living Standards Framework in 2018. To position New Zealand for the future, the application of innovation and technology to our economy is key to moving from volume to value, developing skilled talent, sustainable and affordable energy systems, and a step change for Māori. Additionally, the plethora of technology coming our way can positively impact the Government's Wellbeing Agenda as measured through the Treasury's Four Capitals – Natural, Social, Human and Financial/Physical.

COVID-19 emerged in late 2019 and since has had a profound global effect. The global economy is projected to contract sharply by three per cent in 2020 (which is much worse than the 2008/09 Global Financial Crisis), returning to growth the following year assuming effective policies are implemented to support economic

recovery. The impacts on New Zealand are equally severe, with the IMF predicting our economy will shrink by 7.2 per cent in 2020 and return to 5.9 per cent growth in 2021.

The pandemic represents an inflection point for New Zealand where unprecedented disruption to our economy, innovation system and R&D activity creates the opportunity to reshape our economy. We must not waste this opportunity or shy away from it.

Callaghan Innovation has pivoted our five-year strategy in order to support the Government's recovery efforts throughout 2020/21, firmly focused on how we continue to diversify our economy, foster new and amplify emerging high value sectors and businesses for global growth. We must look beyond simply rebuilding existing industries. There will also be impacts of COVID-19 on Callaghan Innovation's commercial revenue and operations.

We are working hard to manage those impacts while emerging from the next year of our activity as a stronger, more agile, and resilient entity. Assumptions around impacts of COVID-19 on Callaghan Innovation and its ability to operate are outlined in this document. As more information becomes available, we will update our assumptions, which could change the nature of some of our activities and deliverables as set out in this Statement of Performance Expectations.

Through the COVID-19 Response and Recovery Fund portion of Budget 2020, Callaghan Innovation was allocated \$150m to deliver a Short-Term R&D Loan Scheme to support R&D-performing businesses through the crisis. We were also allocated \$2m from the Economic Development Budget which we are using to offer business consultancy services to targeted customers of our Regional Business Partner network.

This year we will continue our focus on implementation of the R&D Tax Incentive in partnership with Inland Revenue and MBIE. This includes continuing education and engagement around the scheme, along with operationalising our role advising on applications.

We will continue to support startups 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.

Through Research and Technical Services (RTS), we continue to help solve New Zealand companies' scientific and technology problems so they can develop new products and take products to market faster. We have recently evolved how our RTS team integrates their services into the organisation and ecosystem – 2020/21 will see this work continued.

**CALLAGHAN INNOVATION
CONTINUES TO PLACE SIGNIFICANT
EMPHASIS ON OUR PEOPLE,
CULTURE AND WORK PRACTICES**

Investment in our three transformation programmes continues to take us toward being a government exemplar of innovation.

2020/21 continues our significant investment in our Gracefield site in Lower Hutt, Wellington, where we have over 200 world-leading scientists and engineers. We will demolish buildings, embark on construction of a new hazardous goods facility, construct flexible office accommodation as well as develop the sitewide masterplan and strategic business case for future site development.

Our Digital Transformation Programme takes a massive step forward this year with our organisation being the first government agency to fully implement G Suite productivity tools. We will stand up a new grants platform and complete work to optimise our internal networks for enhanced productivity.


Callaghan Innovation continues to place significant emphasis on our people, culture and work practices, and we have spent a significant part of 2019/20 developing our culture transformation programme – Tātai Whetū.

This year we will implement a new operating model to support our strategy, update our vision, values and identity, enhance our support of the Māori Economy and te ao Māori, and embed a risk culture that supports the Board's appetite for a more innovative agency.

Delivering better outcomes for innovative businesses and New Zealand lies at the heart of everything we do. We cannot achieve our 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 – strategic partners, regional economic development agencies, government agencies and Crown Research Institutes – playing our role as a superconnector of the innovation ecosystem.

Our work this year is as important as ever, supporting recovery and diversification of our economy 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



Jennifer Kerr
Deputy Chair



Vic Crone
Chief Executive

3.0

Our Services

R&D Tax Incentive

We partner with Inland Revenue to implement the R&D Tax Incentive, the Government's flagship programme to support businesses to invest in R&D. Our sector experts and Regional Business Partner network educate and engage business about the incentive while the joint-agency Core Team of experts assess applications.

R&D Capability & Commercial Services

Our leading scientists and engineers are dedicated to helping New Zealand firms solve tough technical problems. Our specialist capability covers advanced materials, advanced manufacturing, internet of things and data science as well as biotechnology.

We also provide contract R&D and contract active pharmaceutical ingredients manufacturing through our commercial services such as GlycoSyn, and commercial astronomy optics manufacturing through KiwiStar Optics.

R&D Funding

We currently offer funding support through Getting Started Grants, Project Grants and Student Grants. We are working with Government to evolve the grants we offer as well as to create temporary support mechanisms in the context of COVID-19. These include:

- the COVID-19 Innovation Acceleration Fund

- temporary relief options for customers with R&D grants and repayable loans, including flexibility with contract terms, R&D staff and claiming
- extending the Wage Subsidy Scheme to R&D intensive pre-revenue businesses
- a short-term R&D Loan Scheme.

Connect to Experts

We offer advice and tools that connect firms with expertise and capability, locally and globally. We also operate ScaleUp.nz, a free online platform showcasing New Zealand innovation to the world with three guiding principles:

1. **Find** – information, insights, trends and opportunities.
2. **Connect** – introductions, partnerships, source new business and collaboration opportunities.
3. **Grow** – funding, expertise, new markets and new customers.

Incubator and accelerator programmes

We invest in and actively help commercialise complex technologies via our Technology Incubator programme. We support Founder Incubators that provide concentrated, core business support for early stage, high growth innovators to accelerate their path to market. Accelerators provide short programmes focusing on rapid and intensive product development to establish an investment-ready startup.

