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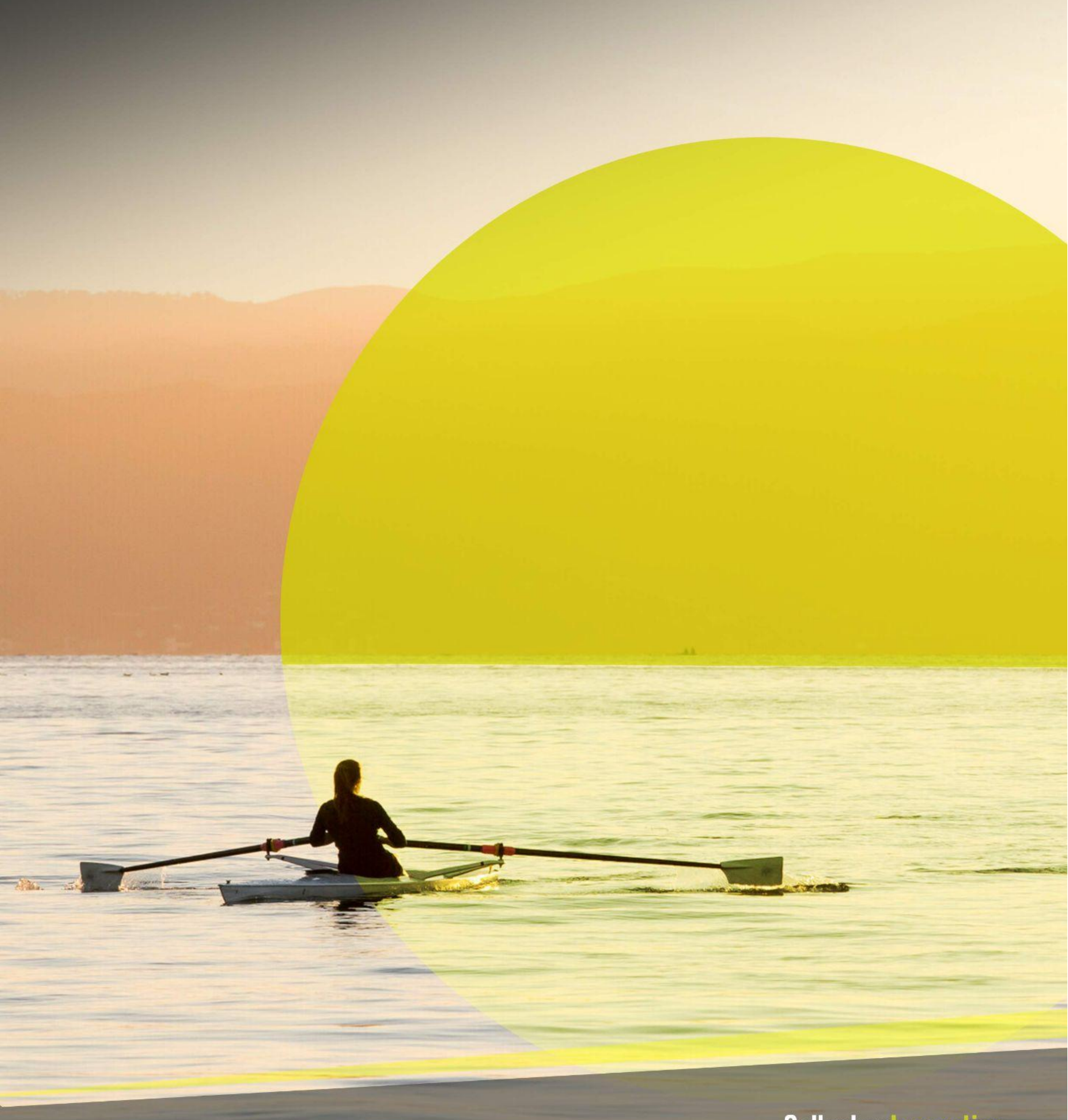

Statement of Performance Expectations: FY23

Callaghan Innovation
Te Pokapū Auaha o Aotearoa

Callaghan Innovation

Statement of Performance Expectations (SPE): FY23

Rukuhia te wāhi ngaro, hei maunga tātai whetū
Explore the unknown, pursue excellence

Contents

Chair and CEO's foreword

This *Statement of Performance Expectations* enables the public, Parliament, Ministers and the Ministry of Business Innovation and Employment (MBIE) to track Callaghan Innovation's progress against the commitments made in our Statement of Intent. It is the first Statement of Performance Expectations under our *new Statement of Intent 2023–2027*. Together these two documents describe Callaghan Innovation's purpose, the focus for the next five years and how Callaghan Innovation will measure success.

