

CallaghanInnovation

NEW ZEALAND'S ADVANCED TECHNOLOGY INSTITUTE
BUSINESS CASE: 1 February to 30 June 2013

*We accelerate commercialisation of New
Zealand's innovation*



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1. Background

1.1 Establishment of Callaghan Innovation

In July 2012 Cabinet approved the establishment of Callaghan Innovation, an advanced technology institute, to play a critical part in driving increased growth in per capita incomes by improving the global competitiveness of New Zealand businesses. Specifically, Callaghan Innovation will address the fragmented and disconnected nature of the existing research and development capacity in New Zealand, which reduces the uptake of innovation capability by the private sector¹.

Callaghan Innovation will be a new stand-alone Crown Agent. It is charged with developing a range of new functions and services, as well as incorporating and adapting those of a number of existing agencies, including:

- Industrial Research Ltd (IRL) (to become a fully owned subsidiary of Callaghan Innovation);
- some activities of the Ministry of Business, Innovation and Employment (MBIE) (grant administration, Global Expert and Futureintech functions and resources);
- NZ Food Innovation Network functions;
- NZ Food Innovation Auckland (trading as The FoodBowl); and
- The Better by Lean programme currently managed by NZTE.

Legislation to establish Callaghan Innovation, outlining its purpose, role and functions, was enacted in November 2012². Callaghan Innovation will begin operations on 1 February 2013³.

1.2 Purpose of this document

A key task of the Establishment Board appointed in late August 2012 was to develop a business case for the release of funding which the Government has appropriated to support the initiative⁴. The Board spent considerable time developing a clear purpose for the organisation, and the implications of this purpose for key operating principles, and directions Callaghan Innovation will need to adopt in its operations, regarding this as critical to long-term success. Given the number and complexity of the organisations and functions transferring, it was also necessary for a significant focus on the Day One configuration and transitional arrangements.

Callaghan Innovation's role does not currently exist in the New Zealand innovation system, and it is in effect a "start-up" organisation. It is the Government's intention that Callaghan Innovation develop and implement a range of new and different services to address complex and to date intractable problems in the High Value Manufacturing and Services (HVMS) innovation system. During the preparation of the draft business case it became clear that a number of uncertainties would remain ahead of 1 February 2013, including:

¹ The policy proposal followed the 2011 *Powering Innovation* report, an independent report on ways to increase access to and uptake of publicly funded R&D by the HVMS sector. This report is available online at <http://www.msi.govt.nz/update-me/major-projects/callaghan-innovation/>, along with other documents relating to the establishment of Callaghan Innovation.

² The legislation can be viewed online at <http://www.legislation.govt.nz/act/public/2012/0094/latest/DLM4732709.html>

³ Day One operations will include the first three; the FoodBowl will transfer [Withheld under s9(2)(j) of the Official Information Act 1982], subject to negotiation with ATEED, and the Better by Lean programme will transfer from 1 July 2013.

⁴ The Establishment Board's full Terms of Reference can be viewed online at <http://www.msi.govt.nz/update-me/major-projects/callaghan-innovation/>.

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- specific operational details of most of the new tools and instruments for stimulating commercial innovation activity
- projections around timing of uptake of activity, and hence calibrating detailed KPIs suitable for inclusion in the Statement of Intent
- the appropriate longer term paths for different teams and individual capabilities coming into the organisation, and whether they best fit with Callaghan Innovation's purpose and effectiveness
- the appropriate revenue and co-investment models for different lines of business, to drive the right incentives for businesses and supply side stakeholders while meeting Treasury guidelines
- details of the medium and long term structure and operational activities of Callaghan Innovation (particularly ahead of the appointment of the CEO).

Recognising these uncertainties, the draft business case submitted to Ministers on 13 December 2012 provided a development path with high levels of optionality and choices in the short to medium-term, with Callaghan Innovation's investment in new tools and instruments being made in line with progress in this discovery process, and demonstrated results from pilot and service testing.

The Minister's letter of 20 December 2012 set out a two stage process going forward:

- (a) by 21 January 2013: a revised business case focusing on the period 1 February to 30 June 2013, which will serve as a basis for final funding decisions for 2012/13. This should:
 - address critical implementation issues including in particular:
 - i. ensuring a smooth transition to the new structure
 - ii. maintaining continuity of activity and service delivery
 - iii. completing the proposed review of SET capability, engaging closely with MBIE throughout the review process
 - iv. further developing the full service offering for progressive implementation from 2013/14, and extensive engagement with firms, sector groups, SETD providers and other stakeholders to inform this.
 - include a detailed financial plan for the first 5 months of operation, including:
 - i. a fuller description of Callaghan Innovation's commercial operations and forecast revenues
 - ii. further detailed information on financial risks and mitigations, including in particular a more detailed understanding of the medium-term financial implications of the decision to incorporate the FoodBowl into Callaghan Innovation.
- (b) by 30 June 2013: an updated, more detailed business case covering the period to 30 June 2016, which will enable joint Ministers to confirm funding for 2013/14 and out-years.

This business case is the first of these documents.

During the first 5 months, Callaghan Innovation will provide the Minister of Science and Innovation with fortnightly progress reports to provide the necessary assurance around the management of the transition process and development of the detailed business case.



2. Context and strategic direction

2.1 Callaghan Innovation's role

Callaghan Innovation is charged with:

- unlocking the potential of New Zealand's High Value Manufacturing and Services (HVMS) sector and businesses through increased commercialisation of research, science, engineering, technology and design (SETD) led innovation, and
- achieving this in ways which strengthen the SETD system's potential and contribution to meeting businesses' current and future innovation needs.

Callaghan Innovation's performance will be critical to achieving the Government's Business Growth Agenda (BGA) goals of doubling business expenditure on research and development (BERD) as a percentage of GDP, and ultimately achieving a step change in the value add and export intensity of New Zealand's HVMS sector. To do this, will require Callaghan Innovation having the courage to champion change and challenge existing expectations, behaviours and operating paradigms between firms, SETD providers, government and others. Unless this happens Callaghan Innovation will not be successful.

Callaghan Innovation is obligated to provide strategic direction and constructive alternatives for how best to structure, fund, govern, and hold to account how we work and collaborate together to achieve such a step-change. Callaghan Innovation is committed to ensure that during this period of transition the existing capability within New Zealand's SETD community is preserved, and ultimately is motivated and in a position to contribute more effectively than ever before.

Callaghan Innovation will be held to account for growing commercial outcomes which are directly attributable to leveraging science and technology, and growing the SETD system's capability and contribution.

2.2 Opportunity and Challenges

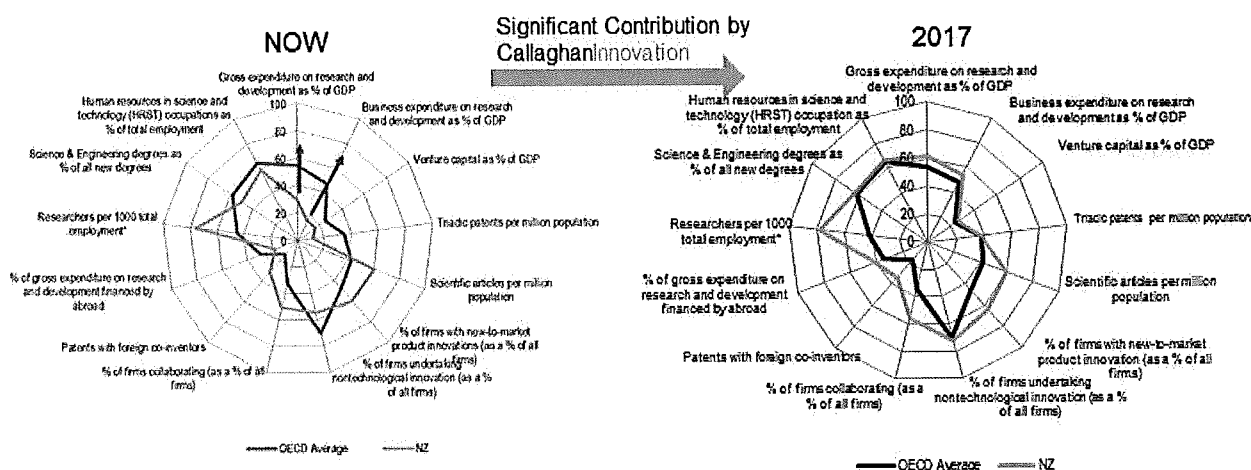
Economic growth through the HVMS sector is particularly attractive because of the sector's relatively high labour productivity, export intensity and propensity to invest in research and development.

However, OECD research highlights an apparent paradox in New Zealand's research and development performance. On the one hand, compared to other OECD countries New Zealand has a significantly higher percentage of researchers in our workforce, more collaboration amongst firms, firms producing new products to market, and scientific articles given our population. On the other hand, expenditure on research and development, human resources in science and technology (HRST), and triadic patents given our population are below OECD averages.

Moreover, New Zealand's HVMS sector is diverse and fragmented, and geographically dispersed with few large firms – all of which makes it more challenging for Government to support the sectors' innovation needs in an effective and efficient manner. There are also gaps in New Zealand's innovation workforce, notably in the areas of design, science, engineering and international businesses.

These observations coupled with New Zealand's poor productivity growth raises the challenge for Callaghan Innovation – how can New Zealand increase its return on investment in SETD through better alignment and engagement with business and "move the dial" in regards New Zealand's performance relative to its OECD counterparts? Callaghan Innovation's ultimate success will be assessed through this lens.

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2.3 From Start-up to Steady State

Callaghan Innovation is a new stand-alone Crown Agent, charged with developing a range of new functions and services, as well as incorporating and adapting those of a number of existing agencies including Industrial Research Ltd (IRL); NZ Food Innovation Auckland (trading as The FoodBowl); NZ Food Innovation Network; some activities of the Ministry of Business, Innovation and Employment (MBIE) – notably business R&D grants administration – and the Better by Lean programme of NZTE.

The purpose for the organisation is clear, as are the implications of this purpose for key operating principles. To date the greatest focus has been on establishing the purpose, role and functions for an enduring organisation; Day One establishment and configuration; and transitional arrangements to enable Callaghan Innovation to become fully functional and deliver on the articulated purpose and deliverables.

In developing strategic options for Callaghan Innovation, it is necessary to preserve existing capability and successful commercial projects; provide continuity of service to existing customers; provide clarity to staff; options for scalability in service delivery; but also to recognise that Callaghan Innovation is a “start-up” in the true sense – its role and function do not exist at this time and further investment in developing services and prioritising resources is necessary post 1 February 2013.

The first 5 months of operations to 30 June 2013 are very much a period of transition, integration and development, with financial year 2013/14 providing the crossover from development to delivery of real value, and landing on an informed “steady state” organisational structure.

This document is intended to give Ministers confidence in the feasibility and benefits of the business plan, and the conservative nature of the financial projections, while maintaining enough flexibility to enable the new entity to stretch for the ambitious targets behind the decision to establish Callaghan Innovation.

2.4 Callaghan Innovation’s Model and Services

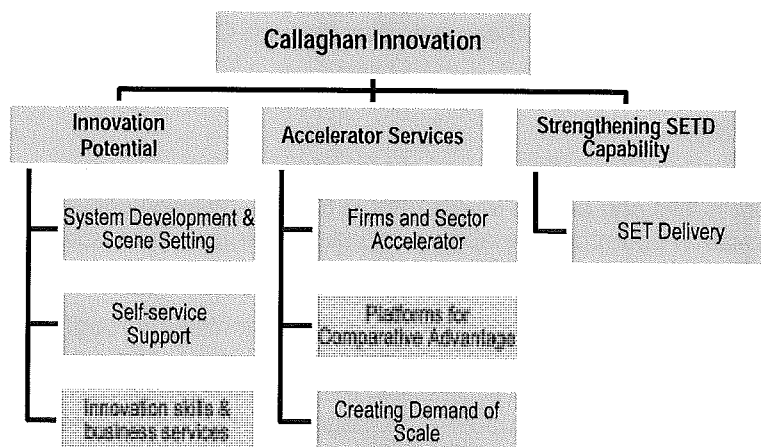
Callaghan Innovation will organise its outcomes, resources, service offerings and value added in its steady state around three mutually reinforcing lines of business:

- *Building innovation potential* - by lifting the aspirations, absorptive capacity and capability of businesses and providers of SETD-innovation services (both public and private) to engage in and leverage from innovation;

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- *Converting innovation potential into commercial outcomes* – by actively facilitating innovation activity between business and SETD providers, through Accelerator Services;
- *Strengthening SETD capability* – by developing and maintaining SETD services and activities which are required to meet immediate and future needs of business and industry.

These three business lines translate into seven business units which align with Callaghan Innovation's strategy and services, and its transitional and steady state organisational structure.



The three lines of business are discussed below⁵.

i. Innovation Potential

Building increased appetite and appreciation within the HVMS sector for SETD as an affordable, low risk and often preferred response from businesses to address commercial challenges and seize opportunities is critical to Callaghan Innovation's mission. Three of Callaghan Innovation's business units will contribute directly to this:

1. **System Development and Scene Setting Services** - Callaghan Innovation will lead the conversation and commitment to increased innovation intensity by HVMS firms. It will play a leadership role in identifying and championing priority areas for industry and SETD innovation, including through improving accessibility of international as well as domestic knowledge and expertise. Specific service offerings will include events, forums and networks, think pieces, informing and influencing education choices, and providing general leadership and voice for the SETD sector.
2. **Self-service Support** – Callaghan Innovation will reduce the costs of discovery for businesses trying to access SETD assistance and services, as well as business support services more generally (e.g. those offered by NZTE and EDAs). Callaghan Innovation will provide a highly-automated, light-touch and self-service solution open to all. Specific service offerings will include a “smart but quick” 0800 support service, a web-based gateway providing access to services provided by Callaghan Innovation as well as external parties (e.g. KiwiNet, Universities, CRIs, private providers, EDAs, other Government agencies). The approach will align with the Better Public Service principles, including “no wrong door”, reducing clients’ compliance costs, and shared services where it is efficient and effective to do so.

⁵ The three business lines will be complemented by two corporate functions. The Strategy Group will encompass Strategy and Market Research, Government System Engagement, Portfolio Management and System Performance. The Performance Management Group will provide corporate service functions including Finance, HR, Communications, ICT, and Organisation Performance and Evaluation.

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- 3. Innovation Skills and Business Services** – Callaghan Innovation will seek to raise aspirations and increase the potential and opportunities of the critical players in the HVMS innovation system, most notably strengthening firms, SETD providers and innovation workers. Specific service offerings will include developing and promoting programmes for improving innovation intensity and effectiveness in firms; developing SETD expertise in engaging commercially and more effectively with business in technology transfer, and improving capability mobility including through supporting the two way exchange of staff and students between SETD providers and businesses.

