Expect.

Callaghan Innovation
Statement of Performance Expectations

1 July 2021 - 30 June 2022

Embedding changes – inside and out

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The context

COVID-19 has proved the power of the 'Team of 5 million' in tackling global challenges - New Zealand now has an opportunity to be 'the place where talent wants to live'. Callaghan Innovation are hugely motivated about our role in delivering Sir Paul's vision, and 2021-22 is a big year in setting us up to do that.

Over the next 12 months, we will continue to focus on how we can:

- Support the implementation of recommendations from the recent review of the R&D Tax Incentive (RDTI), ensuring all customers with expiring Growth Grant contracts are contacted and transferred across to the RDTI if they qualify and ensuring they are aware of the RDTI Transition Support Payment.
- Accelerate New Zealand's economic recovery and deliver on Government priorities
- Encourage and facilitate greater connectedness and more meaningful collaborations between stakeholders in the research, science and innovation system
- Support and facilitate greater involvement of Māori in the research, science and innovation system.
- Manage the Project Grants to ensure expenditure remains within the constraints of the funding appropriation and the programme is able to remain open to applications through to June 2022.

2021-22 will be critically important in continuing our transition to be the exemplar agency that New Zealand needs us to be. By 30 June 2022, we aim to have completed a number of transformational changes that will result in a significantly better experience for our customers and our team, and provide the base we can use to rapidly grow our impact on New Zealand's wellbeing. This includes:

- Implementing new products as part of our updated business model
- Implementing the first stage of our new operating model and behaviours as part of the Tatai Whetu programme
- Delivering digital transformation projects like the online grants platform
- Fully implementing the Research Development Solutions strategy and considering the re-instatement of revenue targets once the strategy has been embedded
- Making significant progress on implementing our four-year remediation of the Gracefield Innovation Quarter, which includes structural upgrades, asbestos contamination remediation and maintenance. We are also in the initial stages of looking at future options for Gracefield. This work will need to be considered within the broader Future Pathways programme of work led by MBIE

We are facing the year with a range of funding challenges. While we managed well through COVID-19, the many flow-on effects of the pandemic on our ecosystem has had an impact on our ability to transform our organisation to a sustainable financial track while continuing to deliver on government's priorities.

We will be using 2021/22 to test, refine and transform how we plan and deliver in line with our 20-year strategic direction so that we are able to share this externally from 2022/23 onwards. This new approach consists of regular planning cycles developed within the context of annual plans, a rolling two-year strategy and the 20-year strategic direction. We have started to reflect elements of this new approach in this SPE by showing our priorities, performance metrics and budgets over a longer term planning horizon.

Over the past few months, we have been developing our 20 year strategic direction and refreshing our priorities to deliver on that direction. The work to date on our long term strategy has shown that our current five year strategy (adopted in 2018) is still directionally correct and has identified opportunities to increase the impact of that strategy. We will share this strategy and ambition in our 2022-27 Statement of Intent and 2022-23 Statement of Performance Expectations.

Pete Hodgson
Chair

Vic Crone
Chief Executive

Contents

We are the Government's innovation agency

Before COVID-19, urbanisation, accelerating technological change, an aging population and greater global connections were already reshaping the world as we knew it. The COVID-19 pandemic has only intensified these trends. This acceleration also brings a unique opportunity - we know from previous recessions that technology and automation rise to the forefront during crises to create new market opportunities and business efficiencies. Innovation and growing high-value R&D will play an important role in New Zealand's economic recovery and future resilience.

As the Government's innovation agency, our role is to stimulate demand and accelerate commercialisation for New Zealand innovation, and connect New Zealand innovators to and remove friction from the innovation ecosystem. We also partner with businesses to empower them to innovate.

Recent examples of initiatives we have implemented to grow R&D include the R&D Tax Incentive (RDTI) with MBIE and Inland Revenue and the Short-term R&D Loans. The RDTI is designed to encourage a wider range of businesses to undertake or grow its investment in R&D, than existing grant incentives. As at April 2021, 864 businesses had enrolled in RDTI, which is almost three times more than the 294 supported under the growth grants system (which RDTI is replacing).

The Short-term R&D Loans enabled R&D performing businesses impacted by the COVID-19 pandemic to maintain R&D activity in the 2020/21 financial year. It was intended to supplement or replace private sources of funds that are temporarily reduced or unavailable because of the impact of COVID-19. As at 31 March, we had processed 453 applications totalling $148.3 million and $147.5 million of this funding had been paid to businesses.

To focus our efforts, we work to identify innovators and organisations that are capable of delivering the greatest innovation impact and have the highest chance of success, namely:

- Firms that are innovating using technology and need access and support to our services and others across the innovation ecosystem.
- Firms that require our technical service support offered via our Research Development Solutions team.

The majority of our funding comes from the Government and is appropriated under Vote Business, Science and Innovation ($93 million in 2021/22 for operating expenses, $48m million for capital expenditure and a further $88 million for co-investment grants). We also generate commercial revenue from the provision of research and technical services to fee paying customers.