Innovation Skills

We offer four business capability courses to give firms the knowledge, skills and motivation to grow faster. These programmes are Lean, Build for Speed, Driving Innovation and Innovation IP.

We recently launched Capital Education – a foundation workshop and video series to help startups understand the capital-raising process in New Zealand and how they can raise the capital they need to create a thriving business – even in the COVID-19 environment.

Measurement Standards

New Zealand's National Metrology Institute – the Measurement Standards Laboratory – is located at our Gracefield site. This provides accreditation, calibration, and measurement standards services to New Zealand.

Events and Delegations

Networking opportunities are an important component of our mandate, when we bring together innovators and entrepreneurs around areas of speciality (e.g. Southern SaaS) to connect, learn and collaborate or take delegations offshore (usually in partnership with NZTE) to gain more exposure to the latest technology, innovation practices and markets.

Following successful webinars and other digital events we have put on to replace in-person events since the COVID-19 lockdown period, many Callaghan Innovation teams and customers have requested assistance with future events. In response our Events team has developed a suite of best practice materials for future virtual events.

Around every two years we hold our own C-Prize competition that seeks to push the boundaries of what is possible through technology, to tackle complex global problems with creativity and inventiveness. Throughout 2019/20 our focus has been on empowering New Zealand's next generation of environmental innovators. We are looking for solutions that can positively impact climate change, help clean up our waterways, and encourage New Zealanders to use natural resources in smarter ways.

4.0

Our strategy and focus areas for 2020/21

In 2018 we established our long-term organisational strategy. Now in year three of our five-year strategy, our focus in this strategic period has been to drive our three transformation programmes to deliver new capability to support customers, increase R&D investment, and connect the innovation ecosystem.

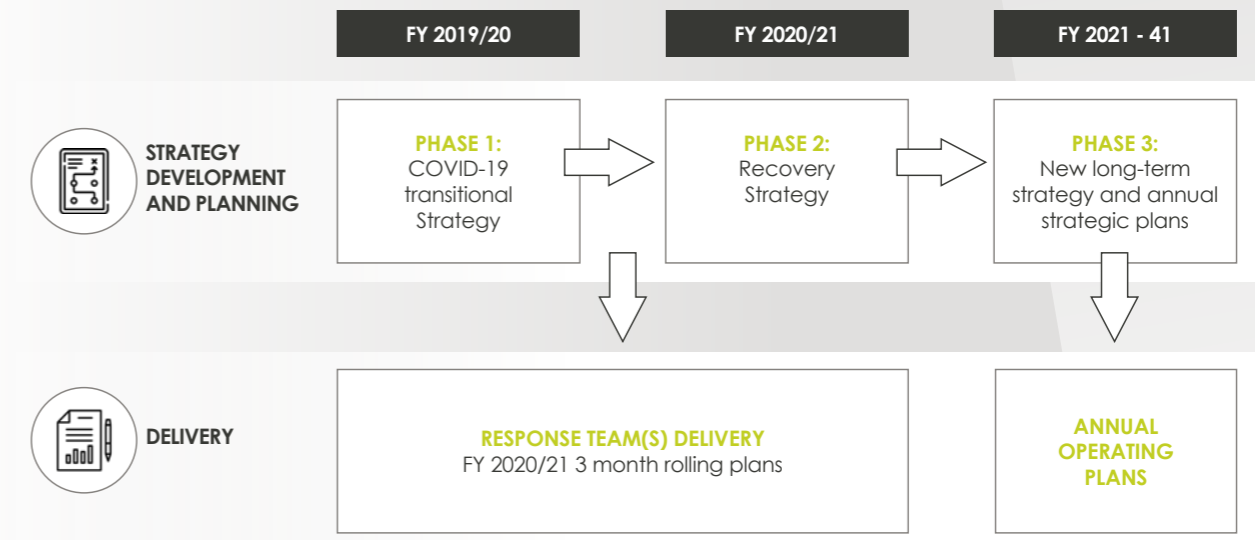
In March 2020 we refocused our strategy to reflect COVID-19 and its impact. We recognise the deep disruption caused by the pandemic. We face multiple local and global recessionary (and perhaps depressionary) scenarios ranging from short term to protracted, with some sectors and businesses unlikely to survive the crisis. There is a fundamental risk to the viability of cash-constrained innovators and R&D investment.