Government will contribute to the funding of these activities through Callaghan Innovation's Output Class 1.

ii. Accelerator Services

Callaghan Innovation will be proactive in increasing the intensity of business innovation, as well as increasing the returns from public and private investment in SETD – thereby converting New Zealand's increasing innovation potential (see above) into step-change commercial and economic outcomes. Three business units will contribute to this:

- 4. Firms and sector accelerator** - Firms and industries will be prioritised through a diagnostic methodology (common with NZTE) to assess their innovation maturity and potential, which will determine whether Callaghan Innovation (or others in the system, notably NZTE) is well placed to assist and what level of service is appropriate (i.e. segmentation of the client base). Where Callaghan Innovation determines it has the potential to make a material difference, it will assign an innovation agent who will work with the firm to realise their commercial potential through SETD innovation, including:
 - improving their understanding for the merits of increased levels of SETD innovation and how to go about it
 - discovering the specific opportunities additional SETD innovation offers each of them
 - identifying possible solutions, including project specification and management, delivery options and potential service providers, assisting businesses to access and manage the necessary skills, intellectual property, equipment or facilities, and accessing R&D grants
 - Bringing all of this together to make a material and measurable difference to commercial outcomes due to the contribution of more intensive SETD

Innovation agents in this business line will be expected to service between 10-20 clients, often with multiple activities for each active client at any one time.

- 5. Platforms for Comparative Advantage** - Callaghan Innovation will organise resources around firms and SETD platforms and capabilities which offer New Zealand (potential) comparative advantage and scale. Initially platforms will be formed around current capability to link expertise and create value-add, however new platforms may be speculative and disruptive in nature to provide opportunities in the market. Organising themes for these collaborations might be technological (e.g. advanced materials), sector (e.g. food and beverage), or project (e.g. new product or process) based. These platforms will be multi-year and market-led projects that draw on both SETD advancements and market trends. Success relies on co-creation by a range of joined-up commercial, SETD, government and other parties. A flexible approach will be taken to the development of appropriate collaborative arrangements for building these platforms, recognising the commitment, incentives and competencies of the participating parties. Callaghan Innovation's role in building these platforms will vary on a case-by-case basis – ranging from project leader, project manager to facilitator, as will the extent and form of Callaghan Innovation's contribution. In this business line, an innovation agent will typically be committed to one (perhaps two) platform initiatives spanning multiple years.
- 6. Creating Demand of Scale** - Callaghan Innovation will target customers or market segments of scale, to discover opportunities and develop value propositions whereby New Zealand's

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SETD and business capabilities collaborate to provide attractive new solutions. Callaghan Innovation's roles will include discovering such opportunities; assessing the potential for domestic capability to provide a compelling value proposition; bringing together the right consortium of domestic and international capabilities; coordinating and project managing the process from pitch development through to sale, delivery, aftercare and subsequent leveraging of intellectual property and new capability. This small team of innovation agents will be expected to have a significant number of "discovery" conversations underway at any point in time, and look to convert one or two new projects each year. The sales cycle might be anywhere from 6 months to upwards of two years.

Government will contribute directly to Callaghan Innovation's activities in this area through Output Class 2. Over time Callaghan Innovation expects to see significantly increasing levels of co-funding plus cost recovery from businesses and SETD providers. Output Class 4 – the grants administration function - will also be delivered through this business line, to increase points of engagement between Callaghan Innovation, business and SETD providers, and better integrate discretionary funding to align with firms' innovation projects and needs.

iii. Strengthening SET capability

Callaghan Innovation will have at its core, research and applied engineers, technologists, designers, scientists and related expertise in intellectual property and business finance. This internal capability must be compelling and credible to innovative businesses and SETD partners. It must be able to support both the immediate needs of business - including incremental changes to their products and production processes - and anticipate and realise longer-term opportunities through integrating global trends, SETD capability and business. Ultimately Callaghan Innovation's success is dependent on New Zealand's SETD community being aligned, responsive, and capable of meeting businesses' current and future needs. Callaghan Innovation has a role ensuring that any gaps in New Zealand firms' access to priority SETD capability – both domestic and offshore - are met. These gaps might often be best filled by others; however, some functions will be best located within Callaghan Innovation when this results in it being more responsive and effective at meeting industry needs. One business unit will contribute to this end:

7. **Science, Engineering and Technology (SET) Delivery⁶** – this business unit will provide SET capability for which there is potential for material New Zealand-based commercial demand. This includes providing services where capability may already exist elsewhere but isn't accessible or responsive to business needs on commercial terms. On 1 February 2013 Callaghan Innovation will have all of IRL's existing capability in-house, operating largely on the same basis as before.

This business unit will receive funding by way of Output Class 3: National Measurement Standards to fund MSL services, and from Output Class 5: Callaghan Innovation Strategic Investment to maintain existing and seed new capability. The unit will continue to rely on contestable funding and commercial revenues to fund and incentivise a significant proportion of its capability.

Potential perceived conflicts of interest with SETD providers

Callaghan Innovation will play an active facilitation role between business and third party SETD providers, as well as having internal applied and research capabilities. If not managed and structured carefully, these dual roles have the potential to be perceived as competing with the offerings of third party SETD providers – thereby undermining Callaghan Innovation's ability to perform its core function of stimulating engagement between business and the SETD community. Callaghan Innovation will mitigate this risk by:

- Focusing internal capability on providing unique capabilities and filling gaps for which there is (emerging) commercial demand, coupled with regular review - as to whether Callaghan

⁶ Callaghan Innovation seeks to use "RSETD" wherever possible to underline the importance of the full suite of research, science, engineering, technology and design skills to deliver innovation success. However staff in the delivery business unit said they found the acronym unwieldy to explain to their stakeholders, and the unit has therefore been named Science, Engineering and Technology (SET) Delivery.

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Innovation remains the best home for ensuring the on-going sustainability of this capability at scale and leverage of it by business

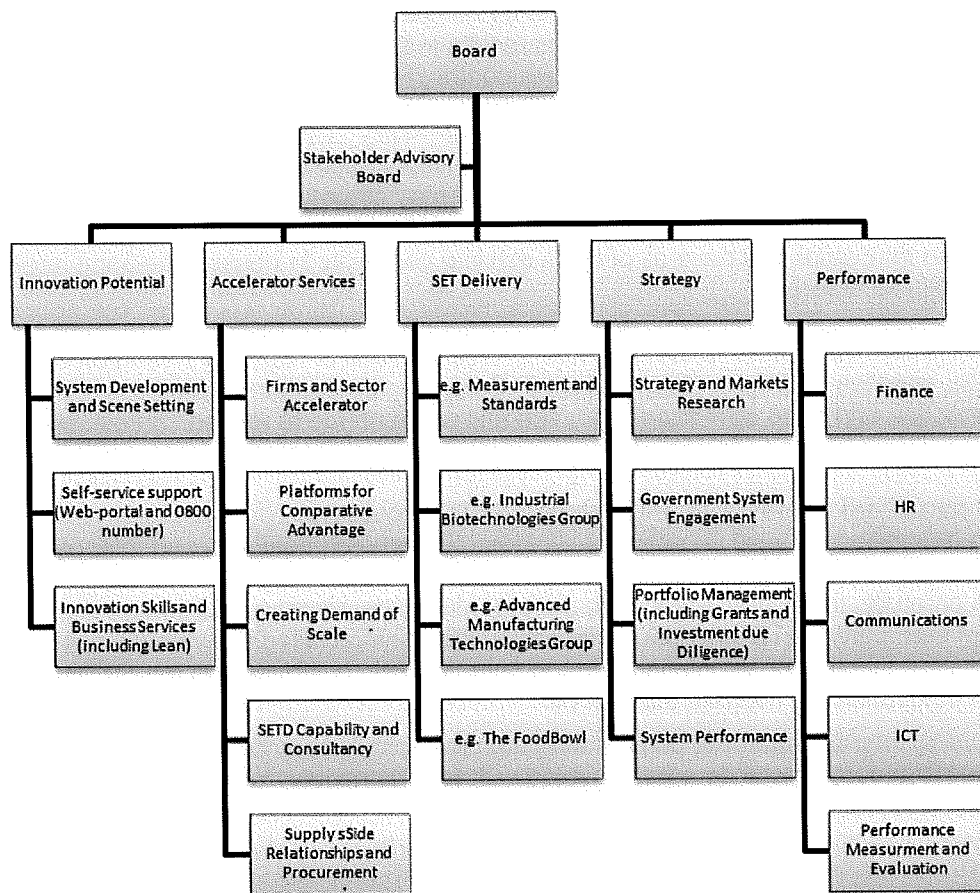
- Seeking to collaborate and create scale across the system in situations where Callaghan Innovation does have internal capability which overlaps or complements the capability of other RS&T providers
- Negotiating Memorandums of Understanding (MOUs) with SETD providers which clarify purpose, agree how to work cooperatively, and explicitly address potential conflicts of interest
- As a matter of course, operate open and transparent processes, including having “increasing commercial revenues for SETD providers” as a KPI, and reporting on the extent of in-house purchasing of SETD expertise
- Communicating clearly to external stakeholders the limits of Callaghan Innovation’s role in allocating science and business R&D funding e.g. MBIE will continue to allocate science contestable funding

These mechanisms provide a pragmatic approach to ensuring Callaghan Innovation has sufficient and comprehensive internal capability to credibly engage with and meet the demands of business, yet be in the position to stand in the market as an “honest broker” for system-wide RS&T providers.

2.5 Organisational Structure to Deliver the Business Model

The final “steady state” organisational structure will depend on further detailed development of the proposed activities and services, but is expected to be similar to that shown in Figure 2.1.

Figure 2.1 – Proposed steady-state organisational structure



1. Includes the subsidiary company formed from IRL.



3. Day One – the starting point

3.1 Implementation phases

Implementation can be broken into three phases:

Phase	Period	Focus
Establishment	Leading up to Day One (up to 31 January 2013)	Completing all steps necessary to establish Callaghan Innovation as a legal and operational entity Ensuring seamless transfer of existing operations – main focus is continuity on Day One
Transition	1 February to 30 June 2013	Strategic planning and determination of priorities, outcomes and measures, strategic risk management and stakeholder engagement Organisational design, capability planning and organisational development approach determined Integration of teams and discovery and analysis to underpin more detailed development of new and different service offerings New CEO will be announced during this period
Operations	1 July 2013 onwards	Start of implementation of new offerings and beginning of business as usual. This will not mean no further change, but it will mean clarity about the direction and scope of on-going change processes and service evolution

3.2 Opening the doors

On 1 February, the new organisation will employ 394 staff, 370 from the former IRL and 24 transferring from MBIE. A transitional leadership team has been announced pending recruitment of the new CEO. Teams from the two incoming organisations will operate under their own dedicated managers on Day One, providing continuity of leadership and ensuring services transition smoothly.

Three regional offices will be operational on Day One - two new premises in Auckland and Wellington, and one in Christchurch. The formal Head Quarters will be Wellington. In Auckland the office will be co-located with ATEED and share the same building as NZTE; in Wellington the office will be co-located with NZTE. Withheld under s9(2)(j) of the Official Information Act 1982. Former IRL sites at Gracefield and elsewhere will continue as before, but fully branded with Callaghan Innovation's identity (the subsidiary company legal name will be Callaghan Innovation (Research) Limited). The new call centre and website will be operational, and will be part of a widespread communications programme to ensure all stakeholders are informed about the new organisation's role, activities and future plans, and opportunities to engage.

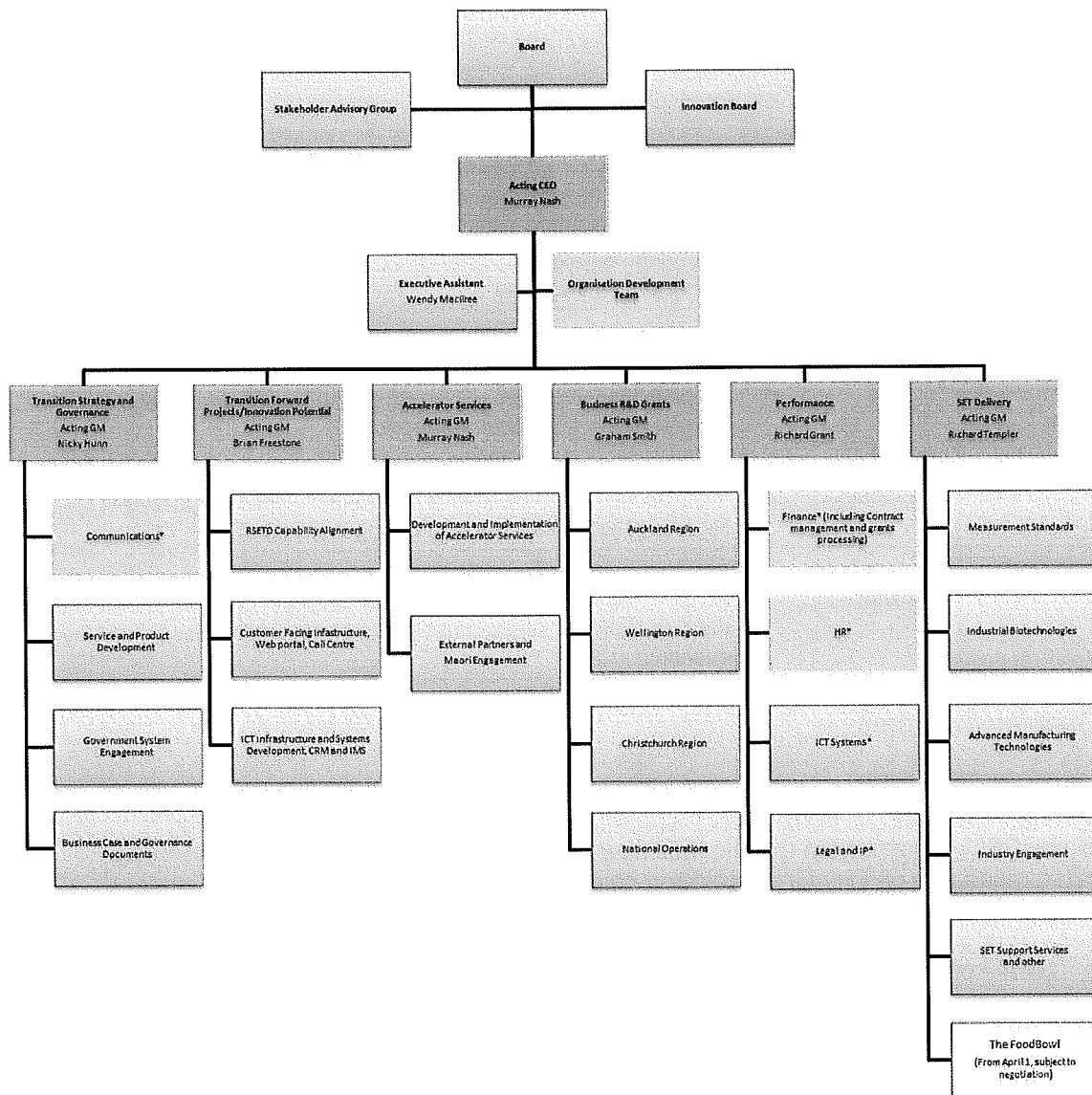
Launch ceremonies will be held in Auckland and Wellington on 1 February and in Christchurch on 4 February, along with detailed briefings for incoming staff.

3.3 Organisation structure for the transition period

Upon establishment of Callaghan Innovation on 1 February 2013, the organisational structure shown in Figure 3.1 will be adopted. The transition structure differs from the proposed "steady state" structure in a number of ways:

- The CEO and all second-tier management are acting positions

Figure 3.1: Transition organisation structure



* Services provided under a service level agreement between Callaghan Innovation and SET Delivery, the subsidiary company formed from IRL.