As a crown entity, Callaghan Innovation is governed by the Crown Entities Act 2004 and Callaghan Innovation Act 2012. The Ministry of Business, Innovation and Employment (MBIE) monitors our performance on behalf of the Minister of Research, Science and Innovation, who has ministerial responsibility.

Our main objective:

To support science and technology-based innovation and its commercialisation by businesses (primarily in the manufacturing sector and services sector) in order to improve their growth and competitiveness.

1. WE SHOW THE FUTURE

Our **Insights Team** helps both innovators and our organisation to capitalise on the future opportunities created by going beyond the ubiquitous global megatrends.

The **Industry 4.0 Demonstration Network** helps drive the uptake of Industry 4.0 technologies amongst New Zealand manufacturers, with the aim of increasing their productivity and global competitiveness.

AddLab helps inspire and enable businesses to explore the opportunities that additive manufacturing (3D printing) provides for their development processes.

This pillar serves our legislative function to undertake research and development.

2. WE FUEL DEMAND

The **Technology Incubator programme** helps de-risk and accelerate the commercialisation of deep tech ideas through to commercial ventures.

Founder Incubators provide concentrated, core business support and extensive networks for early-stage businesses to help them develop and accelerate their paths to market.

The **Accelerator programme** has the same broad objectives as the incubator programmes, but focuses on rapid and intensive product development to establish investment-ready start-ups, and often complements the services offered by founder and technology incubators.

Kōkiri is a Māori business accelerator programme, based on kaupapa Māori values and focused on accelerating early-stage, Māori-led start-ups with bold ambitions.

The **New Zealand Food Innovation Network** is a national network of processing plants, supporting firms to develop their food and beverage products.

Science for Technological Innovation, hosted by Callaghan Innovation, is a National Science Challenge focused on enhancing New Zealand's capacity to use physical sciences and engineering for economic growth.

Our **Championing Young Innovators programme** seeks to encourage more young people, from primary school to university, to pursue careers in innovation.

This pillar serves our legislative function to invest in persons or projects that may assist businesses to undertake, or benefit from, science and technology-based innovation and related activities.

3. WE EMPOWER INNOVATORS

R&D funding - Callaghan Innovation delivers several funding programmes to incentivise businesses to invest in R&D and support them to grow the size of their R&D programmes. This includes RDTI, project grants, student grants, growth grants and getting started grants.

Our **Sectors teams partner**, either directly or indirectly through the Regional Business Partner Network, with ambitious companies and unique Māori entities to help them achieve success through commercialisation and innovation.

Our **Innovation Skills programmes** help businesses build their innovation capability by helping them acquire the knowledge, skills and motivation to innovate and succeed.

The **HealthTech Activator** is a coordinated, ecosystem-wide support mechanism for early stage founders and companies in New Zealand's health-tech sector.

The **Product Accelerator** undertakes research for innovative manufacturing companies to enable them to compete in and grow their markets.

The **Bioresource Processing Alliance** seeks to increase the volume of high-value materials derived from secondary bioprocessing streams through smart science and technology.

The **Measurement Standards Laboratory** is New Zealand's national metrology institute, providing services that are a key enabler for technology development and the international competitiveness of New Zealand businesses.

The **Gracefield Innovation Quarter** gives businesses access to our best scientific and technical expertise, advice, services and specialist facilities through their co-location in a single site.

Our **Research and Technical Services** group helps businesses to innovate and commercialise through support for design, product development, prototyping and R&D.

GlycoSyn is a world leader in the development and manufacture of active pharmaceutical ingredients for pre-clinical and clinical trials.

KiwiStar Optics is a global leader in precision optics for astronomy, directly contributing capability to New Zealand's space technology sector.

This pillar serves our legislative functions to:

- *Allocate and administer RS&T funding*
- *Provide services to businesses that contribute to Callaghan Innovation's main objective*
- *Foster an environment that encourages and supports businesses to improve their growth and competitiveness through science and technology-based innovation and related activities*

4. WE CONNECT THE ECOSYSTEM

Regional Business Partner Growth Advisors act as account managers, assessing businesses and working with them on their needs and growth opportunities.

Callaghan Innovation develops and maintains **strategic international partnerships** to ensure that New Zealand is at the forefront of innovation best practice.

Scale-Up NZ is a free online platform that makes it faster and easier for ambitious businesses to find and connect with the people, capital and other help they need to innovate and grow, here and offshore.

The **Regional Business Partner Network** provides connections to advice and services to enable New Zealand businesses to grow their capabilities.

We facilitate **clusters** of Māori businesses with a desire to innovate or create shared opportunities. Current clusters include:

- Nuku ki te Puku – a collective of organisations focused on developing high-value nutrition business in Asian markets.
- Hemp Collective – a diverse group of government, Māori and research partners who have helped to develop the potential of hemp, a new legal commercial industry.
- Natural Products Collective – a collective of 110 natural product companies that collaborate, share ideas and resources, and identify where government initiatives can support their growth aspirations.