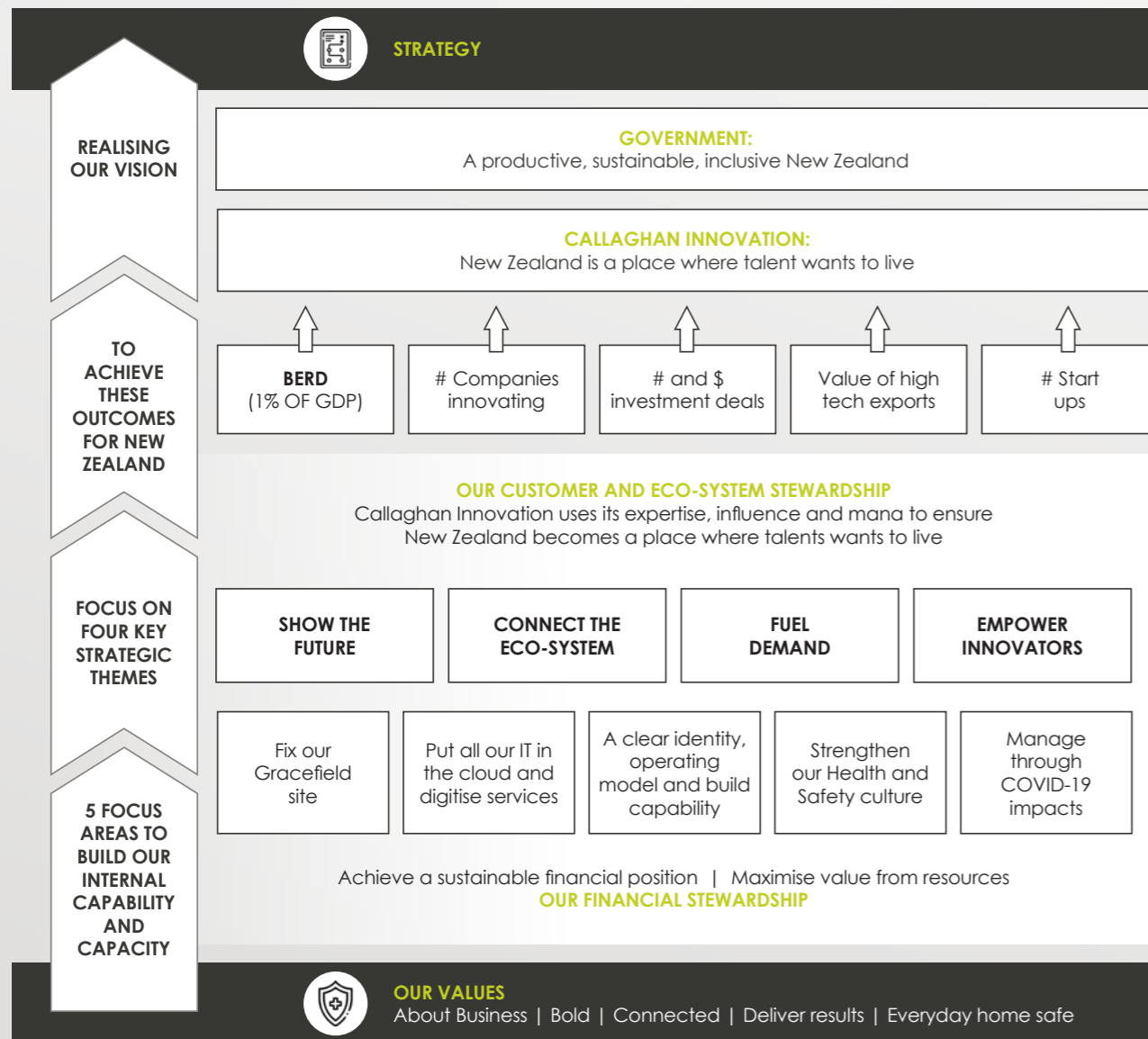
Nonetheless we believe the crisis presents a unique opportunity for New Zealand to reshape its economy to become more sustainable, productive and inclusive. International research shows the pace of innovation – and automation and process optimisation – increases during economic downturn. During the next 18 months, firms will need to innovate, redefine business models, rapidly digitise and automate for greater efficiency.

These things apply not only to firms we work with but to our own organisation, hence we will continue investment in our transformation programmes.

This means a focus on recovery and evolution of key sectors including Agritech, Digital, Food & Beverage, HealthTech, and unlocking the potential of the Māori Economy. We will use our current service mix (including delivering these in new ways such as online workshops and webinars) along with new government support initiatives (wage subsidy, R&D loans etc) to do this.

This year we will undertake long-term strategy work, looking out over the next 20 years, which will inform the new five-year strategy to be articulated in our Statement of Intent 2022-2027. Given COVID-19 and the need for a transitional strategy – in which there will necessarily be a significant element of fluidity – our strategy for the coming months exists to ensure Callaghan Innovation contributes to the future of New Zealand by remaining operationally and financially resilient while successfully transitioning to a post COVID-19 world.





Our Vision

At Callaghan Innovation we are inspired by our namesake Sir Paul Callaghan’s commitment to solving New Zealand’s poor productivity growth through science, technology and evidence-based decision making. Our vision is ‘New Zealand is a place where talent wants to live’. We also believe in the transition to a knowledge-based economy away from exploitation of resources and that this new economy will improve our real wealth along with our forests, land, rivers, seas, fauna, and our tangata.

Our Purpose

Callaghan Innovation is an incredibly diverse organisation with a wealth of experts from right across the science and innovation ecosystem. Through this diversity we are stronger. Our purpose is to use our expertise, influence and mana to support business research and development, accelerate commercialisation, and empower New Zealand’s innovators.

Our Strategic Themes

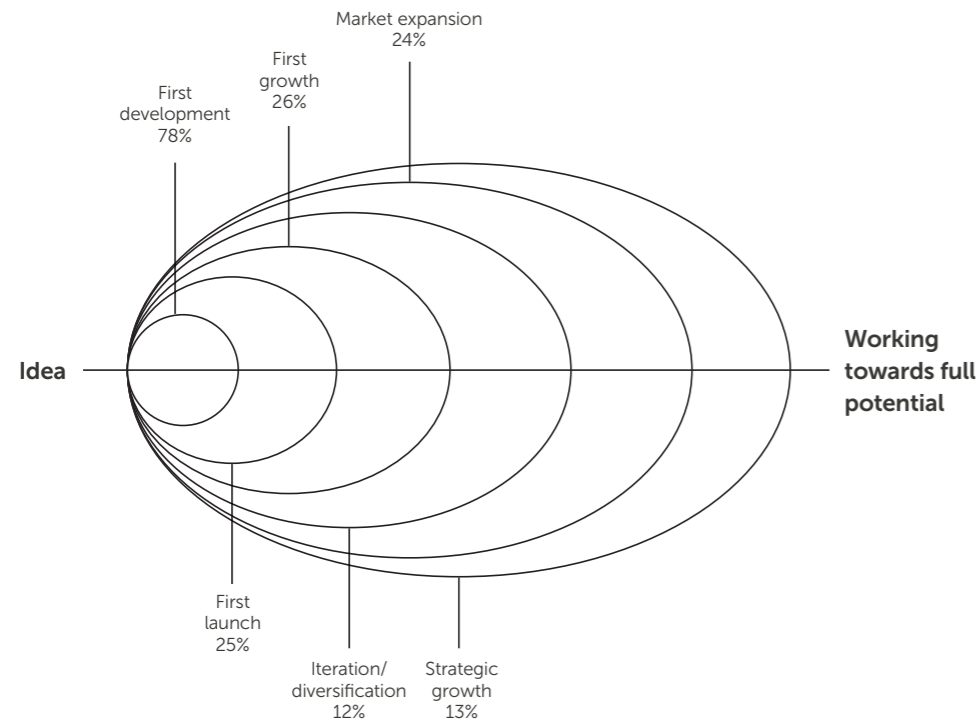
Our four strategic themes remain relevant to COVID-19 with the transitional strategy seeing more initiatives being delivered in points 1 and 2:

1. Showing New Zealand where technology is taking the world, how we must adapt and how innovation drives success.
2. Fuelling demand for New Zealand innovation and being a voice for innovators.
3. Connecting innovators into local and global ecosystems and collaborating to remove friction within New Zealand’s R&D ecosystem.
4. Empowering innovators by partnering with businesses and delivering the right services and funding support at the right time, for the greatest impact.

Our Customers

Our customers are at the heart of everything we do. We focus on ensuring our service mix meets customer needs at each stage of the innovation journey. Last year we mapped an entrepreneur’s journey through the innovation ecosystem and this year we will embed customer experience further into our service suite.

The Innovation Eco-System Map



Via a dedicated Māori Economy group, we have significantly increased the number of Māori economy firms we are working with and the number of services these firms use. 2020/21 will see us continue this focus and investment.

COVID-19 response

Callaghan Innovation has made changes to our services in order to better support our customers through the financial consequences of the pandemic. Some of these include revising grant payments terms to increase cashflow, holding events that would have been cancelled via webinar, amplifying support available from other agencies, and educating startups on how/where to access capital through the crisis. We will continue to implement policy initiatives developed with Government partners such as the Short-Term R&D Loan Scheme to support the recovery and transition of our economy.

The R&D Tax Incentive

The Government is investing one billion dollars into this scheme and a key area of strategic focus is successful operationalisation to contribute to our target of increasing R&D spend to two per cent of GDP by 2027.

Alongside Inland Revenue, we are promoting recently fast-tracked refundability changes to provide extra cashflow support to R&D-performing businesses in context of COVID-19. More loss-making businesses now qualify to have their 15% R&D tax credit refunded in cash.

Refreshed Technology Incubator Programme

The 2014 pilot programme produced 45 startups, attracted more than

\$50m in investment and created over 160 new tech jobs. A \$9m boost in funding along with increased capability in the organisation and a refreshed line up of Tech Incubator licensees will see us take this programme to another level in the coming years.

Our Transformation

Our aspiration is to be a government exemplar of innovation in order to meet the needs of our customers and modernise our own organisation. Three transformation programmes support this modernisation including:

1. The GIQ Programme Tactical Estates tranche focuses on addressing decades of underinvestment via significant structural upgrades and maintenance. Our Strategic tranche will define our future vision and how we can create a diverse innovation community. Additionally, this year we will complete the co-location of our Auckland offices.
2. Our Digital Transformation Programme builds the critical platforms and systems to deliver new services, support collaboration, improve customer experience and scale our impact via digital and automation for both our customers and the ecosystem.

3. Our Tātai Whetū programme is updating our operating model and ways of working to be fit for the future. This includes our vision and values, process optimisation, organisational design, and the principles of Māoritanga as an exemplar Treaty partner. It also incorporates our customer journey work and further cultural changes needed to optimise customer experience.

Keeping our people safe

Due to the nature of our work, significant risks and hazards exist on our sites every day. We will continue to strengthen our Health and Safety culture via three areas of focus:

1. Completion of the Health and Safety Project
2. Continuing core operations focus on health and safety
3. Continuing delivery of our Hauora (Wellbeing) Strategy.

Research and Technical Services

Our strategy work has recently reviewed the role of this group and how we can better leverage their capability for the benefit of New Zealand. Our focus this year is to finish implementation of this strategic work.

5.0

Measuring our performance

Callaghan Innovation's performance framework is aligned with our five-year strategy and our purpose – to support business research and development, accelerate commercialisation, and empower innovators. Through this we actively contribute to the Government's vision of a productive, sustainable and inclusive New Zealand.