Callaghan Innovation's main objective is to support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing and services sectors, in order to improve their growth and competitiveness. We grow New Zealand's innovation economy and contribute to improved social outcomes by helping fast-growing, high-tech businesses succeed.

Callaghan Innovation's strategy for the next five years, outlined in our Statement of Intent, is based on intensifying our support for customers who have the largest potential impact for New Zealand, while still delivering great, efficient support for innovators outside that target group, supported by scalable digital tools where required.

This will require working closely with customers and partner agencies to continuously improve our services and performance and deliver on Government priorities. Therefore, in FY23, our priorities - which are closely aligned to the Minister's Letter of Expectations - include:

- Streamlining the RDTI and incorporating new grants to significantly improve the overall funding customer experience and improve access to funding.
- Improving connections between researchers and industry to support the commercialisation of science.
- Realising the benefits of our transformation - including providing a standardised, simplified set of products for high impact customers.
- Returning to financial sustainability in FY23.

- Continuing to deliver the Gracefield Innovation Quarter Programme in line with the current plans and budget.
- Actively engaging in Te Ara Paerangi to advocate for an RSI system that has commercialisation at its heart and delivers greater impact from research.
- Continuing our journey to genuinely honour Te Tiriti and better serve Māori innovators.
- Progressing our programmes focused on wellbeing and workforce inclusion.

The past two years have been challenging. We know that further challenges lie ahead, and that innovation is our key to turning these into opportunities. We will continue to support innovators to succeed, and in doing so, create positive economic and wellbeing impacts for the rest of the country.

In accordance with the Crown Entities Act 2004, we present, on behalf of Callaghan Innovation, the Statement of Performance Expectations for 2022/23.

Pete Hodgson	**Vic Crone**
Chair	Chief Executive

Introduction to Callaghan Innovation

Our purpose

"Callaghan Innovation's main objective is to support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing and services sectors, in order to improve their growth and competitiveness" - Callaghan Innovation Act 2012

What we do

We activate innovation, accelerate commercialisation and help businesses grow faster for a better New Zealand.

We partner with ambitious businesses of all sizes, providing a range of innovation and research and development (R&D) products to suit each stage of growth.

Our people – including more than 200 of New Zealand's leading scientists and engineers – empower innovators by connecting people, opportunities and networks, and providing tailored technical solutions, skills and capability development programmes, and grants co-funding.

We also enhance the operation of New Zealand's innovation ecosystem, working closely with government partners, Crown Research Institutes, and other organisations that help increase business investment in R&D and innovation.

Our products

We operate on a "product-based" business model which enables a highly defined value exchange with our customers. The value our customers receive from us falls into four distinct product categories. These are outlined below.

Commercialisation products

Providing access to deep tech expertise and problem solving to capture commercial opportunities enabled by new technologies. This includes:

- Bespoke R&D projects / contract research - access to 250 of NZ's top scientists across a range of disciplines for collaborative problem solving and commercialisation. Many of these services are provided on standard commercial terms to support all potential customers (e.g. international businesses or other parts of the public sector) rather than 'innovation only' customers.
- Idea to Impact - structured programme for R&D commercialisation in key priority areas.
- R&D roadmap development - R&D development training.

Idea to impact and R&D roadmap development are not just teaching or providing a fee-for-service offering - they are intentional, intensive support to guide the customer's innovation activity. This product is offered only to around 1000 of the 'highest impact' customers.

Connection products

Driving collaboration between NZ's research/science ecosystem and industry & innovators for the purpose of research commercialisation. This includes:

- Scale-up NZ - community platform for NZ's innovation ecosystem.
- Industry 4.0 / Aronui - showcase and demonstration network for industry 4.0 technologies.
- Bio Product Alliance - showcase and pilot facilities for waste to value applications.
- Food Innovation Network - open access facilities for firms with innovative new food and nutrition products.

Funding products

De-risking and accelerating industry engagement in R&D through targeted grants, tax incentives and other funding mechanisms. This includes:

- R&D tax incentive (RDTI) - funding support for firms conducting eligible R&D.
- New to R&D Grant - funding support for firms starting their investment in R&D.
- Ārohia – Innovation Trailblazer Grant - funding support for firms on innovation activities that support R&D.
- Student and Experience Grants - funding support for developing careers in R&D.

Callaghan Innovation also acts as a delivery agency for MBIE for any new funding products that are designed, including supporting the initial design where requested, and continuing to improve performance once implemented, as we have done with the RDTI.

