CallaghanInnovation

STATEMENT OF PERFORMANCE EXPECTATIONS

FOR THE YEAR ENDING 30 JUNE 2015

Callaghan Innovation accelerates commercialisation of innovation by firms in New Zealand

Statement of Responsibility

The Callaghan Innovation Board is responsible for the preparation of the Statement of Performance Expectations, including annual forecast financial statements and the judgements used in them.

The Board is also responsible for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting.

In the Board's opinion, the Statement of Performance Expectations and the forecast financial statements fairly reflect the expected operations of Callaghan Innovation for the year to 30 June 2015.

Sue Suckling	**Richard Janes**
Chair	Board member

1. Introduction

Callaghan Innovation is a new Crown entity established in 2013 with a mission to accelerate the commercialisation of innovation by firms in New Zealand.

Its main sector focus is the High-Value Manufacturing and Services (HVMS) sector and it aims to help HVMS businesses realise value from their ideas, faster. Callaghan Innovation will stimulate growth in the HVMS sector by endeavouring to have more – and bigger – HVMS firms, and will do this by working with new and existing firms to encourage and enable a faster pace of innovation.

Due to the unique research and development (R&D) challenges in the HVMS sector, such as the high cost and high risks of investing in high-tech R&D versus the perceived benefits, and the lack of information and coordination of optimal science and innovation resources, government intervention was deemed necessary to enable a step-change in the innovation rate of this sector. This government intervention included the creation of Callaghan Innovation.

Callaghan Innovation is a unique Crown entity as it receives both Crown funding and private commercial revenue. Its receipt of Crown funding through five output classes reflects the scale and diversity of its public good activities. It also administers four business R&D grant programmes on behalf of the Crown. Callaghan Innovation aims to earn the trust of businesses by adding real value to businesses, acting with integrity, being an honest and transparent agency, and also aims to focus on continuously learning and improving its value offering to business.

Callaghan Innovation will do this by putting businesses first and responding to businesses' R&D needs in a relevant and dynamic manner. Its services are configured to meet businesses' needs and to help fuel business growth, and it will adapt its suite of services to reflect the demand and feedback from its clients.

Callaghan Innovation has developed five strategic initiatives that it will focus on for the next four years, as stated in our Statement of Intent 2014–2018:

- **Strategic Initiative One:** Build innovation skills and programmes for HVMS companies that want to grow, enabling these firms to transform their own rate of commercialisation
- **Strategic Initiative Two:** Support clusters of firms with customised action plans to break through their shared barriers to innovation
- **Strategic Initiative Three:** Build the product development skills of HVMS firms by creating technology networks that provide advice, facilities and outsourced R&D services for firms
- **Strategic Initiative Four:** Unleash the innovation potential of the Māori economy by making sure our services are 'fit for Māori'
- **Strategic Initiative Five:** Inspire current and future generations of New Zealanders to become ambitious and confident global innovators.

It is important to note that Callaghan Innovation will complement other agencies and organisations that operate in the science and innovation space. It is the aim of Callaghan Innovation to work closely with its partners (such as NZTE, MBIE, universities, institutes of technology and polytechnics, and economic development agencies) to help businesses realise their goals and extract value quickly and effectively.

2. Measuring and evaluating our performance

Callaghan Innovation directly supports building a more effective and productive economy for New Zealand through its contribution to the Government's Business Growth Agenda. As a vital contributor, we want the HVMS sector to grow faster by having more – and bigger – smarter firms.

Our impacts will not be seen immediately and measuring our short-term effectiveness is challenging due to the long term goals we, as an agency, have in contributing to the Business Growth Agenda. Consequently, we have focused on measuring the effectiveness and quality of the Callaghan Innovation services and assistance we are providing to HVMS firms. The following intervention logic outlines the relationship between our strategic initiatives, our mission and the five output classes, including further indicators we will use to evaluate our performance.