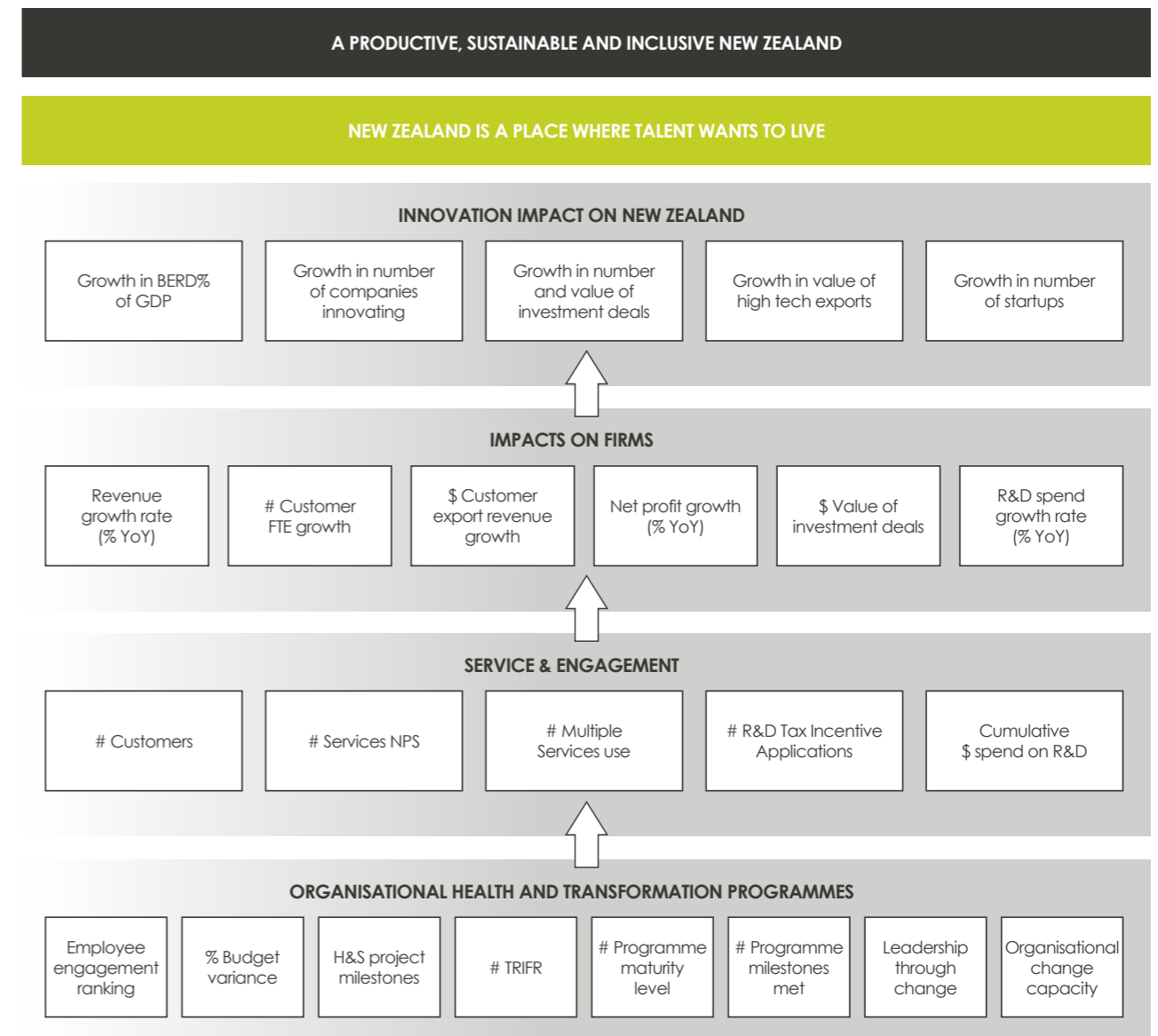
Along with other agencies, we work to support innovation impact on New Zealand – this is demonstrated through five key outcomes in our Performance Framework. To deliver this impact we need to ensure we are working with the right customers, effectively engaging with them, and offering the right services at the right time.

We have a range of measures to track our service and engagement indicators such as number of customers we work with, how many of our services they use, and our Net Promoter Score.

Given we have a large strategic programme for internal transformation, we also measure how we are progressing with our transformation programmes along with assessing our organisational health.

What success looks like when we have delivered our transformation programmes:

- New Zealand is recognised as a place where talent wants to live.
- More businesses are innovating and conducting R&D across both startups and established businesses.
- New Zealand's business expenditure on R&D (BERD) grows rapidly to two per cent of GDP by 2027 and we successfully commercialise our R&D, driving strong export growth.
- New Zealand businesses are attractive to global and local investors and we see growth in the number and value of deals.
- Callaghan Innovation seamlessly connects innovators to the right services, at the right time, in the right ways, internally and across the ecosystem.
- Callaghan Innovation is recognised as helping to drive the growth of the Māori economy and we become a strong Treaty partner.



6.0

Statement of Performance Expectations

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 by improving the performance of New Zealand's innovation system.

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

We have included in this category the performance measures that relate to activities and investments Callaghan Innovation is undertaking in 2020/21, including:

1. GIQ Programme.
2. Digital Transformation Programme.
3. Tātai Whetū Programme.
4. Ensuring we are delivering to our Health and Safety obligations.
5. New programmes Callaghan Innovation received funding for in Budget 2019: Bio-Processing Alliance and NZ Product Accelerator.

6. NZ Food Innovation Network.

We have reviewed the proposed performance standard in context of the impact of COVID-19. Across most measures, we have maintained the existing performance standard. This reflects the interplay of economic factors with short-term demand drivers offset over the year by economic downturn and business impact on R&D. This means there will be some fluidity in the outcomes.