Innovation skills products

Growing specialist innovation and commercialisation skills across the private sector. This includes:

- Beyond IP - Education on IP strategies.
- Better by Lean - "Lean" product design training.
- Capital education - Education on capital raising.
- Founder support - Incubator and accelerator programmes for startups.
- Product 360 - Market validation training.
- Dynamic capabilities - Innovation and productivity training.

Our strategy

Our strategy for the next five years is outlined in our *Statement of Intent 2023–2027*. Figure 1 below is a brief outline of our strategy to give context for the priorities that follow.

Our strategy is based on intensifying our support for customers who have the largest potential impact for New Zealand, while still delivering great, efficient support for innovators outside that target group, supported by digital tools where required. This is outlined in the visual on the next page.

The 'focus areas' in green are our strategic areas of focus for our customer-facing services. The first part of our strategy - shown in darker green on the top left - is continuously improving to better serve the innovation ecosystem. Within this, our first area of focus is delivering globally leading innovation support services, which will mean delivering our core services, including RDTI, grants and R&D solutions, as efficiently and effectively as possible. This will enable us to scale our impact for each New Zealand business we support and make the most efficient use of our scientists and commercialisation experts. We will do this through defining, developing and implementing a clear set of products, which we can deliver efficiently with significant digital assistance where appropriate - and ensuring that our support for our customers is limited to this product suite. A second area of focus is matching our strong connections with innovative businesses with an equally strong contribution to connecting these businesses to the research sector, particularly the Universities and Crown Research Institutes. While the outcomes from Te Ara Paerangi may affect exactly how we achieve this, we are already getting started by setting up a dedicated commercialisation team with better industry-research connections as one of its key goals.

Figure 1 - Our strategy

OUR OBJECTIVE

Callaghan Innovation's main objective is 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.

OUR FOCUS AREAS

Continuously improve to better serve the innovation ecosystem

Deliver globally leading innovation support services

Adapt, simplify & productise our services, improving the customer experience & making our service & policy delivery more efficient and effective

Support the commercialisation of science

Facilitate connections between industry and researchers to improve the commercial application of scientific research

Focus intensive support on the highest impact customer groups

Support Māori innovation

Deliver specific services, customer journeys and engagement models for Māori scientists, innovators and entities

Shift to a high-value economy through Frontier Ventures

Provide intensive, wraparound support to accelerate the growth of new and existing Frontier Ventures

Grow high potential sectors

Flexibly support areas where new disruptive innovations present both significant commercial & wellbeing opportunity for NZ

OUR ENABLERS

Partnership with Māori - including applying Te Ao Māori principles across all our work

Developing & unleashing the unique experience & capability of **our people**

Continuing to improve our **safety & wellbeing** processes & culture

Having the **data and insights** to track our performance, feed into policy making & evolve our services

Our **physical & digital infrastructure** enabling our people and customers to safely operate at their best

All underpinned by financial sustainability, collaborating with customers & Government, delivering on Government priorities & living our behaviours.

Doing the first part of our strategy well will also free up capacity for the second part - shown in lighter green on the top right - focusing intensive support on the groups of customers that have the potential to drive the biggest impact for New Zealand. These are Māori innovators, frontier ventures and high-potential sectors. Customers can (and are likely to) fall into more than one of these groups. Māori firms are growing faster, innovating more and investing more in R&D than other New Zealand businesses, and have huge untapped potential. Frontier ventures and high-potential sectors are both identified by the Productivity Commission as key drivers of productivity and export revenue and an area where New Zealand underperforms. We already support all three of these customer groups - our strategy is to double down, and narrow the focus of our intensive, wraparound support to these customers only.

Our delivery to customers is supported by our enablers - shown in light blue across the bottom. These are:

- Partnership with Māori - this refers to applying Te Ao Māori principles across all our work, not just our work with Māori innovators that's covered in one of our focus areas.
- Our people - our work to develop & unleash the unique experience & capability of our people, through a focus on wellbeing and workforce inclusion, continuing to improve our ways of working and continued skills and leadership development.
- Safety & wellbeing - This includes our work to build a pro-active and autonomous safety culture, where those doing the job day-to-day are empowered to recognise potential risks and mitigate them, as well as our work towards becoming a carbon neutral organisation, with a 42% reduction targeted by 2030.
- Data & insights - this includes all of the work required for us to track our performance, feed into policy making & evolve our services, including working with customers and partner agencies to collect the right data, improving our processes and culture, and investing in our systems.
- Physical & digital infrastructure - this covers delivering the GIQ build programme on time and within the budget envelope, as well as ongoing effort and investment to keep digital infrastructure up-to-date and efficient.

Our strategy is underpinned by financial sustainability, collaborating with customers and Government, delivering on Government priorities and living our behaviours. The next section outlines our priorities for FY23, and shows their alignment to the Minister's priorities, as set out in FY23 Letter of Expectations.