- A dedicated organisation development team will be appointed for the first 6 months to support the Acting CEO/CEO during the change process and to begin the process of crafting the steady state organisation. The Chair of Callaghan Innovation will act in a semi-executive capacity during the transition period and the permanent CEO is appointed
- A Business R&D Grants team will be established – comprising and preserving the existing management structures and processes of MBIE’s BII team - to mitigate business continuity risks and enable integration of these people and functions into Callaghan Innovation from Day One. Withheld under s9(2)(j) of the Official Information Act 1982.
- The three groups on the left of the chart (Transition Strategy and Governance, Transition Forward Projects/Innovation Potential and Accelerator Services) will initially be responsible

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for different transition projects including the refinement of product and services, SETD Capability Alignment, fit for purpose systems and infrastructure, and shared services with business partners (e.g. NZTE). [Withheld under s9(2)(j) of the Official Information Act 1982], these units will change over time to reflect the longer term structure as the lines of business are confirmed and implemented. In the short term, these project teams and the performance group will draw on staff in the Business R&D Grants and SET Delivery teams as much as possible consistent with maintaining continuity of existing business, to begin to build an integrated organisation and ensure existing institutional knowledge and expertise contributes to the development of the new lines of business.



4. First 150 days – building the organisation

4.1 Key priorities for implementation

The business plan for the first five months of operation focuses on the following critical implementation issues:

- Ensuring a smooth transition of business as usual for IRL and MBIE services that transfer to Callaghan Innovation
- Integrating staff from two organisations, to form a new one with a culture and business model very different from both
- Further developing, refining, and implementing a range of programmes and service offerings to complement business as usual, in order to deliver on our purpose

The five months to 30 June 2013 will be a period of intensive change management. There will be a focus on the amalgamation of constituent agencies and smooth transition of staff, an assessment of IRL's SET capabilities and market needs to inform the development of Callaghan Innovation's value proposition and business model, comprehensive stakeholder engagement, and further development of the 'No Wrong Door' approach with business partners.

To maintain business as usual, two groups have been established within Callaghan Innovation for the transferring business units - SET Delivery and Business R&D Grants Administration – with their own management during the transition. In addition, there will be six major change work-streams to drive the development of new approaches and services:

1. **Building the new organisation** – craft a “fit for purpose”, integrated and agile organisation, with the right culture and skills to engage collaboratively across the sector and develop new and innovative solutions for its customers, and ensure a smooth transition of staff into the new structure
2. **Service and product development** – further refine and validate the product offerings of the new organisation so that a comprehensive, integrated suite of innovation support can be implemented
3. **Aligning SET capability** – engage with staff and selected other stakeholders to ensure that science capability is put to best use across the NZ innovation system, and that Callaghan Innovation has effective access to the capability it needs to deliver on its objectives while maintaining essential capability in-house
4. **External Partners** – build constructive relationships with both demand and supply side partners to further Callaghan Innovation's reach and value to business. This will include working with delivery partners to ensure seamless service provision and accessibility for business
5. **Better Public Services** – work to maximise leverage from Crown infrastructure (e.g. through developing shared services where this improves efficiency and effectiveness)
6. **Stakeholder Communication** – build awareness of and confidence in the new organisation, and engage widely to ensure appropriate input into the development of new services and alignment of activities with stakeholder needs

These streams of work will be the basis for developing the next iteration of the three year business case, 2013/2014 to 2015/2016, and associated governance documents. Summaries that follow

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provide a high level view on the work streams encompassing their purpose, scope, resourcing requirements, deliverables, key risks and mitigation, and outcomes.

4.2 Ensuring continuity of business as usual

The two business units established to ensure smooth transition of services to clients will focus on delivering existing commitments through to the end of 2012/13. Both of these business units however face possible change to business as usual quite separately from that arising from transfer to the new organisation, with the introduction of the new National Science Challenges initiative and the potential for significant change to the business R&D investment tools. In addition negotiations will need to be completed with ATEED for the transfer of the FoodBowl, which will then need to be integrated into the operations of the business. The challenge will be to ensure staff are supported to deliver on the existing work programme, deal with these changes and also be able to contribute appropriately to the development of future services and activities.

SET Delivery Business Unit

IRL will become Callaghan Innovation (Research) Limited, a wholly-owned subsidiary company of Callaghan Innovation and its SET Delivery business unit. The new business unit will have in the order of 360 staff employed across five clusters. The subsidiary is a vehicle to enable transfer into Callaghan Innovation of IRL business units. For all intents and purposes staff will be viewed as working for Callaghan Innovation from 1 February.

Over the first 150 days this business unit will continue to deliver on all of IRL's existing science and service contracts, as well as undertake business development activities to generate revenues – of both a commercial and government nature – sufficient to support the unit's on-going capability and cost base. To ensure adequate resourcing, all of IRL's resources and funding will be transitioning into this unit on Day One.

Where resources in this unit are required to contribute to new and additional Callaghan Innovation functions – such as involvement in projects shaping the new strategic direction or providing services under a service level agreement – regard has been had for capacity to absorb these new functions, and back-filling or providing additional support where necessary. For the first 5 months corporate services, such as HR, Finance, IT and Communications will be provided through existing budgets, with additional specialist strategic and change-management resources contracted to support the six major work streams discussed below, where necessary. Particular effort has been made to ensure that the science teams' involvement in the SET Capability Alignment work-stream neither unduly distracts or diverts resources from delivering on the teams' contract work.

The unit will however face some significant issues from participation in the 2013 contestable funding round, and in the new National Science Challenges initiative.

Delivering on existing commitments

IRL currently has around \$14million per annum of commercial contracts, and \$17 million per annum of on-going contestable science contracts which are not affected by the contestable funding round. Maintaining delivery of these commitments will be a key priority over the transition period. There will also be specific communication with existing customers to keep them informed and maintain confidence during transition, as well as engage them in the change projects as appropriate.

IRL's commercial income budget for 2012/2013 is \$20.2 million. As at December 2012 its income to date was \$9.4 million. While commercial income is usually higher in the second half of the year, it will require a significant effort to achieve this target. Commercial income is split roughly 50:50 between domestic and international, [Withheld under s9(2)(i) of the Official Information Act 1982].

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Delivering on the 2012/13 Statement of Corporate Intent

The intention is to deliver on IRL's 2012/13 Statement of Corporate Intent over the remainder of the financial year. Three of the eight key priorities for the year have been completed, and the remainder are updated in the table below:

#	Key Priority	Update
2	Continue the development of joint graduate school arrangements with New Zealand universities	Agreements have been signed with Otago, Auckland, Unitec and Canterbury. Withheld under s9(2)(j) of the Official Information Act 1982.
3	Collaborate with Polytechnic colleges in respect of cadet training in the use of specialised equipment and technologies	First cadets in training
4	Finalise the collaborations in relation to the Polymer Alliance and the Consortium for Medical Device Technologies (CMDT) which involve IRL, academic institutions and private sector businesses	CMDT <ul style="list-style-type: none"> • MOU signed • Business plan developed • Joint bids being developed Polymer Alliance <ul style="list-style-type: none"> • Due to lack of industry support this project had been discontinued • Callaghan Innovation will investigate options for a possible platform initiative in this area of technology
7	Scope and set up a Technical Services function	To be re-examined in the context of Callaghan Innovation and the SET Capability Alignment project
8	Continue improvements to our 'Shop Front' activities and enhance industry access to R&D	In progress – will be re-examined in the context of Callaghan Innovation and the suite of services and activities to be developed

The table below shows the mix of business as usual and participation in new Callaghan Innovation activities, across the groups within the business unit. The Science teams will also be participating in the SET Capability Alignment project over the next four months.

Group	Key Activities
Communications ¹	Providing communication services to Callaghan Innovation via a Service Level Agreement (SLA)
Strategy ¹	Providing strategic services to Callaghan Innovation via SLA Managing SET Delivery unit's participation in the 2013 MBIE investment round
Human Resources	Providing HR services to Callaghan Innovation via SLA ¹ Managing the significant change process
Finance	Providing finance services to Callaghan Innovation via SLA ¹ Managing SET Delivery unit's finances
Shared Services	Providing site services to Callaghan Innovation via SLA ¹
Manufacturing Innovation	Providing services to Callaghan Innovation via SLA. The group is expected to 'transfer' to Callaghan Innovation relatively rapidly as the basis of a new consultancy service
Superconductivity & Energy	Withheld under s9(2)(j) of the Official Information Act 1982.
Advanced Materials	Withheld under s9(2)(j) of the Official Information Act 1982.

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Medical Device Technology	Withheld under s9(2)(j) of the Official Information Act 1982.
Intelligent Machines & Devices	Withheld under s9(2)(j) of the Official Information Act 1982.
Carbohydrate Chemistry	Withheld under s9(2)(j) of the Official Information Act 1982.
Integrated Bioactive Technologies	Withheld under s9(2)(j) of the Official Information Act 1982.
Glycosyn	Glycosyn will continue its business as a highly profitable manufacturer of human therapeutics for both NZ and international clients. The group will also complete stage 1 of their facilities upgrade.

¹ Staff in these SET groups will provide services to Callaghan Innovation through SLA arrangements with Callaghan Innovation (Research) Ltd.

A number of business as usual risks have been identified pertaining to IRL business operations. Withheld under s9(2)(j) of the Official Information Act 1982. Staff have been identified to manage these risks and we have accrued an estimate of write-offs in the opening balance sheet.

2013 Contestable Investment Round

The business unit's exposure to the 2013 investment round is shown in the following table:

Investment Sector	Total contested funds available	Expiring contracts held by Callaghan Innovation	Percentage of contested funding currently held by Callaghan Innovation
Biological Industries	\$38.4m	\$1.8m	5%
High Value Manufacturing & Services	\$7.8m	\$4.5m	58%
Energy & Minerals	\$2.3m	\$0.7m	31%

Callaghan Innovation is exposed to \$7.0m p.a. of contestable funding expiring in the 2013 round. Due to the importance of contestable funding to support existing capability, achieving a break-even or better outcome in the investment round will be the unit's highest priority. For the 2012 investment round, IRL submitted 24 bids worth \$14.8m across all investment areas, the preparation of which required staff time valued at \$1.58 million (including overhead recovery) or about 7 FTEs for a year. Based on the costs associated with previous contestable funding rounds, to "break even" in the 2013 round (i.e., win \$7.0m) may likely require an investment of up to \$2m in staff time.

This is the largest financial risk for the business unit. The 2012 round outcome was over \$1.4m unfavourable against budget, resulting in 5 redundancies and a negative impact on the financial position of more than \$2m. Outcomes will not be known until July-August 2013, so that any reprioritisation of internal capability to deal with the outcomes of the round will be occurring at the same time as implementation of the findings of the SET capability review.

The possibility of deferring the 2013 round for HVMS has been raised previously with MBIE - i.e. rolling over the maturing contracts for a further year, to enable Callaghan Innovation to complete its strategic work on capability and avoid the potential for significant disconnect between the investment round outcomes and the desired long-term capability strategy. (The only significant non-IRL contract in the round relates to the Materials Accelerator, [Withheld under s9(2)(j) of the Official Information Act 1982]. This was declined as consultation on the round had already begun.

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The Establishment Board considers the downside-risk associated with the 2013 contestable round to be significant – both to the financial strength of the new organisation and to achieving the wider organisational development goals. Deferring the contestable round would enable staff to focus more on the forward-looking capability alignment projects over this period.

It is not feasible for Callaghan Innovation to withdraw from the current round to enable dedicated focus on organisational development goals - the \$7.0m p.a. funding at risk in 2013 is significant and the 3 year profile of contestable funding (with a “zero” year coming up) means this poses an unacceptable risk to the ability to maintain capability, without the clear longer-term strategy for in-house capability which will result from the SET alignment project.

Callaghan Innovation believes the potential negative impacts of a deferral could be managed, provided it was done quickly so as to avoid too much effort on the part of other organisations in preparing bids (which would also enable other organisations to focus on the upcoming National Science Challenges, discussed below). In the absence of a deferral, staff will be supported to engage in both the contestable funding and organisational development processes, but there remains the risk of significant additional restructuring to deal with the implications of an unsuccessful round on top of that occurring as a consequence of the formation and refinement of Callaghan Innovation.

A strategic concern is the inability for Callaghan Innovation to reshape SETD capability across the system to better meet market demands and deliver on its strategy. Bids must be structured to meet contestable priorities. These priorities are established in a separate process in MBIE, with little ability to align priorities without compromising the contestable approach. Unsuccessful bids mean internal funding must be allocated to maintain existing critical capability which is expected to be required in the future, to avoid the high costs of disbanding and re-forming high-functioning science teams.

As part of the work over the transition period the Board would like to engage in a strategic discussion with MBIE on the future of contestable funding in respect of Callaghan Innovation and how to provide Callaghan Innovation with the financial base upon which to support capability demanded by business. The Board has not yet formed a view on this issue but is concerned to ensure the organisation's and system's future ability to refocus its efforts in accordance with business-led market demand. This may require Callaghan Innovation research funding to be provided through fit-for-purpose negotiated contracts that enable it to partner and invest alongside MBIE and other sector players. It might also support the establishment of a Strategic Investment Fund administered by Callaghan Innovation to support this capability.

Work to inform this discussion will be undertaken as part of the work on platforms in the product and service development project, as well as the SET capability alignment project (see below).

Business R&D Grants administration business unit

The Business Innovation Investments team of MBIE will transfer to become a new business unit, Business R&D Grants, within Callaghan Innovation. This will be a temporary structure pending the finalisation of the steady state organisational form of the new entity. A total of 22 individuals (all but three of the current MBIE group) are transferring, and the current Acting GM of the team is being seconded to Callaghan Innovation to ensure continuity of leadership and operational stability.

Over the first 150 days this business unit will continue to administer grant funding through the current investment tools. Work is currently being completed to ensure a smooth transition, including:

- An MOU to enable MBIE to provide payments and contract administration support, including enabling appropriate access for the grants team to the IMS system

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- Appropriate linkages and “skinning” of websites to enable Callaghan Innovation to be a portal for grants customers
- Transition arrangements for the Innovation Board, which will become an advisory committee to the Callaghan Innovation Board. The first meeting of the new committee will be on 15 February 2013, with arrangements being made to ensure timely ratification of committee recommendations by the Callaghan Innovation Board.

The Callaghan Innovation Board will review the role, structure and membership of the Advisory Committee once the full portfolio of its new services has been clarified and following the review of investment instruments.

This business unit also faces the potential for significant change to business as usual arising from policy proposals currently being developed for changes to the investment tools. Callaghan Innovation will actively engage with MBIE to ensure appropriate market insight and performance is incorporated in the review. The implications of the proposals for operating procedures, workloads and resourcing, cannot be fully assessed until details of the new parameters are finalised.

Continuity of business as usual

There has been a significant uplift in the demand for R&D project grants over the financial year, to the extent that year to date activity is almost double that from the same period last year. While some of this is attributable to the disruption associated with forming MSI during 2011/12, there is a clearly an underlying lift in demand.

By contrast, the annual round for Technology Development Grants which concluded in December was undersubscribed by \$15m.