Government Priority

Build a more competitive and productive economy

"more, bigger, smarter firms"

Indicators

- ↑ Value of HVMS exports from $6.72b to $10b by 2025
- ↑ Number of companies in TIN200 with turnover >$20m by 2025

Callaghan Innovation's Mission

Accelerating the commercialisation of innovation

"helping firms realise the value of ideas, faster"

Biennial Indicators

- ↑ BERD as a % of GDP by 2020
- ↑ Number of firms (including Māori*) conducting R&D by 2020
- ↑ % or number of firms using the services of universities, CRIs and Callaghan Innovation by 2020
- ↓ % number of firms (including Māori*) reporting capital and skill constraints by 2020
- ↑ Number of firms (including Māori*) innovating by 2020

Strategic Initiative One

Build innovation skills and programmes for HVMS companies that want to grow, enabling these firms to transform their own rate of commercialisation

Annual Indicators

- Number of firms with successful** study internships
- Firms successfully** completing their 1st R&D project co-funded by Government
- Firms successfully** graduating from incubators
- Number of firms successfully**completing training programmes

Strategic Initiative Two

Support clusters of firms with customised action plans to break through their shared barriers to innovation

Annual Indicators

- Number of collaborative ventures
- Number of firms engaged in collaborative ventures reporting positive impacts on their business model

Strategic Initiative Three

Build the product development skills of HVMS firms by creating technology networks that provide advice, facilities and outsourced R&D services for firms

Annual Indicators

- Number of parties in each network
- Number of sub-contracts between network members
- Callaghan Innovation commercial revenue

Strategic Initiative Four

Unleash the innovation potential of the Māori economy by making sure our services are 'fit for Māori'

Annual Indicators

- Māori participation rates in strategic initiatives One, Two, Three and Five

Strategic Initiative Five

Inspire current and future generations of New Zealanders to become ambitious and confident global innovators

Annual Indicators

- Number of science, engineering, technology and design (SETD) graduates
- Number of media reports extolling innovation
- Number of nominations for innovation awards

Output Class Four

Business R&D Contract Management

Number of:
- Growth grants
- Project grants
- Student grants
- Repayable grants (Incubators)

Satisfaction scores

Output Class Two

Realising benefits of innovation

Number of firms seen by:
- Business innovation advisors (BIA)
- Better by IP
- Better by Lean
- Better by Capital [NZTE]
- Better by Design [NZTE]
- National and International networking

Satisfaction scores

Output Class Three

Strategic Investment

Number of scientists and $$ available for:
- Product development/ prototyping
- Open laboratories, workshops and pilot plants
- Testing and failure analysis
- Near market research
- Contracting R&D services

Output Class Five

National Measurement Standards

Number of scientists and $$ available for:
- Calibration,standards, regulations and compliance
- Specialist measurement and expert consultancy services

Output Class One

Building Innovation Potential

Number of $$ given to:
- Innovation events and awards
- Organisations that inspire future innovators and connect them with business e.g. Chiasma and Futureintech

*There is currently no means of tracking impacts on Māori firms. We will discuss with TPK, MBIE and Statistics NZ options for tracking this indicator in the BOS or the R&D survey

**Success as defined by the policy for the programme

3. Reportable classes of outputs

This Statement of Performance Expectations sets out the annual performance expectations for Callaghan Innovation's reportable classes of outputs. Appropriations for which Callaghan Innovation is responsible are set out in the table below. In addition, Callaghan Innovation is responsible for reporting performance of business R&D grants and incubator grants that it invests on behalf of the Minister of Science and Innovation.

The overarching outputs sought from the activities in the year to 30 June 2015 are:

- The further development and implementation of a portfolio of services that will accelerate commercialisation of innovation by firms in New Zealand
- Fostering a culture of innovation and building excitement about business growth potential within Callaghan Innovation and among current and future generations of ambitious entrepreneurs
- All activities under the five output classes also contribute to supporting Māori HVMS firms' economic potential.

Below is a summary of our budget appropriation funding for each output class, the grant funding that we are responsible for reporting on, and our commercial revenue.

Table 1: Callaghan Innovation Output Classes

	Output Class	Budget appropriation 2014/15 $M
OC 1	Building Innovation Potential	9.1
OC 2	Realising the Benefits of Innovation	23.3
OC 3	Callaghan Innovation Strategic Investment	19.5
OC 4	Business Research and Development Contract Management	6.8
OC 5	National Measurement Standards	5.8

Table 2: Callaghan Innovation Business Research and Development Grants and Incubators

Business Research and Development Grants and Incubators	Budget appropriation 2014/15 $M
Research and Development Growth Grants	96.6
Targeted Business Research and Development Funding	44.9
Accelerating Start-ups	5.6
Repayable Grants for Start-ups	7.8

Table 3: Callaghan Innovation Commercial Revenue

Commercial Revenue	$M
Commercial Revenue Total	16.1

Output Class One: Building Innovation Potential

This appropriation funds activities that build innovation potential for HVMS firms, through providing and enhancing access to information, training, mentoring, foresighting, networking and leadership across the innovation system, and facilitating human capital mobility, for both businesses and research, science and technology providers.