This pillar serves our legislative functions to:

- *Facilitate the transfer of knowledge and technology between RS&T providers and businesses*
- *Promote and facilitate networking and collaboration among businesses and between RS&T providers and businesses to assist businesses to undertake, or benefit from, science and technology-based innovation and related activities*

5. WE ARE BUILDING THE CRITICAL FOUNDATIONS

Our **Digital Transformation Programme** will improve the productivity and quality of our services both now and in the future.

The **Tātai Whetū programme** is dedicated to improving the way we operate, with a specific focus on the development of our culture and processes.

An **Enterprise Project Management Office** to ensure the strategic alignment and successful delivery of programmes and projects.

Our **Leadership Development programme** helps to improve our leadership capability at each level of the organisation.

Our **Wellbeing Strategy**, based on the te whare tapa whā model of hauora, guides a holistic approach to ensuring the health and wellbeing of our people and organisation.

This pillar ensures our organisation is equipped to best deal with our legislative functions into the future.

Our Team

The Callaghan Innovation team is made up of 458 people ranging from researchers, scientists and engineers to technologists, tax incentive assessors, investment managers and innovation advisors – all working alongside our support teams to empower our customers. Collectively we are working towards achieving our vision of **'New Zealand is a place where talent wants to live.'**

Our Board provides governance over our strategy and performance with five subcommittees (Grants, Audit and Risk, Health and Safety, Gracefield Development Governance Group and People, Culture and Diversity) providing support to the Board.

Our current strategy focuses on driving and accelerating innovation for New Zealand

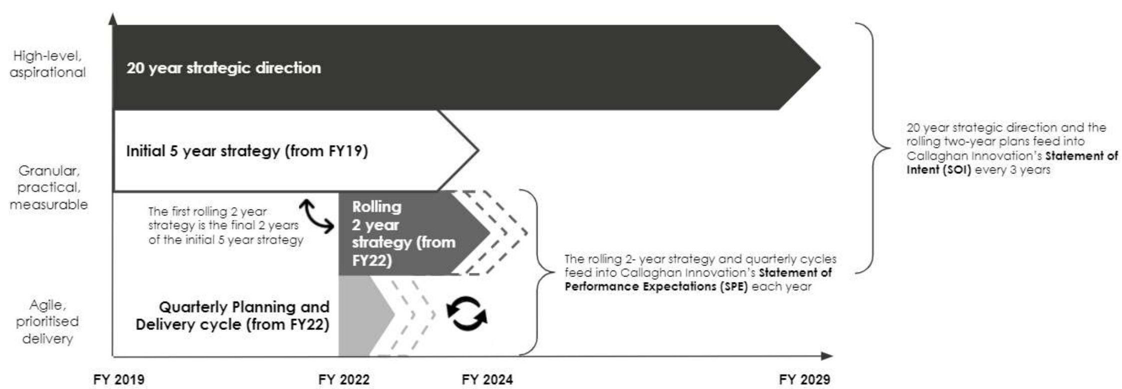
We are reviewing our long-term strategic direction, with the aim of transforming the innovation ecosystem's impact on New Zealand's wellbeing. This 20-year strategic direction will form the base for our next Statement of Intent, which is due to be updated in 2021/22.

This year, we are bringing in new planning cycles to support the implementation of our strategic direction - with a rolling two-year strategy supported by quarterly planning cycles.

We are in the final two years of our initial five year strategy - these final two years are therefore becoming our first rolling two-year strategy. We have updated the priorities for the next two years to maintain our focus on what the Government expects of us in the context of our draft 20-year strategic direction.

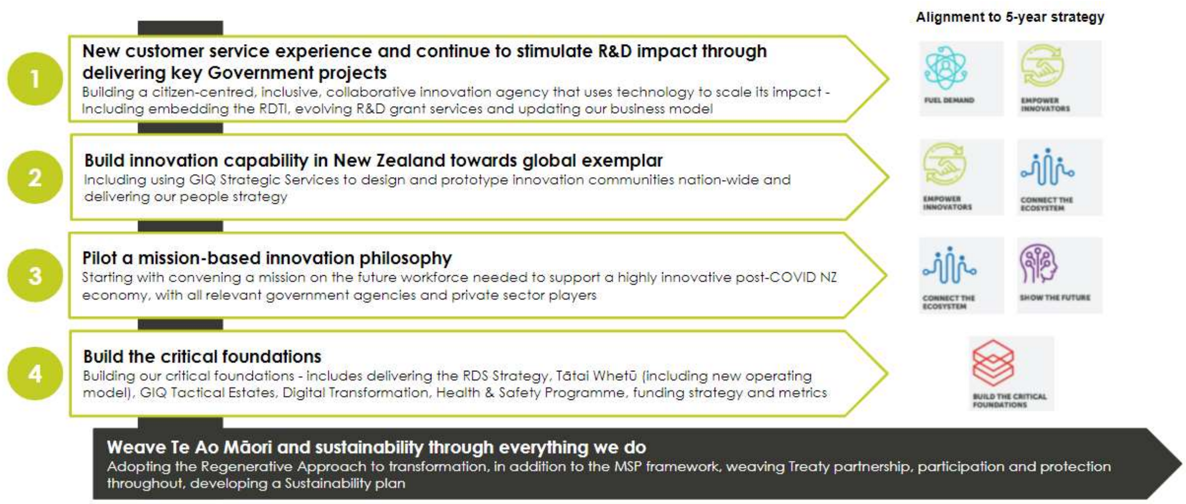
The proposed cycle is outlined in the graphic below:

Figure 1: Our rolling 2 year strategic cycle with quarterly planning cycles is built from our current 5-year strategy, but will eventually replace it



Our focus areas for the next two years are outlined in the graphic below. These are aligned to our current strategy and ensure Callaghan Innovation continues to deliver the Government's priorities (such as the R&D tax incentive) and drive the New Zealand innovation ecosystem. These focus areas also align to our strategic direction - as they accelerate Callaghan's transition to an innovation agency that can play a different role in New Zealand's evolution. This is especially through Callaghan's role in facilitating missions (priority 3) and our aim to weave Te Ao Māori and sustainability through everything we do.

Figure 2: Our focus areas for the next two years align to our current strategy - but also move Callaghan Innovation to a higher-impact role.



Our plan for 2021/22 focuses on delivering on Government priorities and build our foundations for the future

Our priorities

Our priorities for 2021/22 are set within the context of the Minister's annual letter of expectations and our own strategy. For 2021/22 we will be focusing on ensuring our services:

- accelerate New Zealand's economic recovery and deliver on Government priorities, including effective delivery of the R&D tax incentive
- encourage and facilitate greater connectedness and more meaningful collaborations between stakeholders in the research, science and innovation system
- support and facilitate greater involvement of Māori in the research, science and innovation system.

R&D tax incentive
Key to accelerating New Zealand's economic recovery is enabling businesses to grow and commercialise their R&D activities. To this end we will continue to work with Inland Revenue and the Ministry of Business, Innovation and Employment to embed the R&D tax incentive as a viable and effective funding mechanism for businesses. This includes ensuring a successful transition from Growth Grants to the R&D tax incentive for eligible applicants. Having this policy up and running as intended is the best way for us to unleash the innovative capability of New Zealand businesses.

Gracefield Innovation Quarter (GIQ)
The GIQ development is key to accelerating New Zealand's economic recovery and delivering on Government priorities. Its role as a concentrated hub and spoke network of R&D expertise will help to double R&D investment by businesses and help solve large complex challenges like transitioning to a low carbon economy.

The first step for achieving future state for GIQ is to ensure that it is a healthy, safe and fit-for-purpose work environment. GIQ's current work addresses years of deferred maintenance that has resulted in some of our top scientists working in leaking buildings with poor ventilation and heating systems; there is extensive asbestos, poor storage of hazardous chemicals, and many buildings and laboratories are no longer fit for purpose.

In 2021/22 we expect to make progress on the following:

- demolition of four end of life assets completed
- construction of flexible laboratory accommodation completed
- construction of the Measurements Standards Laboratory Time and Radio Frequency Lab completed

- deferred maintenance projects completed including roof and exterior replacements, HVAC replacement and laboratory safety improvements
- construction of a hazardous goods facility commenced
- Construction of flexible office accommodation commenced
- construction of site-wide infrastructure replacement commenced
- design of GlycoSyn laboratory remediation project commenced.

R&D Grant Funding
The provision of grant funding is a key lever that we administer to incentivise businesses to invest in R&D and support them to grow the size of their R&D programmes. We are expecting demand for grant funding to remain high through 2021/22 as the economy continues to rebuild. Project and student grants will be particularly challenging to manage because of this high demand but we are confident that we can manage this programme within the current appropriation.

The shape and size of funding past 2021/22, when the current multi-year appropriation for grants ends, is yet to be finalised and we will work closely with MBIE this year to develop a fit for purpose offering for the future.

Transformation Programme
We know from our strategic direction work that we need to change how we operate if we are to be the exemplar innovation agency that New Zealand needs. In 2021/22 we are aiming to make significant progress on building critical foundations for the future. This includes:

- implementing new products as part of our updated business model
- implementing the first stage of our new operating model and behaviours as part of the Tatai Whetu programme
- delivering digital transformation projects like the online grants platform
- fully implementing the Research Development Solutions strategy
- developing a detailed investment case for how we can turn Gracefield into a truly nationally connected innovation hub. The investment case will need to be considered within the broader Future Pathways programme of work led by MBIE.

Medium term financial trends and pressures

Our planned transformation programmes will continue into the 2022/23 financial year and will require the majority of our available reserves to ensure they are successful. An indicative five year trend is set out below, with a more granular view of the 2021/22 financial year set out in the following section.

Group forecasts excluding Grant income and expense	**2020/21 $million**	**2021/22 $million**	**2022/23 $million**	**2023/24 $million**	**2024/25 $million**
Crown revenue	103.173	108.797	90.409	88.514	79.934
Commercial revenue & other income	22.776	26.505	26.505	26.505	26.505

Total Income	**125.948**	**135.302**	**116.914**	**115.019**	**106.439**
Operating costs	129.286	141.800	118.999	115.019	106.439
Comprehensive income & expenditure	**(3.337)**	**(6.498)**	**(2.085)**	**0.000**	**0.000**
Available retained earnings	**13.706**	**7.209**	**5.124**	**5.124**	**5.124**

This trend highlights that our required investment will reduce our retained earnings to the Board's agreed minimum of $5m by June 2023. This will need to be followed by further cost reductions from 2023/24 onwards, to ensure we operate within our appropriations and have a sustainable operating model.