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Total number of organisations working with Callaghan Innovation on services this Financial Year	2600	2600
Net Promoter Score of all surveyed customers	+60	60
Total number of organisations working with Callaghan Innovation and NZTE as a F700 customer	300	300
Digital Transformation Programme		
- Deliver new grants platform	N/A	Achieved
- Implement new data integration and architecture platform	N/A	Achieved
- Complete network optimisation	N/A	Achieved
Gracefield Innovation Quarter (GIQ) redevelopment		
- GIQ Strategic Services Programme Business Case complete	N/A	Achieved
- Sitewide Masterplan complete	N/A	Achieved
- Biotech Hub Indicative Business Case complete	N/A	Achieved
- Demolition of four structures onsite	N/A	Achieved
- Construction of a hazardous goods facility commenced	N/A	Achieved
- Construction of flexible office accommodation commenced	N/A	Achieved
Tātai Whetū Programme (Culture, operating model & customer experience)		
- Embed new Operating Model and associated processes	N/A	Achieved
- Deliver Shared Vision, Values, and Identity	N/A	Achieved
- Embed new Risk Culture in Callaghan Innovation	N/A	Achieved
Māori Economy		
- Number of Iwi & Trusts served*	N/A	5
- Defining our role as Treaty partner	N/A	Achieved
Health, Safety and Wellbeing		
- Full implementation of PCBU framework	N/A	Achieved
- HSE Critical Risk Framework Operationalised	N/A	Achieved
- Wellbeing strategy operationalised - engagement score for Wellness above 6.9 and Happiness above 7.4	N/A	Achieved
Bio-resource Processing Alliance (BPA)		
- Number of industry partners involved in research projects	N/A	Baseline to be established
- Number of new products or processes developed for industry partners	N/A	Baseline to be established
NZ Product Accelerator (NZPA)		
- Number of industry partners involved in research projects	N/A	Baseline to be established
- Number of new products or processes developed for industry partners	N/A	Baseline to be established
NZ Food Innovation Network		
- Continued operation of the New Zealand Food Innovation Network and support MBIE with the programme review	N/A	Achieved

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?

It is intended to accelerate the growth of innovative companies and build the effectiveness and skills of New Zealand's innovation system.

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, tradeshows and sponsorships
- Incubator and Accelerator programmes for business.

Cost and Funding

Cost and Funding	2020/21 (\$M)
Revenue	
Crown Revenue - Appropriation	37.1
Other Revenue	1.4
Total Revenue	38.5
Expenses	38.5
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Number of customers who worked with Callaghan Innovation in the following services: - Events - International Missions - Innovation Skills (formerly 'Programmes')	1,200	1,000
Net Promoter Scores for the following Callaghan Innovation Services: - Events - International Missions - Programmes	+30 +60 +60	+30 +60 +60
Total unique opens of Callaghan Innovation's monthly Accelerate e-newsletter	N/A	3,500
Scale Up NZ - Organisations profiled on Scale-Up NZ - Introduction requests	N/A N/A	2,000 450
HealthTech Activator Define programmes and services required to smooth the commercialisation journey of Healthtech companies	N/A	Development and delivery of 75% of programmes and services

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 it 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, robotics, 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

Cost and Funding	2020/21 (\$M)
Revenue	
Crown Revenue - Appropriation	42.5
Crown Revenue - Other	1.4
Crown Revenue - National Science Challenge	17.8
Commercial Revenue - Domestic	7.2
Commercial Revenue - International	10.7
Other Revenue	1.8
Total Revenue	81.4
Expenses	82.5
Net funded to/(from)	(1.1)

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Number of customers with a Research and Technical Service project this financial year	240	216-264
Net Promoter Score from Research and Technical Services	+50	+40
RTS Strategy delivery		
Deliver and implement a new commercial operating model that supports high-impact 'frontier firms' and established R&D players, while sustaining revenues	N/A	Achieved

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 outputs, 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	2020/21 (\$M)
Revenue	
Crown Revenue - Appropriation	7.8
Other Revenue	0.5
Total Revenue	8.3
Expenses	8.3
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Number of new Project and Student grant applications received during the financial year	700	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%

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 and improve the productivity and competitiveness of New Zealand firms.

Cost and Funding

Cost and Funding	2020/21 (\$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	2019/20 Performance Standard	2020/21 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
Deliver a programme that includes at least 10 Industry 4.0 factory site visits per year and a dedicated mobile showcase to demonstrate Industry 4.0 technology	N/A	New measure

Output Class – 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	2020/21 (\$M)
Revenue	
Crown Revenue - Appropriation	8.1
Commercial Revenue - Domestic	0.4
Commercial Revenue - International	0.1
Other Revenue	0.2
Total Revenue	8.8
Expenses	8.8
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 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 the end of the financial year	Achieved	Achieved

Commercial Revenue

We earn commercial revenue for our research and technical services domestically and internationally. We also run two export businesses as part of this portfolio – GlycoSyn and KiwiStar Optics. We have scientists, engineers, and technology experts providing advice, services and products to the New Zealand and international marketplace.

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. Note that our Domestic Revenue of \$7.6m includes \$1.1m from our Food subsidiaries.

Commercial Revenue	2020/21 Budget (\$ M)
Domestic Revenue	7.6
International Revenue	10.8
Total Commercial Revenue	18.4

Non-Departmental Capital Expenditure

Scope

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

Callaghan Innovation is expected to draw down a total of \$12.1m in capital appropriation for 2020/21. This is split across Gracefield property initiatives (\$8.0m), National Measurement Standards (\$1.9m) and other specialised equipment (\$2.2m).

Note the \$149.0m in Equity for Repayable Loans is referred to on page 32 under Non-Departmental Capital Expenditure.

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	2019/20 Performance Standard	2020/21 Performance Standard
Any physical and virtual infrastructure investment is aligned with the overall strategy	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 MCA and National Measurements Standard Output Class, 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 were designed to increase R&D investment by businesses that have a strong track record for R&D spending in New Zealand.

We provided 20% co-funding for R&D for an initial three with an extension option, capped at \$5 million a year. Growth Grants are funded by the Crown through a multi-year appropriation to the end of 2021/22. The scheme has now closed, and we are no longer accepting applications.