Callaghan Innovation will deliver services and outputs in two areas:

- **Motivating an innovation culture:** Outputs providing a coordinated programme of events, sponsorship, awards and information. This is also supported by Business R&D Student Grants that support internships.
- **Building innovation skills and expertise:** Outputs providing training courses, information and tailored advice and support from commercial and technical specialists. This is also supported by Business R&D Project Grants that help businesses to upskill.

In 2014/15 we will continue to implement new programmes and monitor and respond to the demand for these.

The effectiveness of these outputs will be assessed by progress in implementing activities and the growing awareness and conversion of innovation to commercial value, as reflected in the number of firms seeking access to services. The longer-term effectiveness of these services is expected to contribute to growth in the proportion of all firms reporting innovation in new products and processes, as reported in Statistics New Zealand biennial surveys.

Output Class One Cost and funding	2014/15 $M
Income	
Crown appropriation	9.1
Expenses	**9.1**
Surplus/(Loss)	**0**[1]

1 Funding provided through this output class may be reallocated in conjunction with joint Ministers' approval.

Performance measures	Performance standard 2014/15
Delivery of a programme of events, sponsorships, and information services, in accordance with Callaghan Innovation business case and strategy	Programme delivered in accordance with programme plan
Number of business-related contacts to Customer Engagement Centre seeking access to business services	>100 average per month
Percentage of students and businesses with positive experiences through the internship programme	80% positive experience

Output Class Two: Realising the Benefits of Innovation

This appropriation funds activities that build the level of, and returns from, science and technology-driven innovation through providing tailored brokerage and access to advice, technical services and facilities, and creating linkages, projects and collaborations between business and industry and research, science and technology providers.

Callaghan Innovation will deliver outputs in two areas:

- **Business-focused connectivity:** Outputs that enable firms to connect to the expert, research and technical services they need to commercialise successfully. This is also supported by Business R&D Project and Growth Grants that support technology development.
- **Networks and projects:** Outputs that support and coordinate national technology networks of science, engineering, technology and design expertise across New Zealand and offshore, and help companies to find and effectively utilise these resources. This is also supported by Business R&D Project Grants that support collaboration.

In 2014/15 Callaghan Innovation will continue to implement new services and monitor and respond to the demand for these.

The effectiveness of these outputs will be assessed by growth in private sector R&D towards the government goal of 1% of GDP and growth in innovation activity, as measured in biennial Statistics New Zealand surveys. Private sector funded R&D is a strong, although incomplete, measure of impact over time, as it is a proxy for technology or knowledge intensity, which, in turn, underpins high-margin high-value products that are competitive in global markets. New Zealand's private sector R&D as a percent of GDP is currently well below similar OECD countries.

Output Class Two Cost and funding	2014/15 $M
Income	
Crown appropriation	23.3
Expenses	**23.3**
Surplus/(Loss)	**0[2]**

Performance measures	Performance standard 2014/15
Business expenditure on R&D as percentage of GDP as measured in the biennial business R&D survey – every second year	Increase above previously surveyed level
Number and proportion of businesses with product and process innovations, and percentage of sales from new or significantly improved goods and services, as measured in the biennial innovation module of the Business operations survey (reported in 2014/15)	Increase above previously surveyed level
Number of New Zealand businesses accessing Accelerator Services	Establish baseline

Output Class Three: Callaghan Innovation Strategic Investment

This appropriation funds Callaghan Innovation for the development and maintenance of science, engineering, technology, design and other strategic capabilities required to develop, deliver, improve and evaluate its services and activities to meet the immediate and future needs of business and industry, and to facilitate its interactions with research science and technology providers.

Research and technical services provided through this output class include: product development and prototyping; calibration, standards, regulation and compliance; open laboratories, workshops and pilot plants; and testing and failure analysis.