Our performance expectations by output class

Callaghan Innovation receives Government funding to deliver specific services, programmes and grant funds (outputs). The funding and performance expectations for those outputs are set out in the Estimates of Appropriations for Vote Business, Science and Innovation.

This section sets out the funding and performance expectations for those outputs for 2021/22 and for context, our current expectations for the 2022/23 financial year. We will report our actual performance against these expectations each year as part of our annual report.

We will use the following icons to show how our focus areas, current 5-year strategy and outputs fit together.

Callaghan Innovation Operations: Multi-Category Appropriation

This appropriation enables us to broker and provide innovation services to businesses and deliver programmes enhancing New Zealand's innovation system. Together, this encourages businesses to innovate and develop new and improved products, processes and services.

Cost and Funding (Multi-Category Appropriation)

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation	84.634	79.823	75.955
Crown Revenue - National Science Challenge	17.809	19.702	8.965
Commercial Revenue	16.450	19.892	19.892
Other Revenue	4.988	5.681	5.681
Total Revenue	**123.881**	**125.099**	**110.494**
Expenses	(127.219)	(131.596)	(112.579)
Net surplus/(deficit)	**(3.337)**	**(6.498)**	**(2.085)**

The funding in this appropriation is separated into three categories.

Category 1 - Building Business Innovation

This category funds activities that increase business investment in R&D or raise awareness of its value, both of which are core roles for us. This expenditure is intended to help businesses innovate and grow faster and make the innovation system better. Examples of services funded from this category:

- Supporting customers to access the R&D tax incentive and transitional support.
- 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

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation	39.624	34.955	35.400
Other Revenue	2.160	3.154	3.154
Total Revenue	**41.784**	**38.109**	**38.554**
Expenses	(41.784)	(38.109)	(38.554)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

Category 2 - Research and Development Services and Facilities for Business and Industry

This category funds research and technical expertise and facilities to businesses and industry. This expenditure is intended to help businesses to grow by helping them to meet their research, development and commercialisation needs.

This category is also where we report Crown revenue and related expenses for the Bioresource Processing Alliance and NZ Product Accelerator, totalling $4.425m per year. These values net off to zero, and for accounting purposes are not reflected in the Group financial statements at the end of this document.

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
- investing in pioneering technologies and infrastructure and make it available to New Zealand businesses
- connecting businesses to other technical experts and business collaborators, across New Zealand's innovation ecosystem and worldwide
- having expertise in the technologies that will transform our future, including advanced materials, biotechnologies, advanced manufacturing, artificial intelligence, robotics, and the internet of things
- partnering 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.

Cost and Funding

	2020/21 $million	**2021/22 $million**	**2022/23 $million**
Revenue			
Crown Revenue - Appropriation	37.260	37.118	32.805
Crown Revenue - National Science Challenge	17.809	19.702	8.965
Commercial Revenue	16.450	19.892	19.892
Other Revenue	2.828	2.527	2.527
Total Revenue	**74.347**	**79.239**	**64.189**
Expenses	(77.685)	(85.737)	(66.274)
Net surplus/(deficit)	**(3.337)**	**(6.498)**	**(2.085)**

Category 3 - Business Research and Development Contract Management

Callaghan Innovation currently manages six R&D grant funds. The cost of managing the grant funds are met from this category. Callaghan is responsible for selecting businesses or individuals for either the provision of Research Science and Technology output, or the award of grants, and for negotiating, managing and monitoring the contracts with these businesses or individuals.

The funding 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.

Cost and Funding

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation	7.750	7.750	7.750
Total Revenue	**7.750**	**7.750**	**7.750**
Expenses	(7.750)	(7.750)	(7.750)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

We will measure and report on progress to ensure we are achieving at least 80% of set milestones for our transformation, including:

1. GIQ Programme
2. Digital Transformation
3. Tātai Whetū
4. Homesafe Programme

The following table sets out the performance expectations for the appropriation as a whole and the three categories that sit within it.