Cost and Funding

Cost and Funding	2020/21 (\$M)
Revenue	
Crown Revenue – Appropriation	138.4
Total Revenue	138.4
Expenses	138.4
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Percentage of businesses receiving a Growth Grant that maintain or increase eligible R&D expenditure over the grant period ¹	70%	70%

¹This 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	2020/21 (\$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	2019/20 Performance Standard	2020/21 Performance Standard
Number of active Project Grants this financial year	570	570
Net Promoter Score from Project Grants recipients	Baseline to be established	+70
Percentage of Project Grant recipients who perceived that the grant-funded project:		
- Had an overall positive impact on their business	95%	95%
- Increased knowledge acquisition	85%	85%
- Improved business productivity	85%	85%
Net Promoter Score from Experience Grants recipients	+70	+70

Repayable Grants for Startups

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

Cost and Funding	2020/21 (\$M)
Revenue	
Crown Revenue – Appropriation	17.9
Total Revenue	17.9
Expenses	17.9
Net funded to/(from)	0.0

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Number of customers that received a service from either an incubator or accelerator	180	170
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%
First ventures for funding from the Tech Incubator Programme	N/A	Achieved

Non-Departmental Capital Expenditure

Short-term Research and Development Loan Scheme

Scope

This appropriation is limited to funds to Callaghan Innovation to provide temporary financial assistance by way of short-term loans to businesses undertaking research and development.

Callaghan Innovation is expected to draw down a total of \$149.0 million in capital appropriation in 2020/21 to fund loans as part of the COVID-19 Response and Recovery Fund.

How Callaghan Innovation's performance is measured

Performance Measures	2019/20 Performance Standard	2020/21 Performance Standard
Percentage of applicants that have been provided with a decision within 4 weeks of their application being received	N/A	80%

7.0

Budget and financial statements

Financial forecasts to 30 June 2021

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 based on 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 2021 assumptions noted below. The Callaghan Innovation Board, which is responsible for the preparation of these prospective financial statements, believes the assumptions adopted at the time of preparation provide the best estimate of the future financial performance and state of Callaghan Innovation for the year ended 30 June 2021.

Authorisation statement

The forecast figures reported are those for the year ending 30 June 2021. These were authorised for issue on 18 June 2020 by the Callaghan Innovation Board which is responsible for the forecast financial statements as presented.

Budget 2021 Financial Assumptions

The 2020/21 budget is based on a broadly 'U-shaped' recovery for which we have assumed New Zealand's response level remains at Level 2 for the full financial year (allowing for temporary fluctuations into either Level 3 or 1). This assumes broader economic impacts, both within New Zealand and globally, translate into depressed commercial revenue.

In addition to revenue impacts, there are also a range of non-discretionary changes in operating costs that result from different New Zealand response levels. The key costs that are impacted include:

- Travel, with international travel budgets, and to a lesser degree domestic travel budgets, significantly reduced.
- Project delivery costs, reduced in line with the forecast drop in commercial revenue.

To help mitigate the expected impacts of reduced commercial revenue, Callaghan has been provided with further funding for FY21 to ensure operations and critical services can be maintained.

Profit and Loss

1. The 2021 Budget is consistent with Callaghan Innovation strategic direction and is considered appropriate and achievable.
2. Continued operational funding from the Crown for: the Gracefield Innovation Quarter (\$7.3m); Food Innovation Network entities (\$4.9m); and the National Science Challenge (NSC) (\$17.8m) has been included in the FY2021 Budget, along with the operational costs involved in delivering these programmes.
3. The commercial revenue budget of \$18.4m represents a split between domestic and overseas of \$7.6m and \$10.8m, respectively.
4. Submitted In Principle Expense Transfers from FY20 to FY21 for the Health Tech Activator, GIQ demolition costs, Industry 4.0 are approved by Treasury
5. Core operational costs other than those impacted by COVID-19 remain at similar levels to FY20. There is no provision for abnormal costs.
6. While the Short-Term R&D loan scheme is expected to introduce interest, fair value and credit loss activity, the exact impact will not be known until the loan portfolio is established. Given the high level of uncertainty, these values have not been forecast within the profit and loss.

Balance Sheet and Cash Flow

1. Balance sheet opening balances are based on the latest Callaghan Innovation forecast to 30 June 2020.
2. Equity is forecast to increase as a result of the following Crown capital appropriations during the year, all of which will be used to fund continued investment in critical infrastructure and technology – MSL equipment (\$1.9m), scientific and digital plant and equipment (\$2.2m) and further draw-downs for the Gracefield Innovation Quarter development (\$8m).
3. Equity is also forecast to increase by \$149m as a result of the Short-Term R&D Loan appropriation, with capital contributions being used to issue loans to R&D performing companies. As referenced under the profit and loss assumptions above, interest income, fair value and credit loss activity has not been included in equity at this point, given the high levels of uncertainty about their impact.
4. Following the closing date of the R&D Growth Grants scheme on 31 March 2021, all grants are claimed and settled by 30 June 2021.

8.0

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PROSPECTIVE STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE

For the year ended 30 June 2021	2021 Budget Group \$M
Revenue	
Revenue from the Crown	116.1
Revenue from the Crown – Grants	188.8
Commercial revenue	18.4
Total Revenue	323.3
Other income	3.4
Interest income	0.5
TOTAL REVENUE	327.2
Expenditure	
Personnel costs	(60.1)
Science project and subcontract costs	(37.5)
Other expenses	(30.9)
Depreciation and amortisation expense	(11.0)
Grant expense	(188.8)
TOTAL EXPENDITURE	328.3
SURPLUS/(LOSS)	(1.1)
Other comprehensive revenue and expense	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSE	(1.1)

PROSPECTIVE STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2021	2021 Budget Group \$M
Balance at 1 July 2020	116.9
Total forecast comprehensive revenue and expense for the year	(1.1)
	115.8
Other transactions	
Capital contribution	161.1
BALANCE AS AT 30 JUNE 2021	276.9