The mix of services provided will evolve as Callaghan Innovation monitors the response to and uptake of services provided. Performance will be assessed by the level of co-funding from businesses as a proxy for demand for, and value of, services. Callaghan Innovation will also undertake rolling reviews of the alignment between its research and technical services capabilities, and business demand.

2 Funding provided through this output class may be reallocated in conjunction with joint Ministers' approval.

Output Class Three Cost and funding	2014/15 $M
Income	
Crown appropriation	19.5
Expenses	**19.5**
Surplus/(Loss)	**0**[3]

Callaghan Innovation also receives private commercial revenue.

Commercial Revenue Cost and funding	2014/15 $M
Income	
Total commercial revenue	16.1
Expenses	**16.1**
Commercial revenue surplus/(loss)	**0**

Performance measures	Performance standard 2014/15
Rolling reviews of the relevance of research and technical services to business are completed	Two reviews completed
Private sector co-funding and commercial revenue leveraged	>40%
Number and percentage of New Zealand businesses accessing research and technical services	Establish baseline

3 Funding provided through this output class may be reallocated in conjunction with joint Ministers' approval.

Output Class Four: Business Research and Development Contract Management

This appropriation funds the selection of businesses or individuals for either the provision of research science and technology outputs, or the award of grants, and to negotiate, manage and monitor appropriate contracts with these businesses or individuals.

Effectiveness will be measured by adherence to best practice investment, monitoring and evaluation processes. Feedback loops will be implemented to ensure the best possible service is provided.

Output Class Four Cost and funding	2014/15 $M
Income	
Crown appropriation	6.8
Expenses	**6.8**
Surplus/(Loss)	**0**[4]

Performance measures	Performance standard 2014/15
Grants allocated consistent with ministerial directions	100% grants
Contracts are monitored and managed to maximise likelihood of delivering on the contract outcomes[5]	100% contracts
Applications for on-demand investments over $250,000 are independently reviewed by experts	100% of proposals recommended

Output Class Five: National Measurement Standards

This appropriation funds Callaghan Innovation in providing specified standards to satisfy the needs for traceable physical measurement in New Zealand.

Section 4 of the Measurement Standards Act 1992 states: *"The Minister of Science and Innovation shall provide for the use throughout New Zealand of uniform units of measurement of physical quantities, and for the establishment and maintenance of standards of measurement of physical quantities."*

Callaghan Innovation has responsibility for the Measurement Standards Laboratory of New Zealand functions under the Measurement Standards Act 1992 and the National Standards Regulations 1976.

4 Funding provided through this output class may be reallocated in conjunction with joint Ministers' approval.
5 Applies to contracts that are greater than six months in duration.

Output Class Five Cost and funding	2014/15 $M
Income	
Crown	5.8
Expenses	**5.8**
Surplus/(Loss)	**0**[6]

Performance measures	Performance standard 2014/15
Provision of national measurements and standards and related services in accordance with the Minister's statutory obligations under section 4 of the Measurement Standards Act, reported six-monthly to the Minister	Reports accepted
Maintenance of the national measurement standards in accordance with the resolutions and recommendations of the Metre Convention with all technical procedures related to the measurement standards validated and reviewed six-monthly	Reviews completed

6 Funding provided through this output class may be reallocated in conjunction with joint Ministers' approval.

Business Research and Development Grants and Incubators

Research and Development Growth Grants

Growth Grants are funded by the Crown through a multi-year appropriation.

Growth Grants provide a 20% Crown contribution to three-year R&D programmes targeting businesses with a track record of R&D spending in New Zealand. Growth Grants support established businesses doing R&D to grow further and faster through additional investment in R&D.

Cost and funding	Est. 2014/15 $M
Income	96.6
Expenses	96.6
Surplus/(Loss)	0

Performance measure	Performance standard 2014/15
Percentage of businesses receiving a grant that maintain or increase their R&D expenditure over the grant period	70%

Targeted Business Research and Development Funding

Project Grants and Student Grants are funded by the Crown through a multi-year appropriation. They support established businesses to grow further and faster through moving in to new areas of technology and hosting student interns that bring leading-edge knowledge and expertise to the business.

Project Grants target firms with smaller R&D programmes and those that are new to R&D, and provide a 30-50% Crown contribution to an approved R&D project. Supported R&D programmes deliver benefits for both businesses and the wider economy.