Performance Measure	**Performance standard**		
	2020/21	**2021/22**	**2022/23**
Callaghan Innovation Operations Multi-category Appropriation			
Total number of organisations working with Callaghan Innovation on services this Financial Year	2,600	2,600	2,600
Net Promoter Score of all surveyed customers	+60	+60	+60
Number of NZTE Focus customers who use Callaghan Innovation services*	New measure	600	600
Building business innovation category			
Number of customers who worked with Callaghan Innovation in the following services: Events; International Missions; Innovation Skills (formerly 'Programmes')	1,000	1,000	1,000

Performance Measure	Performance standard		
	2020/21	2021/22	2022/23
Net Promoter Score for Callaghan Innovation Services: Events	+30	+30	+30
Net Promoter Score for Callaghan Innovation Services: International Missions	+60	+60	+60
Net Promoter Score for Callaghan Innovation Innovation Skills (formerly 'Programmes')	+60	+60	+60
Category 2 - Research and Development Services and Facilities for Business and Industry			
Number of customers with a Research Development Solutions project this financial year	216-264	250	250
Net Promoter Score from Research Development Solutions	+40	+40	+40
Category 3 - Business Research and Development Contract Management			
Number of new Project and Student grant applications received during the financial year	700	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%	90%

**This measure has been updated to reflect the revised definition of Focus customers used by NZTE.*

Callaghan Innovation Capital Investment

Link to priorities, focus areas and strategy

2 4

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

This capital expenditure supports 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. The major focus for Callaghan Innovation over the next few years is the redevelopment of the Gracefield Innovation Quarter.

Key milestones for our Gracefield Innovation Quarter programme include:

- demolition of four end of life assets completed
- construction of flexible laboratory accommodation completed
- construction of the Measurements Standards Laboratory Time and Radio Frequency Lab completed
- deferred maintenance projects completed including roof and exterior replacements, HVAC replacement and laboratory safety improvements
- construction of a hazardous goods facility commenced
- Construction of flexible office accommodation commenced

- construction of site-wide infrastructure replacement commenced
- design of GlycoSyn laboratory remediation project commenced.

Cost and Funding

	2020/21 $million	2021/22 $million	2022/23 $million
Gracefield Innovation Quarter	0.000	45.800	20.000
Investment into R&D capability	2.100	0.000	0.000
Measurement Standards	1.858	2.135	1.340
Total Capital Investment	**3.958**	**47.935**	**21.340**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance standard		
	2020/21	2021/22	2022/23
Any major capital project proposals are developed in accordance with published Treasury business case guidelines	Achieved	Achieved	Achieved

National Measurement Standards

This appropriation provides funding for our Measurement Standards Laboratory to ensure that New Zealand's units of measurement are consistent with the International System of Units. This is critical for New Zealand companies selling products and services that depend on accurate and internationally accepted traceable physical measurements.

Cost and Funding

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation	8.118	8.567	8.986
Commercial Revenue	0.596	0.610	0.610
Other Revenue	0.015	0.015	0.015
Total Revenue	**8.729**	**9.192**	**9.611**
Expenses	(8.729)	(9.192)	(9.611)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance standard		
	2020/21	2021/22	2022/23
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	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	Achieved

Research and Development Growth Grants

Link to priorities, focus areas and strategy

1

The 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. The Growth Grants operated as a co-funding scheme for private businesses to invest in a multi-year programme of research and development.

Callaghan Innovation provided 20% co-funding for R&D for an initial three years with an extension option, capped at $5 million a year. The Growth Grants scheme finished in March 2021, with recipients having until September 2021 to make their final claims. Requirements for closing the Growth Grant scheme have been communicated to customers, including the close off date of 30 September 2021.

We will be seeking an exemption from end of year performance reporting on the basis that additional performance information is unlikely to be informative.

Transitional Support to R&D Performing Businesses

Link to priorities, focus areas and strategy

1

The R&D Tax Incentive (RDTI) is a broad-based mechanism to support and incentivise R&D across the economy. It is the Government's flagship initiative for achieving our goal of increasing New Zealand's R&D expenditure to two per cent of GDP by 2027. The RDTI came into effect in April 2019 and implementation in most areas has been proceeding well.

In 2020/21, the RDTI was reviewed, and opportunities were identified to improve the R&D eligibility criteria to better meet the objectives for the scheme. The Growth Grant support programme has closed and these customers have been directed towards the RDTI for ongoing R&D support. Callaghan Innovation is working with MBIE and Inland Revenue to ensure eligible customers' transition between these support programmes as smoothly as possible.

An RDTI transitional support payment will be available for eligible Growth Grant customers to support their transition to the RDTI. This will help ensure continuity of financial support for customers who are transitioning between the two schemes while changes to the R&D eligibility criteria are bedded in.

Cost and Funding

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation (Grant Funding)	0.000	9.500	28.500
Total Revenue	**0.000**	**9.500**	**28.500**
Grant Expenses	0.000	(9.500)	(28.500)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

The transitional support will be available in 2021/22 only and performance information has therefore only been set for that year.

Performance Measure	Performance standard		
	2020/21	2021/22	2022/23
The percentage of former Growth Grant recipients that claim the Research & Development Tax Incentive in the 2021/22 year	New measure	60%	N/A

Targeted Business Research and Development Funding

Link to priorities, focus areas and strategy

1

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 (Student Grants) 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 which reverts to an annual appropriation from 2022/23.