The following table outlines the year to December approvals (ex GST):

Type of grant	Year to Date 2012/13 \$(000)	Investment Plan forecast ¹ \$(000)	Variance \$(000)
Project	26,056	17,860	8,196
Capability	4,332	1,844	2,488
TTV	1,643	5,065	(3,422)
TDG	25,594	40,237	(14,643)
Total TechNZ	57,625	65,006	(7,381)

1. Investment plan forecasts are the actuals for 2011/12, with the exception of the TDG.

The immediate challenge for the remainder of 2012/13 is to manage any new investments to optimise the use of the available funds. This involves managing the cash flows associated with historically approved projects and any new investments, within the available appropriation.

Given the strong demand to date, there will be limited scope to approve new Project Grants that draw cash from this year's appropriation. The unit will seek to manage this situation through a combination of prioritising the future investment pipeline, actively reviewing the forecast for existing contracts and seeking to transfer available funding from areas of underspend.

The business unit will also continue to deliver a number of other transferring services, in particular Global Expert and Futureintech. Both of these activities are subject to review and will be included in the service and product development project work, to see how they could best be reshaped as part of the suite of programmes.

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Grants Investment Strategy

An historical situation analysis of investment activity over the past 5 years was completed in December, to establish a factual basis to inform a future strategy to manage the grants programme as a portfolio. This provided an aggregated view of the size, length and industry profile of the grants approved over the period – along with the size, R&D and export intensity of the companies we have invested with.

The service and product development project discussed below will examine the role of business R&D grants as part of the full suite of product offerings for Callaghan Innovation, and opportunities to move to a more strategic approach to this function. This will incorporate and progress work to date on the investment strategy begun while the unit was still in MBIE, to align front line activities of the team and regional partners. The Callaghan Innovation Board will work with its new Advisory Committee (the transitioning Innovation Board) on the investment strategy within the grants programme.

Service Development

The service and product development project will seek to develop a broader range of services to facilitate and grow R&D and the associated commercial success and industry scale. This project will draw on the in-depth knowledge and working experience of the members of this business unit, across a range of industries. Dedicated resources will be deployed to work across the organisation on gaining market insight, testing market opportunity and designing future services. This work will ultimately have a flow on implication for the role and function of the Investment Managers as the new organisation structure is finalised.

Communications

There is a specific communications project over the transition period, to inform and update stakeholders (see below). A key component of this will be to ensure the two business as usual (BAU) business units maintain full engagement with their own existing customers, and at the same time that this is linked into the overarching strategy. Protocols will be in place from Day One to ensure full internal communication and avoidance of unnecessary duplication in respect of customers common to both units. Current website access for grants customers will be maintained, through “skinning” and linking of existing websites. Customers and service partners will be fully informed and updated as future internal reconfiguration is implemented over time.

Strategic issues affecting Business as Usual

As outlined, there are a number of prospective changes to business as usual in the short to medium-term, which are also linked to major strategic issues facing Callaghan Innovation.

National Science Challenges

The introduction of the National Science Challenges (NSC) raises a number of questions regarding the interaction of this initiative with the platform development, collaboration facilitation and creating demand of scale projects to be led by Callaghan Innovation. Unfortunately given the establishment process Callaghan Innovation has not been able to fully engage with officials to date, to fully understand the proposed leadership and facilitation of NSCs, the role Callaghan Innovation could play in that initiative, and the linkages with Callaghan Innovation’s own areas of focus. This will be worked through with MBIE as part of the service and product development work on platforms and the role of a proposed Strategic Investment Fund within Callaghan Innovation.

Transition of The FoodBowl from ATEED

The FoodBowl will remain with ATEED on Day One. [Withheld under s9(2)(j) of the Official Information Act 1982.] A specific project within the service and product development programme

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will explore how the FoodBowl operations could form part of a Food and Beverage platform. Withheld under s9(2)(j) of the Official Information Act 1982.

4.3 Integration of teams and crafting of new corporate culture

Alongside maintaining BAU, a key priority is the integration of the two incoming business units and development and adoption of the new culture and values that Callaghan Innovation represents. A dedicated Organisation Development Team is being established to support the Acting CEO/CEO to achieve a number of related objectives over the transition period, including developing the new organisation structure, and supporting staff through the integration and transition process.

Recruitment of the new Chief Executive

The Establishment Board has made significant progress in recruiting the new CEO. The process provides for the short-listed candidates to be interviewed by the newly appointed Callaghan Innovation Board. The expectation is that the new CEO will be announced in the first quarter of 2013 and be in place before the end of June.

Change support for staff

The initial objective of the people change management process is to ensure a smooth transition of the BII from MBIE and IRL in total into Callaghan Innovation on 1 February 2013, followed by the FoodBowl and Better by Lean from NZTE in subsequent months. Post 1 February, staff will be integrated into the new organisation through consultation on Callaghan Innovation's purpose, functions, structure, and direction, and be given significant opportunity to participate in shaping its future service offerings, business model, values and culture.

Providing appropriate support to staff during this period of change is a key priority for the incoming Callaghan Innovation Board. The Organisational Development Team will develop a comprehensive change support programme, available to all staff to assist them with how to manage and cope with change

Building the new organisation

The successful integration of incoming agencies and functions - whilst ensuring continuity of grants, contracts and service provision, providing certainty to staff in the different organisations as soon as possible, and preserving capability within New Zealand's innovation system – and that by June 2013 Callaghan Innovation is branded appropriately and developing into a cohesive entity, with the right leadership, culture, capabilities, strategy and business model to effectively and efficiently fulfil its new purpose.

Scope

This project is to build a new "fit for purpose" organisational structure and develop a transparent process to migrate existing staff across to it, with minimal disruption to operations. This will be confirmed and refined following the appointment of the CEO and development of the new product offerings.

Resourcing

The project will largely be undertaken by the Organisation Development Team, supported by existing resources within Callaghan Innovation and working closely with the HR team. The team comprising 4.5 FTE will be established for a period 6-12 months, [withheld under 9(2)(j) of the Official Information Act 1982]. This includes final costs related to the recruitment of the CEO, specialist support for the FoodBowl negotiation and legal support for transition of employment and contractual arrangements as organisation moves to the new organisational structure, in addition to change management support for staff over the period.

Deliverables and Timeline

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Date	Deliverable
February	Staff change management process in place
March	CEO appointment announced with transition plan in place
Early June	Confirm organisation structure and business model, informed by the development of service and product development and SET Capability Alignment Map capability and resources required to support delivery Process for any staff changes
June	CEO in place Second tier recruitment/appointment process in place

4.4 Developing and implementing proposed new activities

In addition to building the new organisation, a further 5 work-streams will be established to refine, validate and implement the proposed new suite of activities/programmes to be undertaken by the new entity. These programmes of work will be overseen by an internal executive Steering Group to ensure internal alignment and coordination of key activities, and full communication (and sharing of resources) between the transition and business as usual business units.

i. Service and product development

This work-stream will develop, test and validate a range of activities and services to be provided by Callaghan Innovation. It will include extensive engagement with businesses, providers and stakeholders to progress the detailed development of specific initiatives, including in-market testing and implementation of pilot approaches, as well as analysis of the learnings from relevant overseas initiatives.

The work programme is broad and will be made up of a number of linked projects. Management of these projects will be shared between the Strategy and Governance unit and the Accelerator Services unit, given the close linkages and iterations between strategic development work and the work to integrate the business-facing teams and begin in-market testing and piloting.

Given the timeframe, there will be areas of future Callaghan Innovation work which are not addressed in this initial 5 month work programme. Specific areas include strengthening international knowledge flows and the detailed strategy to improve human capital mobility across the innovation system. Aspects of these areas will be considered during development of specific products, but they are important new areas in their own right which will be addressed once the new organisation has successfully integrated and refocused its existing operations. They will also be informed by the results of the SET Capability Alignment project.

Scope

- Customer identification and segmentation
 - Development of detailed customer database to support segmentation (working with other projects underway, e.g. shared diagnostic and CRM projects)
 - Work with partners (NZTE and EDAs) to collect and compare information on key firms, sectors and clusters to engage and identification of gaps and overlaps in current support for innovation, and appropriate engagement strategies
- Refine proposed services and products and validate, e.g. through workshops with current and potential customers as well as Callaghan Innovation staff, to inform product parameters, likely demand and costing and appropriate revenue models (including co-funding). Most products will be rolled out post 1 July, although some products and services may be launched prior.
- Key priority areas of focus will include:

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- Product offering for Innovation Skills and Business Services, to complement services offered by NZTE and prepare for the incoming Better by Lean programme, as well as incorporate reviews of Global Expert and Futureintech
 - The preferred approach(es) to the development of platforms, with an initial focus on Food and Beverage and Medical Devices, and the potential to expand/build on the approach of the Materials Accelerator
 - Linked to this, the role of Callaghan Innovation in directly supporting collaborative approaches, and projects creating demand at scale e.g. through co-investing alongside businesses – develop more fully the proposal for the Strategic Investment Fund and the role of Callaghan Innovation in respect of National Science Challenges
 - The role of Callaghan Innovation in administering business R&D grants and the approach to this that will best support achievement of Callaghan Innovation objectives (to support the work on Investment Strategy)
 - Support and complement the SET Capability Alignment project, through assessing what capability is required in the system to achieve Callaghan Innovation goals, where it sits (or doesn't) and how to access or nurture it (including whether developing in-house capability is required). This will include work on the future revenue model for in-house capability and the role of contestable funding
- Develop process for regular quarterly review of programme effectiveness, with NZTE and MBIE, to ensure an effective portfolio of services is offered across government

Platform development and support

A key strategic issue will be the approaches adopted to establish, fund and manage platforms of SETD capability. Within the areas of focus agreed by Cabinet, work will initially focus on some specific areas. A pragmatic approach was used to identify these immediate priorities – they correspond to areas of overlap between those signalled in the Cabinet paper, and in which Callaghan Innovation will have considerable Day One capability due to the functions of the incoming agencies, and which face immediate issues to address. This “platform” lens will inform the Aligning SET Capability workstream as to how in-house capability supports or detracts from Callaghan Innovation’s effectiveness in leading platform development. Learnings from these will inform on-going work on the remaining specified areas of focus, and others that may be suggested through stakeholder engagement. The initial platform areas are:

- Food and Beverage – there maybe potential to bring together the Food Innovation Network functions, the FoodBowl operations and Callaghan Innovation’s in-house expertise in industrial biotechnologies and process automation. Work will look at how these could be brought together and supported, and linked with other capabilities in the system. This will enable the future of the FoodBowl to be clarified and resourced appropriately in the context of its overall contribution to innovation in the Food and Beverage sector, and inform other discussions on supporting innovation in this and related sectors.
- Medical Device Technologies – a significant effort has been made to establish a Consortium for Medical Device Technologies, involving a partnership between the main research players in New Zealand, industry (F&P Healthcare, Cerebral Fix, Im-Able, Spark Dental, Eyewitness, Orthotics Centre, Telemetry Research), the Auckland, Canterbury and Counties-Manukau DHBs, and the Medical Technologies Association of New Zealand. While the 2012 contestable bid was unsuccessful, there is potential for this group to form the nucleus of a collaborative platform.
- Withheld under s9(2)(j) of the Official Information Act 1982.

Work on these platforms will also inform the SET Capability Alignment project underway, as all three areas involve significant teams within the SET Delivery business unit.

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Strategic Investment Fund proposal

Proposed changes to the investment tools may limit the ability of the entity to move rapidly to include funding support as part of a package when a commercial opportunity arises, or to progress a collaborative platform proposal which may have proved unsuccessful in a contestable funding round but which in the Board's view presents a significant opportunity. It may also limit the ability to run a strategic investment portfolio approach.

For this reason the Establishment Board proposed that, in addition to administering the Business R&D grants, the Portfolio Management team should operate a Strategic Investments Fund for Callaghan Innovation, focussed on building assets in the innovation system. The fund would build over time, [withheld under 9(2)(f)(iv) of the Official Information Act 1982], and be able to be used to:

- directly fund seed capital for new science capability in emerging or priority fields; or
- contribute towards major initiatives such as Platforms for Comparative Advantage or Creating Demand of Scale projects identified for action by Callaghan Innovation.

To identify priority investments the team would maintain a system-wide view and identify potential opportunities for NZ industry and science before considering the likely path to market. The team would operate a formalised gated process, where programmes will be initially piloted and invested in if there is demonstrated evidence of the initiative's success.

Part of this project will be to work on the design of this funding further, with officials and report back to the Ministers of Science and Innovation and Finance by 30 June 2013 with more detail.

Resourcing

The Acting GM Transition Strategy and Governance will manage this key project as well as development of the detailed business case due 30 June 2013, of which this project will be a key component. The work-stream will draw significantly on in-house resources where possible, as well as dedicated additional contracted staff, and will involve extensive stakeholder engagement and product validation processes. As outlined above, projects within the programme will be managed within the Accelerator Services group.

The complete work programme for service and product development is expected to include 19 FTE, [withheld under 9(2)(j) of the Official Information Act 1982]. In addition a further [withheld under 9(2)(j) of the Official Information Act 1982] has been budgeted for specialist project management and financial modelling expertise across all transition projects.

Deliverables / Timeline

Date	Deliverable
Early March	Strawman product and services offerings for each business line (e.g., system development and scene setting, self-service support, innovation skills and business services, firms and sector accelerator, platforms for comparative advantage, creating demand of scale) and associated business models identified Workshop schedules and invitees finalised
March-April	Extensive testing with firms, industry groups, SETD providers, and government partners (NZTE, MBIE, Regional partners)
Mid May	Analysis and findings
Late May	Proposed product offerings and platforms agreed internally, including supporting demand analysis, revenue model, delivery model, implementation plan, and alignment with intervention logic and priorities Creating Demand at Scale two projects identified and be able to initiate by the

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	end of June Financial modelling to confirm affordability of the portfolio of product and service offerings
Early June	Agree internal and cross agency processes to ensure on-going relevance and effectiveness of Callaghan Innovation's product and services offering through time

ii. SET Capability Alignment

This project will consider the optimal placement of existing IRL SET capability within Callaghan Innovation and the SETD system - so as to best support Callaghan Innovation's purpose; create maximum value; and build sustainable SETD capability in the system. This will be an open and transparent process that includes input from Callaghan Innovation's various SET teams.

New thinking will be developed on how best to structure, motivate and fund this capability, either within Callaghan Innovation or through other external vehicles, including considering new joint venture arrangements.

The process will be undertaken by Callaghan Innovation and MBIE and overseen by a Steering Group to ensure alignment across agencies. The Steering Group will include: Sue Suckling (Chair), Peter Hunter and Michele Allan from the Callaghan Innovation Board; Paul Stocks (DCE Science, Skills and Innovation) and Peter Crabtree from MBIE; and Murray Nash (Acting CEO) and Richard Templer (Acting GM SET Delivery) from Callaghan Innovation.

The approach will be to engage with the different science teams and relevant external parties (including research and commercial partners) to discuss Callaghan Innovation's role within the innovation system, SET teams area of focus and underlying capabilities, potential strawman scenarios and the teams' views of how value can best be realised. To ensure that the teams can maintain a focus on their SET work and service customers, support will be made available to prepare proposals.