Student Grants fund students to work in research and development-active businesses.

Cost and funding	Est. 2014/15 $M
Income	44.9
Expenses	44.9
Surplus/(Loss)	**0**

Performance measures	Performance standard 2014/15
Percentage of maturing R&D projects contracts that are assessed as delivering as agreed	90%
Funds invested in active student internships	95%

Estimated New Grant Commitments 2014/15

Grant	Number	Average size $000	Govt. share %	Performance standard 2014/15
Growth	70	1,300	20	Target met
Project	300	105	40	Target met
Students	348	29	100	Target met

Accelerating Start-ups

This appropriation provides funding for founder-focused and technology-focused incubators. These support growth of new start-ups in approved incubators. Incubators work with high-growth potential start-up businesses to speed up their path to market.

Effectiveness will be assessed by the number of successful start-ups.

Cost and funding	Est. 2014/15 $M
Income	5.6
Expenses	5.6
Surplus/(Loss)	0

Performance measures	Performance standard 2014/15
First technology-focused incubator established	In place
Percentage of incubator contracts that are assessed as delivering as required	90%

Repayable Grants for Start-ups

This appropriation funds start-up businesses in the early stage. It is intended to support the development and growth of business start-ups within a technology-focused incubator.

Effectiveness will be assessed by the growth in the number and value of technology-focused incubator companies.

Cost and funding	Est. 2014/15 $M
Income	7.8
Expenses	7.8
Surplus/(Loss)	0

Performance measure	Performance standard 2014/15
Process in place for allocation and management of repayable grants	In place

4. Financial Forecasts to 30 June 2015

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

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

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

Budget 2015 Financial Assumptions

Profit and Loss

1. The 2015 budget is based on the Callaghan Innovation business plan approved by the Minister of Science and Innovation, published December 2013, and modified where appropriate to reflect currently planned initiatives
2. The continued operational funding from the Crown. The 2015 budget includes a contestable funding tail of $6.3 million
3. Commercial revenue increase of 11%, compared with 2014 forecast commercial revenue. The 2015 target is partially offset by the loss of commercial revenue due to the transfer of two science teams to Victoria University
4. Expenditure
    - Subcontracts and programmes – increased expenditure due to continuation and start of new initiatives, including Strategic Initiatives Fund, Global Expert, Commercialisation fund, and High Performance Working Initiative (HPWI)
    - Travel – increased travel expenditure due to establishment of Accelerator Services and subsequent requirement for staff travel within this team
    - Salaries and wages – total net increase due to establishment of the Accelerator Services team, offset by transfer of two science teams to Victoria University
    - Property and insurance – increase due to expenditure required to maintain the Gracefield science precinct
    - Professional services and communications increased due to newly established marketing and communications activity including ‘Better by’ programmes
    - No transitioning or redundancy costs in 2015.

Balance Sheet and Cash Flow

1. Balance sheet opening balances are based on Callaghan Innovation forecast to 30 June 2014
2. Higher trade debtors and creditors due to increased commercial revenue and general business activity
3. Increased equity due to $0.8 million net surplus and $9.0 million Crown capital appropriation to fund further capital investments
4. Capital expenditure of $17.2 million, made up of investment in scientific plant and equipment, infrastructure (buildings/laboratories) $13.2 million and potential investment in pilot food plant facilities.

Statement of Forecast Comprehensive Income

For the year ended 30 June 2015	2015 BUDGET $M
Continuing operations	
Revenue from the Crown	70.8
Revenue from the Crown – Grants	154.9
Commercial revenue	16.1
Total revenue	241.8
Other income	3.0
	244.8
Personnel costs	(42.7)
Science project and subcontract costs	(22.1)
Other expenses	(18.4)
Depreciation and amortisation expense	(6.4)
Grant expense	(154.9)
Operating profit	**0.3**
Finance income	0.6
Operating surplus	**0.9**

Statement of Forecast Changes in Equity

For the year ended 30 June 2015	2015 BUDGET $M
Balance as at 1 July 2014	37.4
Operating surplus	0.9
Total comprehensive income	**38.3**
Contribution from owners	
Capital injection	9.0
Balance as at 30 June 2015	**47.3**