PROSPECTIVE STATEMENT OF FINANCIAL POSITION

For the year ended 30 June 2021	2021 Budget Group \$M
Equity	
Contributed capital	258.5
Accumulated surplus	18.4
TOTAL EQUITY	276.9
Represented by Current assets	
Cash and cash equivalents	47.7
Trade and other receivables	7.1
Crown - debtor grants	27.8
Inventories	1.4
TOTAL CURRENT ASSETS	84.0
Non-current assets	
Property plant and equipment	94.0
Loans receivable	149.0
Investments	4.8
TOTAL NON-CURRENT ASSETS	247.8
TOTAL ASSETS	331.8
Current liabilities	
Trade creditors and other payables	12.1
Employee benefits	4.7
Grant obligations	27.8
Income in advance	9.2
TOTAL CURRENT LIABILITIES	53.8
Non-current liabilities	
Employee benefits	0.3
Deferred tax	0.8
TOTAL NON-CURRENT LIABILITIES	1.1
TOTAL LIABILITIES	54.9
NET ASSETS	276.9

PROSPECTIVE STATEMENT OF CASH FLOWS

For the year ended 30 June 2021	2021 Budget Group \$M
Cash flows from operating activities	
Cash was provided from	
Receipts from Crown – operating	116.1
Receipts from Crown – grants	188.8
Receipts from commercial customers	24.4
Interest received	0.5
	329.8
Cash was applied to	
Payments to suppliers	(68.4)
Payments to employees	(60.5)
Payments to grant recipients	(188.8)
	(317.7)
NET CASH FLOWS FROM OPERATING ACTIVITIES	12.1
Cash flows from investing activities	
Cash was applied to	
Issue of loans	(149.0)
Purchase of property plant and equipment	(34.3)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(183.3)
Cash flows from financing activities	
Cash was provided from Capital injection	161.1
NET CASH FLOWS FROM FINANCING ACTIVITIES	161.1
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10.1)
Cash and cash equivalents at the beginning of the year	57.8
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	47.7
Cash balance at end of the year comprises	
Cash and call deposits	47.8
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	47.8

9.0

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 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 (\$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 arise from income earned from patent royalties and licensing of patents. Royalty and licensing income are recognised on an accrual's 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.

Grant 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:

- (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 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 after 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:

Cost and Funding	Estimated useful life	Rate
Freehold buildings	10 - 40 years (depending on age)	2.5% - 10%
Building auxillary 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 based on 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 and liabilities

Classification:

The group classifies its financial assets in the following measurement categories:

1. those to be measured subsequently at fair value (either through OCI or through profit or loss), and
2. those to be measured at amortised cost.

The group classifies its financial assets as at amortised cost only if both the following criteria are met:

1. The asset is held within a business model whose objective is to collect the contractual cash flows, and
2. The contractual terms give rise to cash flows that are solely payments of principal and interest.

All other financial assets not meeting the criteria above are measured at fair value through the operating balance. Financial assets may also be designated as Fair Value Through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

All financial liabilities are measured at amortised cost.

Measurement:

At initial recognition, the group measures a financial instrument at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of financial instruments at amortised cost are measured at amortised cost using effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

Impairment losses are presented as separate line items in the statement of profit or loss.

For assets that are held at fair value through profit and loss (FVPL), gains and losses are recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises, unless included in a hedge relationship. Gains and losses from interest, foreign exchange and other fair value movements are separately reported in the statement of financial performance. Transaction costs are expensed as they are incurred.

Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost.

Cash and cash equivalents

Cash and cash equivalents are recognised at amortised cost. Cash and cash equivalents include cash on hand, bank accounts and deposits with an original maturity of no more than three months. They are reported initially and subsequently at the amount invested.

Trade and other payables

Trade and other payables are recognised at amortised cost. Initially and subsequently at the carrying value as being a reasonable approximation to amortised cost as they are typically short term in nature.

Allowances for expected losses

An expected credit loss model is used to recognise and calculate impairment losses for financial assets subsequently measured at fair value through recognition.

The simplified approach to providing for expected credit losses as prescribed by PBE IFRS 9 is applied to trade and other receivables. The simplified approach involves making a provision at an amount equal to the lifetime expected credit loss. The allowance for doubtful debts and trade and other receivables that are individually significant are determined on an individual basis. Those deemed not to be individually significant are assessed on a portfolio basis as they possess shared credit risk characteristics based on the number of days overdue and considering the historical loss experience and incorporating any external and future information.

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 the relationship between hedging instruments and hedged items as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis whether the derivatives

that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in 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 to the Statement of Comprehensive Revenue and Expense in the periods when the hedged items will affect surplus or deficit (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 income statement. 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 surplus or deficit in the Statement of Comprehensive 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.

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 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 (parent entity) is a crown agent and is consequently exempt from paying income tax. New Zealand Food Innovation Auckland Limited and New Zealand Food Innovation (South Island) Limited (both subsidiaries) are tax paying entities.

Income tax expense is the aggregate of current period movements in relation to both current and deferred tax. Current tax is the amount of income tax payable based on the taxable surplus for the current year, plus any adjustments to income tax payable in respect of prior years. Current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Deferred tax is the amount of income tax payable or recoverable in future periods in respect of temporary differences and unused tax losses. Temporary differences are differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable surplus. Deferred tax is measured at the tax rates that are expected to apply when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

The measurement of deferred tax reflects the tax consequences that would follow from the way the group expects to recover or settle the carrying amount of its assets and liabilities. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable surpluses will be available against which the deductible temporary differences or tax losses can be utilised. Current and deferred tax is recognised against the surplus or deficit for the period, except to the extent that it relates to items recognised in other comprehensive revenue or equity.

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 of 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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