Scope

The process will consider:

- What are the fit for purpose requirements of Callaghan Innovation to deliver its mission. This will require confirmation on what SETD Callaghan Innovation should have in-house, and the role of this function (e.g. gap filling, nursery/incubator services or core platforms).
- Whether specific SETD capabilities should be part of Callaghan Innovation's offerings or whether they are more appropriately placed elsewhere in the system
- What individual technical capabilities should be moved into Callaghan Innovation's Capability and Consultancy function. Withheld under s9(2)(j) of the Official Information Act 1982.
- Whether science activities currently undertaken by Callaghan Innovation are likely to lead to commercial opportunities for New Zealand industry, and whether continued activity by Callaghan Innovation (either directly or through others) is appropriate
- The rules of engagement with internally delivered SETD and Callaghan Innovation's other activities including the need for Chinese walls between provider and market functions
- Withheld under s9(2)(j) of the Official Information Act 1982.
- What environment is required to encourage external research organisations to engage with industry
- Alternative structures for individual and consolidated pieces of capability including J/V's, Multiple Owners and Industry control and Callaghan Innovation's ability and mechanisms to negotiate change

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- Whether these attributes can be developed within research organisations (such as universities, CRIs or private organisations) so that they are industry focussed and develop appropriate mechanisms or what is require to achieve this

Resourcing

This will be the primary responsibility of the Acting GM Forward Projects. In addition a project team of 4 FTEs will be established to run the process, with additional specialist advisory support, at a budgeted cost of [withheld under 9(2)(j) of the Official Information Act 1982] for the 5 month period. The most significant resource however will be that of the science teams themselves. The work will be overseen by a cross-agency steering group (not budgeted separately).

Deliverables / Timeline

Time	Deliverable
1 & 4 February	Chair signals exercise to staff during launch. Workshop with key industry and science-facing support staff and transition staff to coordinate process
Week of 11 February	Staff workshops begin. These will present the strategic proposition, seek staff input and identify relevant external parties (such as research and commercial partners) to be engaged in the process
Mid-March	Further Steering Group meeting to provide feedback and confirm external engagement approach
Mid-March onwards	Key external parties engaged with
18 March onwards	Follow up discussions with staff, to offer initial feedback on developing views. Will include feedback from external parties where appropriate
March Board	Callaghan Innovation Board discussion of initial activity
April	External engagement continues
Mid-late April	Steering Group meeting to consider overview of thinking/outcomes to date – will be fed back to Callaghan Innovation Board
Late April	Project team considers science team submissions and response from external stakeholders with assessment of various options
April Board	Callaghan Innovation Board discussion of activity
May	Steering Group meeting – to recommend indicative placement of capabilities and appropriate vehicles or mechanisms. Callaghan Innovation Board - considers recommendation. Minister of Science and Innovation consulted
May Board	Callaghan Innovation Board discussion of proposed outcome
June	Decisions built into Business Case. Following Steering Group and Board agreement, results communicated to teams and relevant external parties

iii. External Partners

This project will work to develop clear, constructive, effective relationships with Callaghan Innovation's key demand and supply side partners, through -

- Developing seamless and effective client engagement processes (e.g. No Wrong Door) between Callaghan Innovation and key business facing partner organisations, particularly NZTE
- Building systems and capabilities to underpin formal engagement with SETD providers through MOU and/or registration/accreditation arrangements

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Work in this project will be underpinned by Better Public Services objectives, which requires co-production to be efficient and effective across the system and requires the principles of seamless services and 'No Wrong Door' to access government services. This in turn requires providers to have confidence in each other's offerings and a common understanding of client engagement, diagnostic processes and information sharing.

The project is closely linked to work on developing the service and product offering, and also work on the IT infrastructure/shared services (see below).

Scope

Business facing organisations

- Work with NZTE as a key partner to integrate client engagement activity and processes:
 - providing common communications to clients detailing the role of Callaghan Innovation and how the two agencies will work together
 - a co-ordinated discovery and engagement tool (diagnostic), and agreed referral and joint management and information sharing protocols (including use of shared CRM)
- Work with up to three other agencies (likely ATEED, CDC and Grow Wellington) to create a joint co-ordinated approach to client engagement and develop MOUs that clarify roles and potential client overlap
- Commence wider engagement with partner agencies nationally to achieve further MOU arrangements

SETD providers

- Commence discussions with up to four key SETD providers (e.g. KiwiNet, Return on Science/UniServices, Lincoln Ventures, Scion) about their capabilities and how Callaghan Innovation could work with them to avoid overlaps and inconsistency, address any concerns of competitive neutrality and achieve gains for clients
- Capture roles and value propositions in MOUs with providers
- Scope, design and promote SETD provider registration/accreditation platform to provide an efficient mediation through the system to find the right capability for firms needs
- Parallel with service and product development work-stream, develop SLA with SETD providers for services to firms, referred by Callaghan Innovation
- Resource Global Search service to source expertise globally, from 1 July 2013

Māori economy

- Continue and formalise working group to develop strategy for engaging with key businesses in the Māori economy to understand specific SET-innovation needs and develop working relationship, including the development of the Māori name and Whakataukī

Resourcing

These projects will be led by the Acting GM Accelerator Services. Separate working groups will address the three areas of activity, drawing on in-house and contracted expertise. Total resourcing will be 3 FTEs [withheld under 9(2)(j) of the Official Information Act 1982] over the 5 months.

Deliverables/Timeline

Date	Deliverable
February	Continue Maori working group and formalise engagement through agreed TOR to

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	engage with Māori economy and develop the Māori name and Whakataukī
Early March	Agreed referral, joint management and lead agency protocols with NZTE for common clients
Early April	Commence discussions with up to four key SET providers (e.g. KiwiNet, Return on Science/UniServices, Lincoln Ventures, Scion) with a view to developing MOUs. Scoping work to develop SET partner/registration and accreditation platform.
Early April	Report back Māori working group on Māori engagement strategy for consideration and inclusion in the Business Case, this will include recommendation to the Board regarding the Māori name and Whakataukī
Mid May	MOUs developed and signed with 3 other business facing agencies (e.g. ATEED, CDC and Grow Wellington) creating joint approach
Early June	MOUs with 4 priority SETD provider organisations in place and SLA if appropriate SETD partner registration/accreditation database scoped
June	Commence wider engagement with Business Facing organisations nationally

iv. Better Public Services

This project will specifically explore options to maximise the leverage from Crown infrastructure and minimise transaction costs for businesses and agencies, through sharing services where this makes sense. As outlined above, the previous project will also address BPS objectives through integration/alignment at the front end – this project focuses on the contribution of back office integration and streamlining to those objectives.

Scope

- Develop IT strategy for Callaghan Innovation to ensure entity requirements in respect of key underpinning IT capabilities and systems are defined and understood
- Work with NZTE and others as appropriate to implement integrated back office services where possible, in a way that supports both entities to deliver excellent services efficiently, maximises leverage from existing Crown infrastructure and also supports future flexibility or extension to other stakeholders in the system where appropriate (e.g. EDAs or SETD providers). Withheld under s9(2)(j) of the Official Information Act 1982.
- Work to expand the functionality of the Day One website and linkages with websites of other agencies (this will be done together with work on product/service development, external partners and communications)

Resourcing

Working group: 2 FTE in the first 5 months [withheld under 9(2)(j) of the Official Information Act 1982].

Deliverables / Timeline

Time	Deliverable
Mid February	Appoint joint working group and agree TOR to progress shared services with NZTE Withheld under s9(2)(j) of the Official Information Act 1982.

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End March	Work with MBIE to brief Minister on progress on developing shared services with NZTE
End May	Agree process to develop coordinated systems and processes with NZTE (e.g. CRM) Agree future systems and processes for grants administration, including on-going role of the Day One MOU with MBIE for these, and funding mechanisms Report back to Board on progress on shared services

v. *Stakeholder Communication and Engagement*

Stakeholder engagement will be an integral part of many of the projects outlined above, supported by the Communications team.

In addition, the Communications strategy will concentrate on building infrastructure and supporting services that come on-stream in the lead up to 1 July. There will be a particular focus on:

- Building foundations for a positive and progressive culture in Callaghan Innovation, by ensuring staff understand and are enthusiastic about the organisation's vision and their future in it
- Retaining the confidence and support of current customers and clients
- Building trust and confidence from SETD supply-side organisations
- Building awareness and understanding of Callaghan Innovation from HVMS firms

Scope

- Internal communications throughout the change process to build internal culture, support staff and limit disruption and uncertainty, particularly through the SET Capability Alignment project
- Develop an engagement framework for the Board and executive of Callaghan Innovation which ensures appropriate relationships will be built and maintained, so that the Board and executive have access to a wide range of perspectives on different components of the organisation's business. Key components of this will be the Stakeholder Advisory Group to be appointed, as well as the advice and insights to be provided by the Business Investments Advisory Committee (previously the Innovation Board), in addition to other direct engagement with businesses, SETD providers and delivery partners
- Create awareness and understanding of the value of and need for Callaghan Innovation amongst target audiences, its role, services and functions
- Position Callaghan Innovation:
 - relative to other similar organisations (and articulating its points of difference)
 - consistently with its brand values and core functions/services
- Build communications infrastructure (web, media, events, sponsorships, collateral)
- Support appropriate engagement of key stakeholders in transition projects (including existing customers; prospective customers identified with NZTE; key industry and sector groups and representatives (e.g. Business NZ, The NZ Institute, Wood Processors Association); key individual influencers (business and opinion leaders); key SETD providers (e.g. CRIs and Universities); and other key groups (Canterbury rebuild, investor community))

Resourcing

Stakeholder communications will be undertaken largely by the in-house communications team (6 FTE) with existing resource, supplemented by external advice where required. Additional expenditure of [withheld under 9(2)(j) of the Official Information Act 1982] over current budget has

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been allowed for this project, over and above engagement expenditure within specific transition projects.

Deliverables/Timeline

Date	Deliverable
Underway	Internal communications programme commenced Key collateral finalised (e.g. marketing images/style, letterhead, business cards) (both ongoing)
Start February	Media programme commenced
Late February	Assessment of BII and IRL communication channels assets
Start March	Stakeholder engagement plan developed and commenced
Mid-March	Key infrastructure plans finalised (e.g. Web, events, sponsorships)
From mid-March	Delivery of agreed plans (stakeholder engagement and infrastructure)
From start May	Promotion plans developed and delivered to support roll-out of new products and services

4.5 Other key tasks over the period

Drawing on the findings of the transition projects, key deliverables will be preparation of a detailed business case and Statement of Intent for the period 1 July 2013 – 30 June 2016. Once agreed these documents will form the basis of confirming funding for Callaghan Innovation over the three year period, replacing contingent amounts allocated in Budget 2013 following this business plan.

4.6 By 1 July 2013

On 1 July Callaghan Innovation will be well positioned to migrate from the transitional phase to the operational phase. This will be seen where:

- The Chief Executive will have been appointed
- The Board will be up and running with good governance practices in place
- The incoming functions will have been successfully integrated within Callaghan Innovation, which will have a new clearly defined direction and culture
- The organisational design will have been refined and confirmed, with resourcing and skills mapped to business units and staff positions filled
- There will be clarity around Callaghan Innovation's in-house SET capability, and where other existing capability is best located to maximise value to New Zealand
- The service and product offerings and business models will have been validated and the organisation is prepared to commence implementation
- Progress will have been made advancing at least two platforms of comparative advantage and two projects to create demand of scale
- Engagement model with Maori Economy will have been developed and implementation commenced. Maori name and Whakatauki will have been finalised

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- Callaghan Innovation's funding model, including the degree of on-going reliance on contestable funding and the possible role of a Strategic Investment Fund, will have been agreed with MBIE
- Website design refined and updated with new content, functionality requirements scoped
- Call centre established, with experienced and useful staff. Information gathered is being used to inform client engagement
- Agreed client engagement processes with NZTE including common diagnostic and agreed referral protocols
- MOUs will be in place with a number of key business-facing partners and SETD providers
- Significant progress will have been made on the "no wrong doors" and shared services initiatives including CRM
- External stakeholders will have high levels of engagement and awareness of Callaghan Innovation's vision, purpose and functions



5. Financial Plan

5.1 Overview

Callaghan Innovation will start operations on 1 February 2013, incorporating a number of functions from MBIE, and IRL which will become a wholly-owned subsidiary company. Over the next five months:

- The FoodBowl will be transferred to Callaghan Innovation; here the transfer is assumed to occur from [Withheld under s9(2)(j) of the Official Information Act 1982], the current target date
- The “Better By Lean” function and associated funding will transfer from NZTE to Callaghan Innovation, from 1 July 2013.

This Chapter sets out the financial projections for the transition period, 1 February to 30 June 2013, and the key short-term assumptions and background information which informed them. It also includes indicative high-level financial projections for the period 2013/14 to 2015/16, based on the indicative roll-out of services shown in Annex One. Annex Three outlines the more detailed technical/accounting assumptions, and main longer-term assumptions behind the out-year projections. The out-year projections are provided to give an indication of likely costs and funding requirements only, and will be recast following completion of the service and product development and other transition projects over the transition period, as part of the detailed business case to be provided to joint Ministers by 30 June 2013.

The Government has provided additional appropriations for both operating and capital to support Callaghan Innovation’s development. There is also scope to redeploy existing resources in a fiscally neutral manner so that they will align with Callaghan Innovation’s new purpose, as well as efficiency savings which Callaghan Innovation is seeking to achieve. Against this are the net existing financial obligations associated with IRL and the FoodBowl, the associated restructuring costs to realise on-going efficiency gains, and the risks associated with potential loss of existing revenue sources, most notably contestable funding.

On Day One the majority of Callaghan Innovation’s revenue will be committed to existing skills, commitments and projects which align to CRI and MBIE business models, incentives and cultures. IRL is coming in with financial metrics (corporate efficiency and SETD productivity) that has significant turnaround required to match CRI peers. Withheld under s9(2)(j) of the Official Information Act 1982.

This opening construct means that through start up Callaghan Innovation will need to access new funding to undertake the transition projects and start to build and deliver the new business model benefits. In the first two years significant development and change will be required to address and refocus the legacy capability/projects and culture which come into the organisation on Day One and move it away from existing drivers (such as responding to contestable funding projects), to new approaches and projects which deliver on firm requirements and assist them to step change their application of SETD. Over time this will result in a lift in the commercial plus contestable revenue per employee of SET Delivery. There will also be increasing commercial revenues for business services and consultancy delivered through other parts of the organisation.

To achieve this the following general approach is proposed:

- Invest in building foundations (Year 1)
- Ramp up investment in new resources and associated operating costs to get traction on Callaghan Innovation’s new initiatives and service and product offerings ahead of being able to fully release/refocus legacy resources resulting in a deficit to be funded by accumulated reserves (Year 2)

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- Manage a resource base and activities closely aligned to the Callaghan Innovation “steady state” business model as compared with a start-up (Year 3)

As requested by Ministers, the financial plan in this business case focuses on the first five months in detail to provide a basis for agreeing funding for the organisation to the end of 2012/13. It also:

- Provides further detailed information on financial risks and mitigations, including in particular more information on the medium-term financial implications of incorporating the FoodBowl into Callaghan Innovation
- Provides high-level projections for the three years to end June 2016, to indicate the level of funding expected to be required to support Callaghan Innovation operations over this period. These projections are based on the suggested roll-out of services and activities in Annex One and are put forward as “placeholders” pending the submission of the updated, more detailed three year business case by 30 June 2013, which will incorporate the work on the transition projects outlined above and enable Ministers to confirm funding for 2013/14 and out-years.