Cost and Funding

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation (Grant Funding)	52.490	67.490	37.500
Total Revenue	**52.490**	**67.490**	**37.500**
Grant Expenses	(52.490)	(67.490)	(37.500)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance standard		
	2020/21	**2021/22**	**2022/23**
Number of businesses with active Project Grants this financial year	570	570	570
Net Promoter Score from Project Grants recipients	+70	+70	+70
Percentage of Project Grant recipients who perceived that the grant- funded project: ● Had an overall positive impact on their business ● Increased knowledge acquisition ● Improved business productivity	95% 85% 85%	95% 85% 85%	95% 85% 85%
Net Promoter Score from Student Grant recipients	+70	+70	+70

Note: funding and performance measures for FY2022/23 are indicative only and will be dependent on confirmation of the future format of this programme once the current appropriation finishes in June 2022.

Repayable Grants for Start-ups

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

Cost and Funding

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation (Grant Funding)	17.946	20.746	20.746
Total Revenue	**17.946**	**20.746**	**20.746**
Grant Expenses	(17.946)	(20.746)	(20.746)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

How Callaghan Innovation’s performance will be assessed

Performance Measure	Performance standard		
	2020/21	2021/22	2022/23
Number of customers that received a service from either an incubator or accelerator	170	170	170
Net Promoter Score from incubator or accelerator customers surveyed	Baseline established	+50	+50

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

	2020/21 $million	2021/22 $million	2022/23 $million
Revenue			
Crown Revenue - Appropriation	2.375	2.131	1.003
Total Revenue	**2.375**	**2.131**	**1.003**
Expenses	(2.375)	(2.131)	(1.003)
Net surplus/(deficit)	**0.000**	**0.000**	**0.000**

How Callaghan Innovation’s performance will be assessed

This appropriation has been granted an exemption from performance reporting under section 15D (2)(b)(iii) of the Public Finance Act 1989 as the amount of this annual appropriation for a non-departmental output expense is less than $5 million. We will report progress on this initiative in our quarterly and annual reports.

Budget and Financial Statements

Financial forecasts to 30 June 2022

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 2022 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 2022.

Authorisation statement

The forecast figures reported are those for the year ending 30 June 2022. These were authorised for issue on 9 June 2021 by the Callaghan Innovation Board which is responsible for the forecast financial statements as presented.

Budget 2022 Financial Assumptions

Income and Expenditure

- Forecast activity is based on known and reasonably foreseen operating costs - no allowance has been made for abnormal expenditure items
- Investment in our transformation programmes continues, funded through available retained earnings
- All available Crown funding continues
- Callaghan Innovation is agent for the R&D loan scheme and no financial impacts (either on income, expenditure or the balance sheet) are reflected in the Group Financial Statements
- Current commercial revenue trends continue, and there are no further COVID related impacts on delivery capacity, demand or supply
- Kiwistar Optics operations are included in the Group results (although at a break even margin)
- Unsubmitted growth grants paid out through 2021/22 are in line with accrued claim values at 30 June 2021

Balance sheet and Cashflow

- Opening balances for 2021/22 are in line with the latest available forecast results for the 2020/21 financial year
- Apart from amounts used to fund transformation programme investment, retained earnings are not used for other purposes
- In line with available appropriations, capital contributions are received to fund investment in the Gracefield Innovation Quarter ($45.800m) and the Measurement Standards Laboratory ($2.135m).

Prospective Statement of Comprehensive Income and Expenditure

For the year ending 30 June $million	**2020/21 Budget**	**2020/21 Forecast**	**2021/22 Budget**
Income			
Revenue from the Crown	116.094	103.173	108.797
Revenue from the Crown – Grants	188.800	217.389	97.736
Commercial revenue	18.396	16.963	20.502
Other income	3.404	5.013	5.696
Interest income	0.510	0.799	0.307
Total Income	**327.204**	**343.337**	**233.038**
Expenditure			
Personnel costs	60.141	61.401	69.395
Science project and subcontract costs	37.513	25.789	29.930
Other expenses	30.854	32.794	30.042
Depreciation and amortisation	11.035	9.302	12.433
Grant expense	188.800	217.389	97.736
Total expenditure	**328.343**	**346.674**	**239.535**
Surplus/(deficit)	**(1.139)**	**(3.337)**	**(6.498)**

Prospective Statement of Changes in Equity

For the year ending 30 June $million	**2020/21 Budget**	**2020/21 Forecast**	**2021/22 Budget**
Balance at 1 July	**116.935**	**114.667**	**115.428**
Total forecast comprehensive income & expenditure	(1.139)	(3.337)	(6.498)
Movement in hedge reserve	0.000	0.140	0.000
Capital contribution	12.060	3.958	47.935
Balance as at 30 June	**127.856**	**115.428**	**156.865**