Our priorities for FY23

Our priorities for FY23 are outlined in Table 1 below - these are intended to clearly align to both the Minister's priorities, as set out in FY23 Letter of Expectations, and our strategy, as set out in our Statement of Intent. FY23 is the first year of our new Statement of Intent. A portfolio of priorities over the next five years will help to deliver our five year strategy as described in our Statement of Intent.

Table 1 - Our priorities for FY23

LETTER OF EXPECTATIONS AREA	FY23 PRIORITY	ALIGNMENT TO 5 YEAR STRATEGY
RDTI	Relaunch a streamlined RDTI product that improves access and engagement for Māori customers and creates a significantly improved customer experience overall	Innovation support services
	Cohesively integrate new grants types into our overall funding product portfolio	
Research - industry connection	Specifically target high impact customers with highly suitable science and commercialisation services to drive a close connection between industry, CI and the research sector	Commercialisation of Science
	Create a rigorous technology commercialisation dataset and functionality to power RSI commercialisation and connect the RSI ecosystem	
Our transformation	Embed the strategic alignment element of our Operating Model and the agile, cross-functional ways of working that enable it	Our people
	Implement our new Business Model which provides a standardised, simplified set of products for high impact customers or compelling commercial opportunities to meet our revenue targets	Māori innovation, Frontier ventures, High potential sectors

Financial sustainability and forecasting	Deliver a break-even financial position in FY23	All
GIQ	Deliver the GIQ Tactical Estates programme in accordance with the annual budget and schedule committed to with the Board and MBIE	Physical & digital infrastructure
	Continue to develop the GIQ Strategic Programme, in step with MBIE's Te Ara Paerangi and regional property strategy	
Te Ara Paerangi	Continue to advocate for the inclusion of innovation and commercialisation in Te Ara Paerangi leading up to the development of the 'white paper', using insights from the innovation ecosystem	Commercialisation of Science
Deliver on Government priorities - industries and carbon neutral	Stand up cross-functional delivery teams in high growth areas aligned to Government priorities and ITPs - such as Healthtech, Cleantech & Digital - with others to be added along government priorities	High potential sectors
	Continue the carbon transition activities needed to get us closer to meeting the Carbon Neutral Government Programme targets	Safety & wellbeing
Wellbeing and workforce inclusion	Progress our Diversity, Equity, Inclusion and Belonging plan	Our people
	Deliver our wellness & employee experience programmes, with a focus on mental health	
	Complete delivery of our HomeSafe programme initiatives and embed the transition to a safety 2 culture	Safety & wellbeing
Te Ao Māori	Deliver key identified initiatives in our Te Unuhunga roadmap, including expanding Te Tiriti training across Callaghan Innovation and further scaling up our Te Reo & Te Ao Māori learning programme	Partnership with Māori
Other priorities (not from LOE but critical for delivering strategy)	Develop & deliver performance metrics for key products (beyond customer numbers & NPS)	Data & insights
	Identify & prepare for the next digital infrastructure required to support our customers and people e.g. FMIS and HRIS systems	Physical & digital infrastructure

Financial Sustainability

One of our key priorities is returning to a break-even financial position in FY23, following a period of investment and transformation, to ensure we can deliver to the future needs of the New Zealand innovation system. Over the past two years we have confirmed new operating and business models, developed and implemented our Mahutonga ways of working and are nearing completion of stage one of our digital and physical infrastructure upgrades. Like most businesses in New Zealand we have also felt the impacts of COVID-19 on our commercial revenue streams. Table 2 below outlines our path to achieving long term financial stability post this period of investment, along with estimates for the next three years. There is more detail on the financial forecast for FY23 in the Budget and Financial Statements.

Table 2 - Our path to achieving long term financial stability

Summary Statement of Comprehensive Revenue and Expenses	2021/22 $million Forecast[1]	2022/23 $million Budget	2023/24 $million Forecast	2024/25 $million Forecast
Crown revenue	104.436	95.769	93.992	85.562
Crown revenue - Grants	128.941	103.546	142.246	95.246
Commercial revenue	14.606	19.562	20.767	22.093
Other income and interest	6.898	3.251	3.051	3.051
Total Income	**254.881**	**222.128**	**260.055**	**205.952**
Operating costs	130.442	118.482	117.709	110.606
Grant expense	128.941	103.546	142.246	95.246
Total Expenditure	**259.383**	**222.028**	**259.955**	**205.852**
Surplus/(Deficit)	**(4.502)**	**0.100**	**0.100**	**0.100**
Available retained earnings	**7.006**	**7.106**	**7.206**	**7.306**

[1] Forecast represents our latest financial position for 2021/22, updated in April 2022

Our performance expectations by output class

Callaghan Innovation receives Government funding to deliver specific products, 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 2022/23. We will report our actual performance against these expectations each year as part of our annual report.