Statement of Forecast Financial Position

As at 30 June 2015	2015 BUDGET $M
EQUITY	
General funds	47.3
TOTAL EQUITY	**47.3**
Represented by **CURRENT ASSETS**	
Cash and cash equivalents	8.7
Trade and other receivables	3.3
Crown – debtor grants	67.6
Work in progress	0.7
Inventories	0.3
Total current assets	**80.6**
NON-CURRENT ASSETS	
Property plant and equipment	47.3
Deferred tax	0.2
Total non-current assets	**47.5**
TOTAL ASSETS	**128.1**

CURENT LIABILITIES	
Trade creditors and other payables	5.8
Employee benefits	4.1
Grant obligations	67.6
Income in advance	2.7
Total current liabilities	**80.2**
NON-CURRENT LIABILITIES	
Employee benefits	0.6
Total non-current liabilities	**0.6**
TOTAL LIABILITIES	**80.8**
NET ASSETS	**47.3**

Statement of Forecast Cash Flows

For the year ended 30 June 2015	2015 BUDGET $M
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash was provided from	
Receipts from Crown – operating	79.5
Receipts fron Crown – grants	154.9
Receipts from commercial customers	20.6
Interest received	0.7
	255.7
Cash was applied to	
Payments to suppliers	(50.9)
Payments to employees	(41.8)
Payments to grant recipients	(154.9)
	(247.6)
Net cash flows from operating activities	**8.1**

CASH FLOWS FROM INVESTING ACTIVITIES	
Cash was applied to	
Purchase of property plant and equipment	(17.2)
Net cash flows from investing activities	**(17.2)**
CASH FLOWS FROM FINANCING ACTIVITIES	
Cash was provided from	
Capital injection	9.0
Net cash flows from financing activities	**9.0**
Net increase (decrease) in cash and cash equivalents	**(0.1)**
Cash and cash equivalents at the beginning of the period	**8.8**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**8.7**
Cash balance at end of the period comprises	
Cash and call call deposits	8.7
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**8.7**

Appendix: Statement of accounting policies

Reporting entity

Callaghan Innovation is a Crown agent, as defined by the Crown Entities Act 2004, and is domiciled in New Zealand. Callaghan Innovation's parent is the New Zealand Crown.

The consolidated financial statements of the Group comprise Callaghan Innovation, its subsidiaries, associates and joint ventures.

Callaghan Innovation Group commenced activities on 1 February 2013.

Basis of preparation

Statement of compliance

The financial statements of Callaghan Innovation 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). New Public Sector PBE standards will be effective on or after financial periods beginning on or after 1 July 2014. Callaghan Innovation is assessed as Tier 1 under new accounting standards. Accordingly, these financial statements will be prepared in accordance with NZ Public Benefit Entity International Public Sector Accounting Standards (NZ PBE IPSAS).

Measurement base

The financial statements have been prepared on a historical cost basis, modified by the revaluation of certain investments and financial instruments as identified in specific accounting policies and accompanying notes.

Functional and presentation currency

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

Significant accounting policies

The accounting policies set out below have been applied to these financial statements.

Revenue

Revenue is measured at fair value of consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the Crown – operational grants

Callaghan Innovation is primarily funded through revenue received from the Crown that is restricted in its use for the purpose of Callaghan Innovation meeting its objectives as specified in the Statement of Intent.

Grants (Crown revenue)

Grants received are recognised in the income statement when the requirements under the grant have been met. Any grants for which the requirements have not been completed are carried as liabilities until all conditions have been fulfilled.

Government grants are recognised at their fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

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

Where the grant relates to an asset, the fair value is credited to an income in advance account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Provision of goods and services (commercial revenue)

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

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

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Non-government grants are recognised as revenue when they become receivable, unless there is an obligation to return funds if the conditions of a grant are not met. If there is such an obligation, the grant is initially recorded as grant received in advance and recognised as revenue when the conditions of the grant have been satisfied.

Interest

Interest income is recognised using the effective interest method.

Royalty income

Royalty income is recognised on an accruals basis in accordance with the substance of the relevant agreements.

Borrowing costs

Borrowing costs are recognised as an expense in the periods in which they are incurred.

Grants expenditure

Grants are approved and administered by Callaghan Innovation for a variety of purposes and periods. Grant expenditure is recognised in the Statement of Comprehensive Income when the third party recipient can demonstrate they have incurred expenditure that meets the grant conditions. An operating commitment is disclosed in the notes to the accounts for those grant contracts awarded but yet to be drawn down.