Prospective Statement of Financial Position

As at 30 June $million	2020/21 Budget	2020/21 Forecast	2021/22 Budget
EQUITY			
Contributed capital	109.420	101.493	149.428
Hedge Reserve	0.080	0.228	0.228
Accumulated surplus	18.356	13.706	7.209
TOTAL EQUITY	**127.856**	**115.428**	**156.865**
Current assets			
Cash and cash equivalents	47.703	50.201	62.770
Trade and other receivables	7.072	7.980	7.081
Crown – debtor grants	27.779	96.864	26.864
Other current assets	1.437	1.263	0.783
Total current assets	**83.991**	**156.309**	**97.498**
Non-current assets			
Property plant and equipment	93.965	84.082	116.585
Investments	4.808	4.485	4.511
Total non-current assets	**98.773**	**88.566**	**121.095**
TOTAL ASSETS	**182.764**	**244.875**	**218.593**
Current liabilities			
Trade creditors and other payables	12.204	11.283	13.351
Employee benefits	4.542	5.204	5.504
Grant obligations	27.779	96.864	26.864
Income in advance	9.290	15.188	15.100
Total current liabilities	**53.815**	**128.539**	**60.819**
Non-current liabilities			
Employee benefits	0.318	0.218	0.218
Deferred tax	0.775	0.690	0.690
Total non-current liabilities	**1.093**	**0.909**	**0.909**
TOTAL LIABILITIES	**54.908**	**129.447**	**61.728**
NET ASSETS	**127.856**	**115.428**	**156.865**

Prospective Statement of Cash Flows

For the year ending 30 June $million	2020/21 Budget	2020/21 Forecast	2021/22 Budget
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Crown – operating	116.049	107.696	107.797
Receipts from Crown – grants	188.800	217.389	97.736
Receipts from customers	24.368	23.764	27.004
Interest received	0.540	0.855	0.323
	329.757	**349.703**	**232.860**
Cash was applied to:			
Payments to suppliers	(68.396)	(55.431)	(56.619)
Payments to employees	(60.500)	(64.381)	(68.936)
Payments to grant recipients	(188.800)	(217.389)	(97.736)
	(317.696)	**(337.201)**	**(223.291)**
Net cash flows from operating activities	**12.061**	**12.503**	**9.569**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property plant and equipment	(34.262)	(27.225)	(44.936)
Net cash flows from investing activities	**(34.262)**	**(27.225)**	**(44.936)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Capital contribution	12.060	3.958	47.935
Net cash flows from financing activities	**12.060**	**3.958**	**47.935**
Net increase (decrease) in cash and cash equivalents	**(10.141)**	**(10.765)**	**12.569**
Cash and cash equivalents at the beginning of the year	57.844	60.966	50.201
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**47.703**	**50.201**	**62.770**

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 designated 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.

Funds in advance

Any income or funds received in advance of the corresponding obligations being satisfied are carried as liabilities, until those obligations have been fulfilled.

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 Income and Expense when the third-party recipient can demonstrate they have incurred expenditure that meets the grant conditions, or when it is probable this expenditure has been incurred. An operating commitment is disclosed in the notes to the accounts for those grant contracts awarded but yet to be drawn down either in full or in part.

Repayable incubator grants for start-ups are expensed in the Statement of Comprehensive Income and Expense in the period payment is made due to the uncertainty of future repayment. Repayable grants for start-ups are classified as a contingent asset.

Basis of consolidation

The consolidated prospective financial statements combine the financial statements of Callaghan Innovation, its controlled entities, associates and joint ventures ("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.

Under the equity method of accounting interests in associates 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 an associate equals or exceeds its interests in the associate (which includes any long term interests that, in substance, form part of the Group’s net investment in the associate), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associates.

Impairment in Joint Venture/Associates

The Group periodically reviews the fair value of its investment in its associate/joint venture investment. If the associate net assets exceed the fair value of the Group investment an impairment is recognised in the Statement of Comprehensive Income and Expenses.

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 Income 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.

Where assets are purchased outright they are recognised once control is obtained and the asset is available for use. Where assets are constructed or developed over time, relevant costs are initially captured in capital work in progress and then transferred to fixed assets and depreciated once the constructed asset is available for use.

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 Income 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 Income 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 estimated range of useful lives and associated depreciation rates for major asset classes are set out in the table below. Where assets are integrated into a leased building or location, they are depreciated using the shorter of the useful life below and the remaining lease term.

	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.

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 through surplus or deficit, 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 surplus or deficit. Financial assets may also be designated as fair value through surplus or deficit if doing so eliminates or significantly reduces an accounting mismatch.

All financial liabilities are measured at amortised cost or classified as derivatives used for hedging and measured at fair value.

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 surplus or deficit, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through surplus or deficit are expensed in surplus or deficit.

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 comprehensive income and expenses and presented in other gains/(losses) together with foreign exchange gains and losses.

Impairment losses are presented as a separate line item in the statement of Comprehensive Income and Expenses.

For assets that are held at fair value through surplus or deficit, gains and losses are recognised in Comprehensive Income and Expenses 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 Comprehensive Income and Expenses. 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 Income and Expense. Amounts accumulated in equity are recycled to the Statement of Comprehensive Income 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 Statement of Comprehensive Income 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 Income 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 Income 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 the Group are classified as operating leases. Payments under operating leases are recognised as an expense on a straight line basis over the lease term.

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.

Long-term employee entitlements

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

- Likely future entitlements accruing to staff, based on years of service, years to entitlement, the likelihood that staff will reach the point of entitlement and contractual entitlements information.
- The present value of estimated future cash flows. The discount rate is based on risk-free discount rates published by the New Zealand Treasury. The inflation factor is based on the expected long- term increase in remuneration for employees.

Superannuation schemes

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