Callaghan Innovation Operations: Multi-Category Appropriation

This appropriation enables us to broker and provide innovation products 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)

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation	79.898	81.240
Crown Revenue - National Science Challenge	15.740	8.965
Commercial Revenue	14.171	18.952
Other Revenue	5.167	1.640
Total Revenue	**114.977**	**110.797**
Expenses	(119.479)	(110.697)
Net surplus/(deficit)	**(4.502)**	**0.100**

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 build the effectiveness and skills of New Zealand's innovation system.

Examples of products funded from this category (see the 'Our products' section above for more detail on what these products include):

- Connection products
- Innovation skills products
- Commercialisation products (excluding bespoke R&D projects / contract research)

Cost and Funding

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation	35.318	40.685
Other Revenue	3.729	0.085
Total Revenue	**39.047**	**40.770**
Expenses	(39.047)	(40.770)
Net surplus/(deficit)	**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. These values net off to zero, and for accounting purposes are not reflected in the Group financial statements at the end of this document.

This category funds our bespoke R&D projects / contract research (which sits under Commercialisation Products in the 'Our products' section above). These services meet the R&D needs of business by helping to de-risk innovation and get products, processes, or services to markets quicker, so businesses 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 making it available to New Zealand businesses
- having expertise in the technologies that will transform our future, including advanced materials, biotechnologies, advanced manufacturing, 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

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

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation	36.566	32.805
Crown Revenue - National Science Challenge	15.740	8.965
Commercial Revenue	14.171	18.952
Other Revenue	1.439	1.555
Total Revenue	**67.916**	**62.277**
Expenses	(72.418)	(62.177)
Net surplus/(deficit)	**(4.502)**	**0.100**

Category 3 - Business Research and Development Contract Management

This category funds the cost of managing customer engagement with the RDTI, the Government's flagship R&D funding policy, and the grants that Callaghan Innovation is responsible for. Callaghan Innovation 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.

This category funds the support elements of our Funding products. This includes:

- Supporting customers to access the RDTI and grants
- Assessing RDTI and grants applications
- Administering the grants funds

Cost and Funding

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation	8.014	7.750
Total Revenue	**8.014**	**7.750**
Expenses	(8.014)	(7.750)
Net surplus/(deficit)	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

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 2021/22	Performance Standard 2022/23
Callaghan Innovation Operations Multi-category Appropriation		
Total number of organisations working with Callaghan Innovation this Financial Year[1]	2,600	2,000
Net Promoter Score of all surveyed customers[2]	+60	+60
Building business innovation category		
Number of customers who used Innovation Skills services[3]	1,000	350
Net Promoter Score for Innovation Skills services[4]	+60	+60
Percentage of RDTI applicants who agree that they have received a good level of guidance and support with the application process[5]	n/a	60%
Percentage of General Approval applications that are processed and a recommendation made to Inland Revenue within 37 working days of receiving the application from Inland Revenue[5]	n/a	80%
Percentage of customers who are enrolled in RDTI (via myIR) that Callaghan Innovation have proactively engaged with[5]	n/a	75%
Category 2 - Research and Development Services and Facilities for Business and Industry		
Number of customers with a Research Development Solutions project this financial year	250	250
Net Promoter Score from Research Development Solutions[6]	+40	+50
Category 3 - Business Research and Development Contract Management		
Number of new Student grant applications received during the financial year[7]	700	700
Percentage of Student grant applications who have received a decision within 30 working days of receipt of the completed application[7]	90%	90%
Number of new New to R&D grant applications received during the financial year[8]	n/a	Baseline established

1 - This measure has been updated to remove events and international missions from the customer count, and replace grants applications with the number of customers receiving a grant. This is because these are gateways to our products rather than products themselves. There were 661 Callaghan Innovation customers *who only attended an event or international mission or applied for a grant in FY21 (the most recent full financial year). These will no longer be included under the new definition for FY23, so we have reduced the performance standard by 600.*

2 - This measure has been updated to remove events and international missions from the NPS, and replace grants applications with the number of customers receiving a grant. The performance standard remains unchanged.

3 - This measure has been updated to remove events and international missions from the customer count. There were 636 Callaghan Innovation customers who only attended an event or international mission in FY21 (the most recent full financial year). These will no longer be included under the new definition for FY23, so we have reduced the performance standard by 650.