5.2 Overarching assumptions over the 5 months

- Business as usual continues for the two delivery business units (SET Delivery (ex IRL) and Business R&D Grants (ex MBIE)) that will be operational on Day One. This will mean the budgets for these incoming functions will remain the same for this period.
- In particular, the SET Delivery unit is projected to keep delivering services as it does currently for the five month transition period. The out-year projections will need to be reformulated following completion of the SET Capability Alignment project. Given the range and extent of potential change, it is not possible at this stage to recast the out-year projections with any robustness. Key risks to the achievement of the “inherited” IRL projections to end 2012/13 are highlighted below.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- It is assumed the remaining operating appropriation of \$8m⁷ for 2012/13 is available, along with any unspent monies budgeted for the Establishment Board and Unit. This is currently projected to be around \$500k. It is also assumed the phasing of the appropriations over the four year period may be changed to reflect the funding requirements of the organisation, subject to agreement by Ministers to the final business case.
- Callaghan Innovation is not subject to a capital charge.

5.3 Revenue Assumptions

Callaghan Innovation will receive revenue from three main sources:

- A **performance contract** with the Crown to cover services delivered on behalf of Government, which includes an overhead provision. This contract, which will be negotiated annually, will specify the outcomes the Crown expects for the funding appropriated for Callaghan Innovation operations.
- **Contestable science contracts** with MBIE, won through the annual contestable science funding rounds. This funding will be to carry out scientific research in specified projects. There will also be some subcontracted revenue through other providers who have won head contracts (as well as some outflows to subcontracted support).
- **Income from third parties.** This includes funding received for scientific research from businesses (often linked with contestable science funding, i.e. a private sector contribution to

⁷ The approval was for a total of \$10m, but approximately \$2m of this funded the Establishment Board and Unit, and ongoing MBIE policy work, pre-February 2013.

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the same project), subcontracted revenue received from other research organisations, as well as fee-for-service income, income from IP, etc.

Performance contract

The amount to be made available through the performance contract will be made up of a number of existing funding streams, supplemented by additional funding appropriated by the Crown to support "ATI initiative". The Minister of Science and Innovation has made it clear that not all of the new appropriation may flow to Callaghan Innovation, as there may be other competing business innovation priorities for funding.

The appropriation included a phasing over time which is assumed to be adjustable, as outlined. It also included an indicative operating and capital split based on initial assumptions regarding the (then) Callaghan Innovation's operating model, which have been superseded by subsequent policy decisions and the work of the Establishment Board. We understand that any change to the allocation between capital and operating will nonetheless be subject to the Treasury requirement that any move from the capital allocation must be able to fund 10 years of operating cost for any on-going services. This may penalise the achievement of shared services, which will result e.g. in operating costs for IT rather than capital investment in owned systems.

Table 5.1 outlines the funding sources which are expected to be aggregated to provide the base funding "envelope". The new appropriation is shown separately, as the amount to come from there is less certain than the other streams. The carry-forward of unspent funding for the Establishment Board and Unit is also included. The capital appropriation is shown at the amount available to fund operating expenditure (i.e. at one tenth of the appropriated amount) for this purpose.

Table 5.1: Revenue streams to be incorporated into performance contract envelope

<i>\$ million</i>	<i>2012/13¹</i>	<i>2013/14</i>	<i>2014/15</i>	<i>2015/16</i>
Crown Funding				
IRL - Core Funding	9.504	18.523	18.523	18.523
IRL - MSL Contract	2.402	5.764	5.764	5.764
*	*	*	*	*
<i>Functions transferring from MBIE:</i>				
Futureintech	0.500	1.200	1.200	1.200
Grants Administration (includes Global Expert)	3.600	*	*	*
<i>Functions transferring from NZTE:</i>				
Better By Lean ³		*	*	*
Total base funding "envelope" – most certain	16.006	*	*	*
<i>Funding appropriated in Budget 2012:</i>				
Operating – for HVMS Research	8.000 ⁴	20.000	30.000	30.000
Carry-forward of unspent establishment funding	0.500			
Possible funding path	24.506	*	*	*
<i>Funding appropriated in Budget 2012:</i>				
Capital – for ATI (NB this is included at 1/10 of the appropriation, to reflect the reallocation rules)	1.190	2.000	2.060	2.360
Maximum possible funding path	25.696	*	*	*

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Notes to Table 5.1

- 1 This is a five month period. The amounts shown remaining for the year are as provided by incoming organisations.
- 2 The status and quantum of the funding available for the Food Network functions and the FoodBowl is unclear. Withheld under s9(2)(j) of the Official Information Act 1982.
- 3 The appropriation for this programme is \$1.1m, of which \$720k is used to co-fund NZTE clients to access the service; the remainder funds a fully subsidised course, marketing and administration. Withheld under s9(2)(j) of the Official Information Act 1982.
- 4 The original appropriation was for \$10m, however \$2m was transferred to departmental funding to fund establishment costs (including policy work) over the period July 2012 – January 2013.

* Withheld under s9(2)(j) of the Official Information Act 1982.

These amounts are provisional only, as work is still underway with officials to determine the amounts that should transfer from departmental and NZTE funding with transferring functions.

The funding model agreed by Cabinet includes:

- Direct Crown funding for Callaghan Innovation’s core public good functions (this covers output classes 1-4)
- Direct Crown funding to maintain strategic capability, intended amongst other things to enable Callaghan Innovation to undertake longer term research and activities, including supporting firms to think beyond immediate needs (output class 5)
- Indirect funding for public good R&D activities (Callaghan Innovation will be able to compete for contestable funding on an equal footing with other providers)
- Application of part and full user charges for services, recognising the club, industry and/or private good characteristics and the need to avoid crowding out others. In general, commercial services (e.g. contract R&D, product testing) should be provided on a full cost recovery basis. It is intended that, for Callaghan Innovation’s commercial activities, there is increasing commercial revenue and decreasing reliance on government funding over time as the market as a whole grows.

Table 5.2 briefly outlines the output classes and some broad implications for user charges.

Table 5.2: Callaghan Innovation Output Classes and indicative funding model

Output class	Brief scope outline	Possible services and potential to raise commercial revenue
OC1: Building innovation potential	Information, training, mentoring, foresighting, networking and facilitating mobility of knowledge workers across the system	Leadership, scene setting – fully or near-fully funded Courses – cost recovery in line with public sector guidelines
OC2: Realising the benefits of innovation	Providing tailored brokerage and access to advice, technical services and facilities, and proactively creating and driving linkages, projects and collaborations	Facilitation, networking and brokerage – fully or near-fully funded Technical services, testing and analysis – cost recovery in line with public sector guidelines Project management could move to commercial funding over time as market matures
OC3: National	Providing specified standards (as per current appropriation)	Fully funded for regulatory functions. Will continue to offer commercial services

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Measurement Standards		(charges to be reviewed).
OC4: Business R&D contract management	Selecting recipients of grants and negotiating, monitoring and managing appropriate contracts	Fully funded
OC5: Callaghan Innovation strategic investments	To develop SETD and other core capabilities required to develop and deliver current and future industry needs	To extent commercial services offered (e.g. contract R&D) – cost recovery in line with public sector guidelines

Funding will be moved to the new output classes to fund Callaghan Innovation over the transition period. However many of the transition projects are to support overarching strategic decisions to be made by the Board, that will affect the final allocation of resources across the output classes (and which therefore are difficult to allocate across the new classes with any robustness). An initial allocation has been made to serve as a basis for discussion, outlined more fully below.

Commercial revenue

A key part of the service and product development work during the five month period will be to determine the appropriate cost recovery/charging approach for each activity. The trend in commercial revenue for Callaghan Innovation will be an important indicator of the value placed on the new entity's services by its business customers and thus the increasing relevance of its service offerings, as well as contributing towards running the organisation in a financially prudent and sustainable manner. In order to avoid undue distortion and subsidy Callaghan Innovation will follow appropriate Treasury and Audit Office user charges policies for its business services.

However it is important to note that a key marker of success will be increasing private sector involvement and spend in the system (i.e. increasing BERD), rather than maximising Callaghan Innovation's own revenues from the private sector. Supporting the provision of capability building services by third parties, for example, could see increased expenditure by firms with some matching/co-funding by Callaghan Innovation, but this would not be recognised as revenue for the organisation. Agreeing the appropriate financial metrics will be a key driver of the organisation's ability to refocus activities.

Assumptions for the five month period are:

- The SET Delivery unit continues to generate commercial revenue, both domestic and international, as per business as usual.
- Withheld under 9(2)(j) of the Official Information Act 1982. The projected total was set at \$10.764m, around \$2m more than actually achieved in 2012 and 2011. The actual result to 31 October was \$2.047m compared with a budget of \$3.124m. IRL expects the domestic market will recover or rebound; however given the current state of the global economy and the newness of Callaghan Innovation's business model the [withheld under 9(2)(j) of the Official Information Act 1982] reduction has also been applied to the out-years in the projections.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- All other commercial revenue targets for the SET Delivery unit will be achieved.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- No other commercial revenue is forecast from new Callaghan Innovation activities over the transition period as these will largely be in a development, scoping and testing phase. The business model and future growth path of commercial revenues will be clarified as part of the transition projects, with revenue expected to be generated from 2013/14.

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Contestable science contracts

IRL's existing contestable science contracts will transfer to Callaghan Innovation. These are largely with the HVMS Fund, but sizeable contracts are also held through the Biological Industries Fund, with smaller contributions from Energy & Minerals and Hazards and Infrastructure contracts. Different teams have exposure to different funds; e.g. IBT contracts are through the Biological Industries fund, Superconductivity and Energy contracts are HVMS, and some groups hold contracts through more than one fund. These (generally multi-year) contracts expire at varying intervals over the forecast period, resulting in variable exposure to the funding rounds which will be held in future years.

Annual funding rounds vary in size depending on the amounts being freed up through expiry of contracts across all science providers. Table 5.3 below shows current committed contestable revenue and projections of contestable revenue based on an assumption of winning sufficient contracts to maintain contestable revenue at 95% of its current level. It also shows the amounts projected to be available in each round, showing both the variability of this funding stream to the sector and the risk of not achieving the projected income.

This risk is particularly acute over the next two years, as there is a "zero round" for HVMS in 2015/16 as well as a very low round for other funds, so that only \$4.8 million is being released to contest across all investment areas. If this profile is not changed by the Government, there will be significant pressure on bidding outcomes over the next two years as all SETD providers seek to secure revenue to cover this revenue "gap". A low success rate in either of the next two rounds will therefore mean a significant call on internal funding to maintain capability in the medium term.

Table 5.3: Contestable Science Contract funding

Contestable Science contracts (\$m)	2012/13 ¹	2013/14	2014/15	2015/16
Current contract commitments				
HVMS fund	11.672	9.530	3.398	1.125
Other funds	5.480	4.373	2.813	2.500
Previous instruments ²	3.580			
<i>Total current committed contract revenue</i>	<i>20.732</i>	<i>13.904</i>	<i>6.211</i>	<i>3.625</i>
Required additional contract revenue to maintain funding at 95% of current level		5.868	13.560	16.146
Funding projected to be made available to contest in the funding round				
HVMS fund		7.800	26.500	0
Other funds		40.700	12.300	4.800
<i>Total amount available to contest</i>		<i>48.500</i>	<i>38.800</i>	<i>4.800</i>
Notes to Table 2				
1. These figures are full-year figures, reduced in the P&L to the outstanding amounts for the remaining 5 months.				
2. These are contracts that were let through earlier funding arrangements now discontinued at government level.				

IRL also receives additional income through subcontracts to other providers who have won the head contestable contract; and subcontracted collaborative arrangements with other providers to deliver on its own contracts. These legally binding commitments are also to be transferred to the SET Delivery subsidiary in full (7% of IRL's total revenue is expended in subcontracts).

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The impact on Callaghan Innovation will depend on the unit's success in the funding rounds in the next two years, the outcome of the SET Capability Alignment project and strategic decisions regarding ongoing exposure to the contestable funding process.

Assumptions for the five month period are:

- There will be no change in contestable funding or existing subcontract arrangements over the 5 months
- Existing contracts will be delivered on time and in full and to specification

5.4 Cost Assumptions

Over the transition period, the cost structure will reflect those of the inherited organisations, with additional costs arising from establishment of the new premises and related infrastructure, and from the transition projects.

Withheld under s9(2)(j) of the Official Information Act 1982.

The final accounting treatment for the Business R&D grants themselves is still being worked through with officials (i.e. whether and how they will be recognised in the Callaghan Innovation balance sheet, and the impact on the financial statements). However costs of administration are being transferred together with the appropriated budget from MBIE. Support services being provided to Callaghan Innovation by MBIE (i.e. contract management and payment flows) are being provided at no cost over the transition period, as the appropriation for these functions is remaining with MBIE at this stage. This arrangement will need to be revisited and funding clarified as longer-term arrangements are put in place.

IRL base figures

Figures in respect of IRL operations used here are based on a reforecast to 30 June 2013, supplied in early November and including actuals to 30 September 2012. Updated reforecasts of these figures based on end December 2012 actuals are currently being prepared and are expected to be available in draft this Friday (25 February 2013). The projections in the business plan will be updated following this.

The audited Balance Sheet to 30 June 2012 was used as base Balance sheet data. The end December 2012 figures are currently being audited. The IRL Board has yet to agree what assurance process it will follow in respect of the 31 January balance sheet and financials. In the interim, pending finalisation of the closing balance sheet, some provisions and assumptions have been made by the Establishment Unit. These are highlighted in the discussion below.

Staff related costs

- On Day One Callaghan Innovation will have around 400 staff, an acting senior management team and a number of contracted specialists supporting the different transition projects and change management processes.
- It is assumed all staff will enter on the same employment terms and conditions as in their present entities. Callaghan Innovation will contribute to Kiwisaver and grandparented retirement and superannuation schemes on the same terms. It is assumed all retirement leave provisions have been fully costed by IRL upon entry into Callaghan Innovation.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- No redundancies or restructuring costs have been assumed over the transition period.
- Withheld under s9(2)(j) of the Official Information Act 1982.

Capex and transition costs

- Callaghan Innovation will not be a capital intensive entity. The majority of the capital spend will be on science kit and building maintenance. Over the transition period there are a

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number of capital projects in train that will be continued, notably work on the Glycosyn facility for earthquake strengthening.

- Withheld under s9(2)(j) of the Official Information Act 1982.
- There are a number of specific costs associated with establishment and development of key supporting infrastructure, most particularly development of website functionality and establishment of the customer and provider database which will underpin on-going operations. Budget allocations have been made for these significant projects, for which a robust procurement process will be followed.

Premises

- Two new offices are being established, to be operational from Day One. Where possible existing equipment is being transferred (e.g. printers). Additional one-off costs associated with these offices have been allowed for in the five month financials; e.g. IT costs will require new network switches and related costs, and these have been budgeted at [withheld under 9(2)(j) of the Official Information Act 1982]. The lease costs for the new Auckland office (\$10k per month) and Wellington City site (\$17k) have been budgeted from January 2013.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- The accommodation situation in Christchurch makes it difficult to rationalise premises in the short term. On Day One staff will be located across four branded sites (with additional staff housed at Canterbury University). This is assumed to remain the case over the 5 months period, although decisions will be required on the longer term configuration over that time.