Basis of consolidation

The consolidated financial statements combine the financial statements of Callaghan Innovation, its subsidiaries, associates and joint ventures as at 30 June 2014 ("the Group").

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

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

All inter-company balances and transactions, including unrealised profits arising from intra-Group transactions, have been eliminated in full. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Callaghan Innovation has control.

The purchase method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at fair value of the assets given and liabilities incurred at the date of exchange. Identifiable assets and liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

Investment in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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 profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Investment in associates

Associates are those entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Group investments in associates are accounted for using the equity method.

The financial statements of the associate are used by the Group to apply the equity method. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency

Transactions in foreign currencies are initially recorded in the functional currencies at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the balance sheet date.

Exchange gains and losses and hedging costs arising on contracts entered into as hedges of firm commitments are deferred in equity as qualifying cash flow hedges until the dates that the underlying transactions will affect profit or loss.

All other foreign currency translation differences in the consolidated financial statements are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in foreign currencies are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in foreign currencies are translated using the exchange rate at the date when the fair value was determined.

Property, plant and equipment

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

Additions

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

Disposals

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

Subsequent costs

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

Depreciation

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

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

Intangible assets

Research and development costs

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure from the point at which the asset is ready to use, the cost model is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure capitalised is amortised over the period of expected future sales from the related project from the point the asset is ready for use.

The amortisation period and amortisation method for development costs are reviewed at each financial year end. If the useful life or method of consumption is different from that in the previous assessment, changes are made accordingly. The carrying value of development costs is reviewed for indicators of impairment annually.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and gain the right to use the specific software.

Computer software development costs recognised as assets are amortised over their estimated useful lives (between three and five years). The costs of maintaining computer software are expensed as incurred.

Patents

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

Impairment of non-financial assets

Plant and equipment and intangible assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Value in use is depreciated replacement cost for an asset where its future economic benefits or service potential are not primarily dependent on its ability to generate net cash inflows and where Callaghan Innovation would, if deprived of the asset, replace its remaining future economic benefits or service potential.

If an asset's carrying amount exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the statement of comprehensive income.

For assets not carried at a re-valued amount, the reversals of impairment losses are recognised in the statement of comprehensive income.

Recoverable amount of non-current assets

At each reporting date, the Group assesses whether there is any indication that a non-current asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Financial assets

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

a. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial assets held for trading and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Derivatives are also categorised as at fair value through profit and loss, unless they are designated as hedges.

b. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

The Group's loans and receivables comprise 'cash and cash equivalents' and 'trade and other receivables' in the balance sheet.

Regular purchases and sales of financial assets are recognised on the trade dates, the dates on which the Group commits to purchase or sell the assets. Loans and receivables are carried at amortised cost, using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Derecognition of financial instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the dates that derivative contracts are entered into and are subsequently 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 if so, 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 income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss (for instance when a forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non- financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the 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 income statement.

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 these derivative instruments are recognised immediately in the income statement.

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. Costs incurred in bringing each item to its present location and condition, are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis

Work-in-progress

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

Trade and other receivables

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

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

Cash and cash equivalents

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

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other payables

Creditors and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

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

Leases that transfer substantially to Callaghan Innovation all the risks and rewards incidental to the ownership of an asset, whether or not title is eventually transferred, are classified as finance leases. At the commencement of the lease term, Callaghan Innovation recognises finance leases as assets and liabilities in the statement of financial position at the lower of the fair value of the leased item or the present value of the minimum lease payments.

The finance expense is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The amount recognised as an asset is depreciated over its useful life. If it is uncertain that Callaghan Innovation will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Lease incentives received are recognised in the statement of comprehensive income over the lease term as an integral part of the total lease charge.

Operating leases

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. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the Statement of Comprehensive Income.

Employee benefits

Short-term employee entitlements

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

Long-term employee entitlements

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

The calculations are based on:

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

Superannuation schemes

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

Income tax

Callaghan Innovation is a public authority and is consequently exempt from paying income tax.

Goods and Services Tax

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 IRD is included as part receivables or payables in the statement of financial position. The net GST paid to, or received from, the IRD, 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.