4 - This measure has been updated to remove events and international missions from the customer count. The performance standard remains unchanged.

5 - These measures are new for FY23, and have been added to ensure RDTI, a key product, is reported in the SPE. While these measures and performance standards are new to the SPE, they are already used as the RDTI performance measures in the FY22 RDTI operational budget.

6 - The performance standard has been increased to reflect strong recent performance in excess of the standard, which we expect to maintain.

7 - These measures for FY22 included Project and Student grants, but have been updated to show Student grants on their own, as Project grants are no longer being offered in FY23. The performance standards remain unchanged.

8 - This measure is new for FY23, and has been added to track the performance of the New to R&D grant, which will be first offered in the 2022/23 financial year. The SPE measures are consistent with the already agreed appropriation measures. As this is a new grant, the baseline will need to be established in 2022/23, and a performance standard will be set for 2023/24.

Targeted Business Research and Development Funding

This appropriation provides co-funding for private businesses to undertake research and development projects and for funding students to work in research and development active businesses. It is intended to achieve further and faster growth by established businesses through investment in research and development.

This category funds the grants components of our Funding products. It only funds the grants themselves - the cost of supporting and administering the grants is covered under the Business Research and Development Contract Management category (see above).

Our R&D experience, career and fellowship grants (Student Grants) support undergraduate and graduate students to work in a commercial R&D environment as interns in New Zealand's excellent commercial R&D facilities; this is a win-win solution for both industry and the students. These grants are funded by the Crown through a multi-year appropriation which reverts to an annual appropriation from FY23.

Cost and Funding

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	114.345[1]	37.500
Total Revenue	**114.345**	**37.500**
Grant Expenses	(114.345)	(37.500)
Net surplus/(deficit)	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2021/22	2022/23
Number of businesses with active Student grants this financial year[2]	n/a	500
Number of businesses with active New to R&D grants this financial year[3]	n/a	Baseline established

1 - Note grant funding that is underspent in 2021/22 may be transferred to 2022/23 following appropriate approvals

2 - This is a new measure, added to give consistency with the measure for other Grants. Because this is an existing grant, we are able to set a Performance Standard for FY23, based on current performance.

3 - This measure is new for FY23, and has been added to track the performance of the New to R&D grant, which will be first offered in the 2022/23 financial year. The SPE measures are consistent with the already agreed appropriation measures. As this is a new grant, the baseline will need to be established in 2022/23, and a performance standard will be set for 2023/24.

Innovation Development Grant

This appropriation funds the Ārohia – Innovation Trailblazer Grant, which is being introduced in 2022/23. It provides funding for businesses to undertake innovation activities that are not Research & Development (R&D). It supports non-R&D activities associated with innovation that have the potential to create spill-overs to the rest of the economy. It covers both the grants themselves and the cost of supporting and administering the grants.

Cost and Funding

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	0.000	16.800
Total Revenue	**0.000**	**16.800**
Grant Expenses	0.000	(16.800)
Net surplus/(deficit)	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2021/22	2022/23
Number of new Ārohia – Innovation Trailblazer Grant applications received during the financial year[1]	n/a	Baseline established
Number of businesses with active Ārohia – Innovation Trailblazer Grants this financial year[1]	n/a	Baseline established

1 - These measures are new for FY23, and have been added to track the performance of the Ārohia – Innovation Trailblazer Grant. The SPE measures are consistent with the already agreed appropriation measures. As this is a new grant, the baseline will need to be established in 2022/23, and a performance standard will be set for 2023/24.

Transitional Support to R&D Performing Businesses

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.

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

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

How Callaghan Innovation's performance will be assessed

The transitional support payment is available to former Growth Grant customers until the end of the 2021/22 tax income year. Applicants can apply for the transition support payment up to 24 months after the end of the tax year - so Callaghan Innovation will continue to accept applications up 30 June 2024. The work providing targeted communication and support to ensure former Growth Grant customers are aware of and can apply for the transitional support payment will continue until the final submission date for those customers' tax returns. The work providing targeted communication and support to ensure former Growth Grant customers are aware of and can apply for RDTI is ongoing.

Because transitional support payment is not available beyond the 2021/22 tax year, the Performance Measure in Callaghan's 2021/22 SPE - "the percentage of former Growth Grant recipients that claim the Research & Development Tax Incentive in the 2021/22 year" is therefore no longer relevant in 2022/23. Callaghan Innovation will therefore no longer measure it in 2022/23. This change was signalled ahead of time in our 2021/22 SPE.

Because applications for the scheme will remain open until 30 June 2024, an updated performance measure covering the whole life of the transitional support payment will be measured at the conclusion of the transitional support payment at the end of 2023/24 - the wording for this measure will be: "Percentage of former Growth Grant Recipients that applied for the Research and Development Tax Incentive by 30 June 2024" and the target will be 60%.