Figure 5.4: Projected Capital/transition expenditure

(\$000)	2012/13 ¹	2013/14	2014/15	2015/16
Capital expenditure				
SET Delivery	2,846	11,180	9,100	8,500
*	*	*	*	*
Operating capex new entity		300	400	300
Total capex	*	*	*	*
One off transition costs				
**	**	**		
**	**	**		
Relocation costs	600			
Total one-off costs	**	**		
Total	*	*	*	*
Restructuring & Alignment		3,719		
Total Spend	*	*	*	*
Capex appropriation	11,900	20,000	20,600	23,600
Paid for from cash reserves	5,945	5,199	10,000	9,300
Paid for from Capex appropriation	-	11,900	-	-

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Remaining Capex appropriation	11,900 ²	20,000 ³	20,600 ⁴	23,600 ⁴
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1. Expenditure over the period 1 February to 30 June 2013.
2. Propose this be carried over to 2013/14
3. Propose that this be transferred to operating appropriation (\$2m per annum for 10 years)
4. Could be used for Gracefield redevelopment, subject to agreed capital expenditure business case (significant project) or reallocated.

* Withheld under s9(2)(i) of the Official Information Act 1982.

** Withheld under s9(2)(j) of the Official Information Act 1982.

Table 5.4 outlines one option for utilising the capital allocation in order to smooth cash flow and enable the rate of growth proposed by the Establishment Board to be realised within the given funding envelope. The suggestion here is that the 2012/13 appropriation be rolled over to 2013/14 and fully used in that year; and that the \$20m capital allocation for 2013/14 be transferred to operating expenditure (\$2m p.a. for 10 years). This would smooth the working capital profile, which is lumpy owing to the high level of project work in the first five months, and assist with covering the one-off costs of transition [withheld under s9(2)(j) of the Official Information Act 1982]. While this is not directly relevant here (as it would not impact on the five month financials), options for reallocating the appropriation will be more fully explored along with options for varying the scope and rate of growth of different service lines, as part of the development of the 30 June business case.

Transitional expenditure

- Table 5.5 sets out the budgets for the transition projects outlined in Chapter 4. At this stage resourcing is based on using internal staff where possible, supported by contracted expertise. Often there is no net saving, as internal staff positions will need to be back-filled to maintain business as usual, but it will enable staff to be involved in developing the new organisation services and functions.
- In addition to the six change management projects, there are a number of other additional expenses related to the transition period, before the new organisation begins “business as usual”. In particular, the Chair is expected to continue to be involved in a semi-executive capacity pending the appointment of the permanent CEO, and the other Board members are expected to participate in extensive stakeholder engagement, and internal and external workshops. Board expenses are therefore expected to be higher than in the steady state. There will also be additional costs arising from the establishment of the new Stakeholder Advisory Group.

Table 5.5: Planned expenditure on transition projects

		(\$000)
1	Organisational development	
	Org development and change management team (4.5 FTEs)	*
	CEO recruitment	*
	FoodBowl negotiation	*
	Travel and other operating expenses/contracted expertise	
2	Service and product development	
	Project management (4 FTEs – some resource shared across all transition projects)	*
	Service and product development team (10 FTEs – refining, validating,	*

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	stakeholder engagement, market testing, detailed design and implementation planning) – including Delivery Development team	
	Business case development and accountability documents (4 FTEs – detailed plan, KPI development, contract negotiation)	*
	Scene setting initial work (1 FTE – event management and sponsorship, working with Comms team)	*
	Customer Engagement Centre development (4 FTEs)	*
	Web portal development costs	*
	Travel and other operating expenses/contracted expertise	*
3	SET capability alignment	
	SET project team (4 FTEs but 7 people, includes specialist part-time advisors). <i>Also Science team and Steering Group support</i>	*
	Travel and other operating expenses/contracted expertise	*
4	External Partners	
	3 FTEs (including Maori strategic engagement working group)	*
	Travel and other operating expenses/specialist legal support	*
5	Better Public Services	
	IT strategy development team (2 FTEs)	*
	Additional contracted scoping expertise	*
6	Stakeholder Communication	
	6 FTEs (internal team)	*
	Additional external support/specialist advice	*
<i>A 10% contingency has been budgeted across all projects, to ensure resources are adequate to meet timelines</i>		
TOTAL TRANSITION PROJECT BUDGET (INCLUDING CONTINGENCY)		*

Drawing together the existing work programmes of the incoming teams, these transition projects and the projected additional expenditure outlined above, gives rise to the financial outlook for the next 5 months shown in the next two tables.

* Withheld under s9(2)(j) of the Official Information Act 1982.

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Table 5.6: Callaghan Innovation Projected Financial Performance

(\$000)	5 months to	Year ended	Year ended	Year ended
	30 June 2013	30 June 2014	30 June 2015	30 June 2016
Revenue/Funding by Source				
Crown Performance Contract	24,506	56,087	64,857	64,857
Contestable Contracts	8,339	19,908	19,908	19,908
Commercial Revenue				
Domestic commercial	4,322	9,650	9,850	10,099
International commercial	3,648	9,291	9,291	9,291
<i>Total commercial revenue</i>	<i>7,970</i>	<i>18,941</i>	<i>19,142</i>	<i>19,390</i>
Other income	1,486	3,099	3,099	3,099
Total Revenue	42,301	98,035	107,006	107,255
Expenses by Category				
Services and Contracts	7,574	25,801	33,737	36,387
Personnel	20,897	45,910	45,401	45,811
Administration	5,507	7,772	7,847	7,847
Property and assets	2,679	7,095	7,095	7,095
Other	397	4,087	368	368
Depreciation	2,583	6,271	6,280	6,288
Total Expenses	39,637	96,936	100,728	103,797
Net Surplus/Deficit	2,831	1,360	6,481	3,739

This is the "base case" scenario. Assuming the departmental and IRL appropriations move in accordance with Table 5.1, this scenario implies the following for drawdown of the HVMS appropriation:

Table 5.7: Implication for Appropriation

(\$000)	5 months to	Year ended	Year ended	Year ended
	30 June 2013	30 June 2014	30 June 2015	30 June 2016
Base case scenario				
Crown Performance Contract	24,506	56,087	64,857	64,857
Funding being transferred to Callaghan Innovation contract	16,006	36,167	34,867	34,867
Net to be met from appropriation	8,500	19,920	29,990	29,990

In other words, the business case projections are achievable within the current operating appropriation (provided unspent funding for establishment is carried over), without recourse to the capital appropriation.

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On the face of it there is scope to reduce the call on the HVMS appropriation in the out-years while growing the business as desired and maintaining a sustainable financial position. However, until confirmation of the appropriations to transfer, and completion of the SETD capability alignment and service and product development projects, it will not be possible to assess the net impact on other sources of revenue, or the impact on prudent balance sheet management. In the absence of further information, the Board recommends that the current appropriations be kept in place as a “placeholder” pending preparation of the detailed 30 June business case and confirmation of Callaghan Innovation funding for the years 2014-16.

The Establishment Board also recommends a decision on whether to carry-forward the unspent capital appropriation for 2012/13 should be considered once the final transfer of funding from departments has been finalised. This funding is unlikely to be required for Callaghan Innovation, on current projections.

Table 5.7: Callaghan Innovation Projected Balance Sheet

	As at				
(\$000)	31/01/2013	30/06/2013	30/06/2014	30/06/2015	30/06/2016
Current Assets					
Bank	8,138	9,409	3,587	6,565	7,427
Trade Debtors	2,976	3,234	3,221	3,255	3,297
Other	3,718	3,991	4,204	4,338	4,446
Total Current Assets	14,832	16,634	11,012	14,158	15,171
Current Liabilities					
Debt	0	0	0	0	0
Trade Creditors	2,568	3,918	4,365	4,783	5,042
Other	7,871	11,691	11,371	11,337	11,365
Total Current Liabilities	10,439	15,609	15,736	16,120	16,406
Net Working Capital	4,394	1026	(4,724)	(1,963)	(1,235)
Fixed Assets	33,907	40,106	47,216	50,936	53,947
Investments	0	0	0	0	0
Non-Current Liabilities	1,100	1,100	1,100	1,100	1,100
Net Assets	37,201	40,031	41,392	42,682	44,568
Capital	40,170	40,170	40,170	40,170	40,170
Reserves	(2,969)	(139)	1,222	2,512	4,398
Total Equity	37,201	40,031	41,392	47,873	51,612
Equity Ratio	83.9%	71.8%	65.8%	71.4%	73.4%
ROE			3.3%	14.5%	7.5%



5.5 Key financial risks and mitigations

There are a number of significant financial risks associated with the incorporation and on-going operation of the incoming organisations, IRL and The FoodBowl. These include:

- potential asset impairment associated with the IRL balance sheet; known IRL redundancy costs; Withheld under s9(2)(i) of the Official Information Act 1982. These issues have been identified above. The extent of risk will depend on whether they are fully reflected in the close-out balance sheet of IRL on transfer
- potential transfer cost realisation associated with the outcome of the SET Capability Alignment project, to the extent that the best long-term location for some SET Delivery unit staff members maybe outside Callaghan Innovation. Withheld under s9(2)(j) of the Official Information Act 1982.
- Implementation of the outcome of the SET Capability Alignment process may also give rise to other costs, including possible development costs associated with reconfiguration of the Gracefield campus [withheld under s9(2)(j) of the Official Information Act 1982].
- possible performance-management related costs of implementing change over time. Withheld under s9(2)(j) of the Official Information Act 1982.

Commercial issues facing SET Delivery business unit

There are a number of issues faced by the SET Delivery business unit, related to business as usual, which need to be addressed by the incoming Board. These are in addition to the risks relating to the contestable round which have been covered elsewhere.

- Withheld under s9(2)(j) of the Official Information Act 1982.
- Withheld under s9(2)(j) of the Official Information Act 1982
- Withheld under s9(2)(j) of the Official Information Act 1982

Withheld under s9(2)(j) of the Official Information Act 1982.

6. Risk management

Three key risk areas identified by the Establishment Board are:

- **Financial** – there are a number of significant financial risks associated with the incorporation of the incoming organisations, IRL and The FoodBowl (these have been covered in the previous chapter).
- **Culture change** – there is a significant task ahead to manage the cultural change that will be required to align the values of the staff coming in from two very different organisations, IRL and MBIE into the new operating model, accountabilities, and culture.
- **Support from SETD providers** – there is uncertainty and anxiety about the role of Callaghan Innovation in the system, with its new role of connecting and facilitating being untested. Addressing this will only really be possible once the organisation is up and running, and can begin to demonstrate how it intends to operate.

A comprehensive list of identified risks and proposed mitigation strategies are outlined in Table 6.2 below.

Risk management approach

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An initial task for the subcommittee will be to develop a detailed risk management policy and framework for the entity that will be dynamic to deal with risk in this transition period. The Callaghan Innovation Board will set up an Audit and Risk committee immediately on establishment, to provide independent advice on the organisation's statutory responsibilities. Each quarter the subcommittee will review risks facing the organisation and provide advice around key strategic, operational or project risks. Risks will be raised at monthly board meetings where appropriate.

The risk management policy and framework once approved by the Board will be operationalised through a risk register, a regularly updated document reflecting risks or issues facing Callaghan Innovation.

Over the transition period the Board will adopt a "no surprises" approach. Significant risks which are identified and the Board's adopted mitigation strategies will be flagged with MBIE officials and included in regular reports.

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Table 6.1 Risks over transition period

Risk	Description	Mitigation	After mitigation:	
			Likelihood	Impact
Disruption to business as usual – SET Delivery	<ul style="list-style-type: none"> Wide range of contractual obligations to maintain over transition period, with some key issues transferring from outgoing management team as well as to new organisation SET Capability Alignment project and/or other transition projects may divert attention from delivering BAU Insufficient resourcing for MBIE contestable funding round Delays in announcing key information e.g. appointment of CEO may lead customers to continue "wait and see" position and avoid commercial commitment SET Capability Alignment project may expose commercial position of unit to potential acquirers/current customers, leading to a change in their willingness to contract 	<ul style="list-style-type: none"> Dedicated manager over subsidiary to ensure continuity of leadership and understanding of operational requirements CEO support and additional resourcing if required to manage key issues which are "changing hands" Engagement with key customers to fully explain process and outline steps in place to ensure delivery, to allay concerns and stimulate ongoing commercial commitment Sufficient resourcing including back-filling of key staff where required to support engagement in transition projects Close management monitoring of workloads and achievement of deliverables to ensure early warning of any problems arising Withheld under s9(2)(i) of the Official Information Act 1982. 	Low	High
Disruption to business as usual – Business R&D grants	<ul style="list-style-type: none"> Complex processing, contract management and accounting processes and systems to put in place in a short timeframe Possible disruption due to limited funding availability remaining over the rest of the financial year, which may require limiting some approvals Possible disruption due to the need to implement far-reaching changes to Business investment tools resulting from the policy work currently underway 	<ul style="list-style-type: none"> Dedicated seconded manager over business unit to ensure continuity of leadership and understanding of operational requirements MOU in place with MBIE to continue business as usual (e.g. grants processing and payments function) with clear performance expectations and commitments Innovation Board invited to transition to advisory committee to provide continuity in decision-making and advice to Board on operations Contingency plans and resources in place in case of unexpected disruptions due to technical issues Communications plan in place to ensure that any changes to operating processes required to deal with limited funding are well understood by business customers 	Low	High

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		<ul style="list-style-type: none"> Close engagement with MBIE policy processes to ensure operational implications of proposed changes are fully understood, including transitional/implementation issues and timelines 		
<p>People capability and capacity – possible staff uncertainty and disruption over transition</p>	<ul style="list-style-type: none"> Significant task to manage cultural change required to align the values of staff coming in from two very different organisations, and re-orient to new Callaghan Innovation approach. Delay in recruiting CEO lead to knock-on impact in recruiting senior management team and subsequent delays in developing new services/recruiting additional personnel Potential loss of key science personnel and institutional knowledge if there is a prolonged and uncertain transition period Possible diversion of management focus if there is an extended period of organisational uncertainty 	<ul style="list-style-type: none"> Significant and on-going focus from the Board on staff transition support and change management Acting CEO and appropriate Acting second tier appointments ahead of 1 February to provide continuity and leadership during transition Dedicated specialist organisation development and change management support team established for transition period Active communications and engagement with staff to ensure open and transparent processes including opportunities for consultation, and reduce perception of possible “double jeopardy” for those transferring Process for developing new services including widespread engagement with staff and external stakeholders in place to ensure momentum over transition period 	Low	High
<p>Business doesn't engage</p>	<ul style="list-style-type: none"> Confusion among business clients around who to contact during transition Potential credibility issues associated with delays/perceived lack of progress; scepticism that changes will achieve nothing new, different or better Possible perception of loss of integrity through co-location of grants administration and industry engagement personnel (particularly in respect of Tech Transfer Vouchers) 	<ul style="list-style-type: none"> Widespread engagement and consistent messaging to ensure channels and points of contact are clear and well known, and continuity of existing processes understood Communications regarding Callaghan Innovation strike a balance between building excitement and momentum, while managing expectations (under promise, over deliver) – messaging the first five months work plan and objectives Transparent and robust processes in place to ensure integrity of decision-making in respect of all business R&D grants funding Early and comprehensive engagement with existing and new customers to fully explore needs of subsectors, building on work already undertaken by IRL and MBIE groups coming into Callaghan Innovation Stakeholder Advisory Group advice on issues to 	Low	High