The team supporting former Growth Grant customers are devoting their time and effort to supporting customers who have already transferred to the RDTI, or have signalled their intent to transfer to the RDTI, and our performance in this area is captured in the three new performance measures for RDTI under the 'Building Business Innovation' category above.

Repayable Grants for Start-ups

This appropriation provides funding for early stage businesses and development of business Incubators and Accelerators. Incubators and Accelerators are part of our Innovation Skills products.

Our Incubator and Accelerator programmes support 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

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation (Grant Funding)	14.596	20.746
Total Revenue	**14.596**	**20.746**
Grant Expenses	(14.596)	(20.746)
Net surplus/(deficit)	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	2021/22	2022/23
Number of customers that received a service from Startup Support Services (Incubators or Accelerators)[1]	170	170
Net Promoter Score from Startup Support Services (Incubators or Accelerators) customers surveyed[1]	+50	+50

1 - These measures have been updated to reflect changes to the Incubators and Accelerators Callaghan Innovation supports. The performance measure includes the Startup Founder Incubator or Accelerator only, and excludes the BioResource Processing Alliance (BPA) Accelerator. The performance standards remain unchanged.

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. These elements are part of our Innovation skills products. We intend to increase the uptake of Industry 4.0 and improve the productivity and competitiveness of New Zealand firms.

Cost and Funding

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation	1.618	1.003
Total Revenue	**1.618**	**1.003**
Expenses	(1.618)	(1.003)
Net surplus/(deficit)	**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.

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, to satisfy the needs for traceable physical measurement in New Zealand. This is critical for New Zealand companies selling products and services that depend on accurate and internationally accepted traceable physical measurements.

Cost and Funding

	2021/22 $million	2022/23 $million
Revenue		
Crown Revenue - Appropriation	8.567	8.986
Commercial Revenue	0.434	0.610
Total Revenue	**9.001**	**9.596**
Expenses	(9.001)	(9.596)
Net surplus/(deficit)	**0.000**	**0.000**

How Callaghan Innovation's performance will be assessed

Performance Measure	Performance Standard	
	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
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

Callaghan Innovation Capital Investment

This appropriation funds 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.

This is 'no-regrets' investment that will have significant value to researchers and innovators regardless of whether Te Ara Paerangi or the regional property strategy changes how Callaghan Innovation's property and infrastructure is managed in the future.

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

Cost and Funding

	2021/22 $million	2022/23 $million
Gracefield Innovation Quarter	22.900	20.000
Measurement Standards	2.135	1.340
Total Capital Investment	**25.035**	**21.340**

How Callaghan Innovation's performance will be assessed

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

Budget and Financial Statements

Financial forecasts to 30 June 2023

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 2023 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 (May 2022) provide the best estimate of the future financial performance and state of Callaghan Innovation for the year ended 30 June 2023.

Authorisation statement

The forecast figures reported are those for the year ending 30 June 2023. These have been authorised for issue on 9 June 2022 by the Callaghan Innovation Board which is responsible for the forecast financial statements as presented.

Budget 2023 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 are winding down, with HomeSafe continuing into FY2023
- All confirmed Crown funding has been included
- Current commercial revenue is forecasted to grow in 2022/23 and projects are based on no further COVID-19 related impacts on delivery capacity, demand or supply
- Kiwistar Optics operations are no longer included in our 2022/23 budget numbers

Balance sheet and Cashflow

- Opening balances for 2022/23 are in line with the latest available forecast results for the 2021/22 financial year
- In line with available appropriations, capital contributions are received to fund investment in the Gracefield Innovation Quarter ($20.000m) and the Measurement Standards Laboratory ($1.340m).

Prospective Statement of Comprehensive Revenue and Expense

For the year ending 30 June $million	**2021/22 Budget**	**2021/22 Forecast**	**2022/23 Budget**
Income			
Revenue from the Crown	108.797	104.436	95.769
Revenue from the Crown – Grants	97.736	128.941	103.546
Commercial revenue	20.502	14.606	19.562
Other income	5.696	6.342	2.941
Interest income	0.307	0.556	0.309
Total Income	**233.038**	**254.881**	**222.128**
Expenditure			
Personnel costs	69.395	63.952	62.651
Science project and subcontract costs	29.930	24.928	17.958
Other expenses	30.042	31.179	25.331
Depreciation and amortisation	12.433	10.383	12.542
Grant expense	97.736	128.941	103.546
Total expenditure	**239.536**	**259.383**	**222.028**
Surplus/(deficit)	**(6.498)**	**(4.502)**	**0.100**

Prospective Statement of Changes in Equity

For the year ending 30 June $million	2021/22 Budget	2021/22 Forecast	2022/23 Budget
Balance at 1 July	**115.428**	**113.147**	**133.472**
Total forecast comprehensive income & expenditure	(6.498)	(4.502)	0.100
Movement in hedge reserve	0.000	(0.209)	0.000
Capital contribution	47.935	25.035	21.340
Balance as at 30 June	**156.865**	**133.472**	**154.912**

Prospective Statement of Financial Position

As at 30 June $million	2021/22 Budget	2021/22 Forecast	2022/23 Budget
EQUITY			
Contributed capital	149.428	126.528	147.868
Hedge Reserve	0.228	(0.063)	(0.063)
Accumulated surplus	7.209	7.006	7.107
TOTAL EQUITY	**156.865**	**133.472**	**154.912**
Current assets			
Cash and cash equivalents	62.770	62.672	60.059
Trade and other receivables	7.081	6.558	6.573
Crown – debtor grants	26.864	60.712	30.712
Other current assets	0.783	0.471	0.471
Total current assets	**97.498**	**130.414**	**97.815**
Non-current assets			
Property plant and equipment	116.585	98.767	122.360
Investments	4.511	4.096	4.122
Total non-current assets	**121.095**	**102.864**	**126.482**
TOTAL ASSETS	**218.593**	**233.277**	**224.298**
Current liabilities			
Trade creditors and other payables	13.351	9.444	8.923
Employee benefits	5.504	5.978	6.074
Grant obligations	26.864	60.712	30.712
Income in advance	15.100	23.012	23.027
Total current liabilities	**60.819**	**99.146**	**68.737**
Non-current liabilities			
Employee benefits	0.218	0.096	0.086
Deferred tax	0.690	0.564	0.564
Total non-current liabilities	**0.909**	**0.659**	**0.649**
TOTAL LIABILITIES	**61.728**	**99.806**	**69.386**
NET ASSETS	**156.865**	**133.472**	**154.912**

Prospective Statement of Cash Flows

For the year ending 30 June $million	2021/22 Budget	2021/22 Forecast	2022/23 Budget
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Receipts from Crown – operating	107.797	109.667	94.769
Receipts from Crown – grants	97.736	128.941	103.546
Receipts from customers	27.004	23.517	22.509
Interest received	0.323	0.659	0.325
	232.860	**262.785**	**221.149**
Cash was applied to:			
Payments to suppliers	(56.619)	(55.416)	(42.395)
Payments to employees	(68.936)	(65.237)	(63.027)
Payments to grant recipients	(97.736)	(128.941)	(103.546)
	(223.291)	**(249.595)**	**(208.967)**
Net cash flows from operating activities	**9.569**	**13.190**	**12.181**
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property plant and equipment	(44.936)	(29.502)	(36.134)
Net cash flows from investing activities	**(44.936)**	**(29.502)**	**(36.134)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
Capital contribution	47.935	25.035	21.340
Net cash flows from financing activities	**47.935**	**25.035**	**21.340**
Net increase (decrease) in cash and cash equivalents	**12.569**	**8.723**	**(2.613)**
Cash and cash equivalents at the beginning of the year	50.201	53.949	62.672
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**62.770**	**62.672**	**60.059**

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 Statement of Revenue and Expense 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 and associates("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 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 Associates

The Group periodically reviews the fair value of its investment in its associate 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 auxiliary services	8 - 20 years	5% - 12.5%
Computer equipment	3 - 5 years	20% - 33%
Plant and scientific equipment	3 - 15 years	6.7% - 33%
Motor vehicles	3 - 5 years	20% - 33%
Office furniture, fittings and equipment	3 - 10 years	10% - 33%

Intangible assets

Research and development costs

Research costs are expensed as incurred.

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

Computer software

Acquired computer software is capitalised 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 Revenue and Expense.

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 Revenue and Expense. Amounts accumulated in equity are recycled to the Statement of Comprehensive

Revenue and Expense in the periods when the hedged items will affect surplus or deficit (for instance when a forecast sale that is hedged takes place).

However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

Income tax

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

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.

We **activate innovation**
accelerate commercialisation
and help businesses grow
faster **for a better New Zealand.**

Rukuhia te wāhi ngaro,
hei maunga tātai whetū.

Explore the unknown,
pursue excellence.

New Zealand Government

Callaghan Innovation

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AUCKLAND / WELLINGTON / CHRISTCHURCH

callaghaninnovation.govt.nz / info@callaghaninnovation.govt.nz / 0800 422 552