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		<p>address and suggested approaches</p> <ul style="list-style-type: none"> • Service offerings to be developed in line with revealed business needs, and this approach clearly demonstrated in business case and communications 		
Supply side doesn't engage	<ul style="list-style-type: none"> • Anxiety expressed by some that Callaghan Innovation may interrupt existing commercial arrangements or jeopardise future relationships between SETD providers and firms • Possible suspicion that Callaghan Innovation will preference internal capability or other suppliers, or misuse its IP, institutional knowledge or any commercially sensitive information, may prevent SETD providers from engaging fully in new approaches • Scepticism that this is just rebranding, nothing new – not worth engaging • SETD participants focus is on funding rather than strategy and outcomes 	<ul style="list-style-type: none"> • Focused stakeholder relationship management, to ensure role is understood and particularly in strengthening connections • Early pilot engagement with key SETD stakeholders to trial new approaches and demonstrate willingness to work with sector, through developing shared operating models and information flows • Ensure Callaghan Innovation's operations are transparently focussed on raising Business R&D that leads to economic growth and not increasing internal revenue • Include increasing commercial revenue for RS&T providers as a KPI for Callaghan Innovation • Ensure full communication of what is and isn't Callaghan Innovation role in allocation of funding (both science and business R&D) and the processes in place to ensure transparency and integrity in operations • Develop in-house monitoring and risk function to assess whether there is any undue preference towards specific parties. Formally report on extent of in-house purchasing of SETD expertise. • Address concerns about competition or unfair advantage explicitly through MOUs so that suppliers are protected. • Stakeholder Advisory Group set up to advise on issues to address and suggested approaches • Engage with MBIE on HVMS policy and strategy 	Low	High
Difficult to establish desired relationships with delivery partners	<ul style="list-style-type: none"> • Withheld under s9(2)(j) of the Official Information Act 1982. • Developing joint tools etc may be delayed through consenting processes required for sharing of firm data • Withheld under s9(2)(j) of the Official Information Act 	<ul style="list-style-type: none"> • Withheld under s9(2)(j) of the Official Information Act 1982. • Legal and business advice being sought to resolve information sharing issues • Withheld under s9(2)(j) of the Official Information Act 	Low	Medium

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	1982.	1982.		
Government Expectations	<ul style="list-style-type: none"> Risk that the appropriated funding for ATI establishment in the out-years is diverted to other uses in Budget 2013 (ahead of agreement to the detailed business case being prepared for 30 June 2013) 	<ul style="list-style-type: none"> Seek Ministerial agreement that the out-year projections in this business case should be a "placeholder" for budget allocations pending completion of the detailed business case, so that all proposals for use of that funding can be assessed together 	Low	High
Ongoing change to innovation settings	<ul style="list-style-type: none"> Extensive changes to policy settings make it difficult to fully define role and service offerings of new organisation, and may lead to ongoing disruption to teams (e.g. National Science Challenges) Risk that new policies may not be sufficiently informed about operational impact, leading to suboptimal settings being implemented (e.g. Business R&D tools review) 	<ul style="list-style-type: none"> Close engagement with MBIE policy processes and relevant reviews MBIE Special Adviser to the Board appointed to ensure Board is kept up to date and aligned with developments 	Medium	High



7. Performance management

Success will ultimately be measured by the contribution Callaghan Innovation makes to lifting the aspirations and performance of HVMS businesses in undertaking science and technology-based innovation, with resulting improvements in BERD, global competitiveness and growth. This necessitates Callaghan Innovation supporting manufacturing and services firms both directly and indirectly to innovate and increase productivity, whether through enabling increased exports, reducing the cost structure of industry (e.g., innovations that reduce energy consumption), or expanding the productive capacity of the economy (e.g., innovations that enable more economic resource extraction).

Cabinet has agreed that “while [Callaghan Innovation’s] financial performance will remain a key performance measure, the more important measures of performance relate to its contribution to the economy”⁸. Therefore, while Callaghan Innovation’s financial performance will remain a key metric, the more important measures of performance relate to its wider contribution to the economy, the intensity of business and SETD engagement, and the depth and alignment of the national SETD sector.

7.1 Processes for realising benefits

Callaghan Innovation will be subject to all the budget, corporate planning and public sector management processes which apply to all Crown Agent to ensure strategic alignment, effectiveness and efficiency (see Section 10: Governance).

Currently there is very little evidence on relative effectiveness of different components of a programme of interventions. The Government’s recent Expenditure Review of the economic development and business assistance portfolios identified historically how little evidence has been gathered systematically in a way that can inform policy making and investment trade-offs. Callaghan Innovation will address this issue through building evaluation capability and adopting a comprehensive suite of tools and internal processes to provide the necessary assurances that at any point in time its operations to increase SETD intensity are:

- resulting in additional activity (would not otherwise happen)
- of positive net benefit to New Zealand
- making a material difference
- strategically aligned and reinforcing of government’s strategy
- evolving so as to remain relevant and value for money.

These internal processes are being developed and introduced progressively and in line with Callaghan Innovation’s organisational development. They will include:

- Stage-gated, “fast-to-failure” and evidence-based introduction of new services, their refinement and on-going justification. This will prevent good money going after bad and also assist in developing more realistic behaviours among co-investors.
- Regular and in-depth review of the effectiveness of Callaghan Innovation’s individual programmes and portfolio of activities undertaken by the Strategy group.
- Existing programmes and interventions will “compete” with new ideas - with funds freed up from exiting established programmes which have outlived their “use-by-date” being made available to fund new initiatives which promise greater value for money.
- Regular cross-agency process, to include NZTE and MBIE, to consider collective success, gaps and relative priorities to support the government’s business growth agenda – which will

⁸ Cabinet Minute (12) 22/11.

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shape joined strategy, investment, programme design and targeting across the relevant agencies.

- Regular surveys of business and stakeholder satisfaction, gaps and review of both progress and outcome indicators

Effectiveness will be regularly reviewed, with:

- Regular public reporting on outcomes of each program and on performance of overall suite
- Periodic evaluations not only against program objectives, but also programs' relative effectiveness within overall portfolio, and the portfolio in its entirety.

7.2 Targets for Key Performance Indicators

The outcomes to which Callaghan Innovation contributes are:

- Increasing BERD (business expenditure on R&D) as a percentage of GDP, which will
- Increase science and technology-driven innovation, which will lead to
- Increased exports, profits and productivity of the HVMS sector.

A KPI framework will be agreed and finalised over the period 1 February – 30 June 2013, as a part of the wider process of agreeing Callaghan Innovation's accountability framework and documents with the incoming Board and Ministers, and developing the new organisation's initial Statement of Intent.

A key aspect of success will be increasing BERD – i.e. increasing private sector spend in the system, rather than maximising Callaghan Innovation's own revenues from the private sector. As noted above, one indicator of performance will be the trend in commercial revenues for SETD providers other than Callaghan Innovation.

However the trend in commercial revenue for Callaghan Innovation will also be important, as an indicator of the value placed on the new entity's services by its business customers, as well as contributing towards running the organisation in a financially prudent and sustainable manner. In order to avoid undue distortion and subsidy Callaghan Innovation will follow appropriate Treasury and Audit Office user charges policies for its business services.

Possible output measures for Callaghan Innovation's business units include:

- Growth in commercial revenues for SETD providers relevant to the sector
- Number of active relationships with overseas centres of excellence
- Number of business and STED people exposed to the ideas of visiting experts
- Falling number of firms reporting a lack of skills as a barrier to innovation
- The number of participants in collaborative projects
- Increasing number of innovative firms or firms adopting new technology or knowledge
- Increasing number of firms doing R&D
- Monetary levels of co-investment by private sector in strategic projects
- Measures of Callaghan Innovation's financial and operating sustainability

These metrics, and others as appropriate, will be calibrated to reflect expected levels of activity and results, and mapped to output classes and key result areas.



8. Recommendations

The Callaghan Innovation Establishment Board recommends that the Minister of Science and Innovation and the Minister of Finance:

- (a) Note that on Day One Callaghan Innovation will take responsibility for more than 400 staff and all outstanding contractual obligations of IRL and MBIE Business R&D grants, and an intensive change management process is planned immediately post establishment to ensure this occurs smoothly and with no loss of business continuity
- (b) Note the plan outlined in this business case for developing the new entity's service and product offerings in more detail, including a review (in consultation with staff) of the future of its in-house SETD capability, over the period from 1 February to 30 June 2013
- (c) Note the financial projections included in this business case, which are based on minimal impact on business as usual while using additional resources to develop and implement new services in a managed process over the transition period and out-years
- (d) Note that latest estimates are that the budget for the Callaghan Innovation Establishment process will be underspent, by around \$500,000
- (e) Agree that any unspent funding from the Callaghan Innovation Establishment process should be included in the funding for Callaghan Innovation for the first five months of operations
- (f) Agree that the remaining \$8.000m in the non-departmental HVMS operating appropriation be included in the funding for Callaghan Innovation for the first five months of operations
- (g) Agree to make a decision on the allocation of the unspent ATI capital appropriation of \$11.900m for 2012/13 once the final transfers of departmental funding related to transferring functions have been finalised
- (h) Agree that current appropriations for the years 2013/14 – 2015/16 should remain as indicative allocations to support Callaghan Innovation operations until the submission of the more detailed business case requested by joint Ministers by 30 June 2013
- (i) Agree that Callaghan Innovation should negotiate an initial performance contract for the period 1 February to 30 June 2013 on the basis of the financial requirements and work programme included in this business plan (version 2.5 dated 23 January 2013)
- (j) Agree that the performance contract will include as deliverables:
 - a. effective change management of the staff and resources being transferred into the new entity, including incorporation of The FoodBowl
 - b. further detailed development of services to be delivered over 2013/14 to 2015/16
 - c. completion of the SET Capability Alignment project and development of a detailed transition plan and a plan for the future of in-house delivery of SETD services for Callaghan Innovation
 - d. development of a detailed organisational structure that will support delivery of (b) and (c) above
 - e. development and agreement of KPIs for Callaghan Innovation over the next three years
 - f. delivery of an agreed Statement of Intent and Performance Contract for the period 2013/14 to 2015/16, based on the results of the above



Annex One: Proposed Service Portfolio

Callaghan Innovation intends to develop a range of new functions and services to fit with the role and vision of the organisation. For the purposes of the business case, an initial customer segmentation has provided the basis for a proposed service portfolio to address the needs of these customer segments. These service offerings will be organised around the lines of business outlined in Chapter 2 (see pp7-10).

This annex outlines the approach to the initial customer segmentation, and the resulting proposed implementation pathway for a range of activities and services. This will be reviewed following the development and market validation projects outlined in the business plan, including extensive stakeholder engagement, but is shown here to outline the current thinking that will be tested during the process.

A1.1 Customer Segmentation and Product Suite

The initial customer segmentation identified 4 generic segments, based on the firm’s innovation maturity and potential. Innovation Maturity is an assessment of the extent to which a customer is able to undertake and use innovation. Innovation Potential looks at whether the customer could create market value through SETD innovation, which would be unlikely to be realised without Callaghan Innovation involvement.

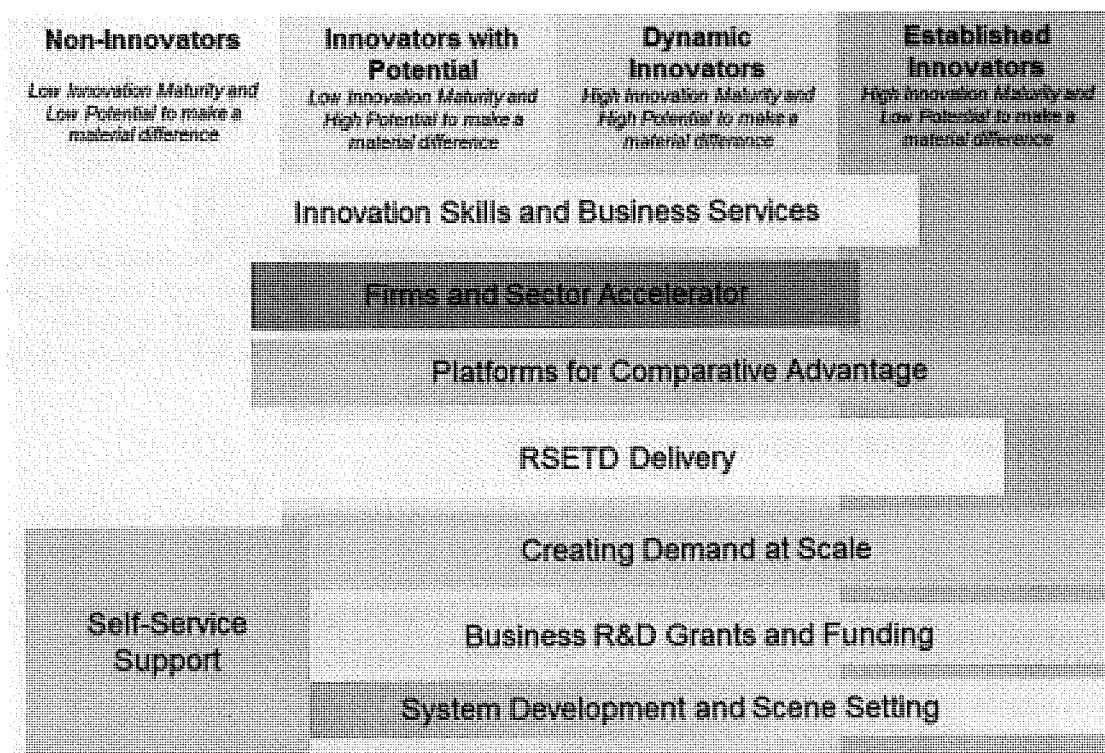
This initial segmentation is illustrated below:

Non-Innovators	Innovators with Potential	Dynamic Innovators	Established Innovators
<i>Low Innovation Maturity and Low Potential for making a material difference</i>	<i>Low Innovation Maturity but High Potential for making a material difference</i>	<i>High Innovation Maturity and High Potential for making a material difference</i>	<i>High Innovation Maturity, Bespoke Potential for making a material difference</i>
Firms with low maturity and low innovation potential would not be considered a priority.	These firms currently have low maturity to develop or commercialise innovation.	These firms with high potential and maturity have the skills and processes to undertake innovation and apply and commercialise RSETD-Innovation. These firms will be a core focus of Callaghan Innovation to provide or assist access to RSETD capability and technical services aiming to lift returns from business R&D and innovation.	Larger and more complex innovators, these groups can be largely self-sufficient and choose to engage Callaghan Innovation on an ad hoc and specific basis.
These clients will be engaged through Callaghan Innovations' channels (RPN and 0800) where the focus is to lift their use of and ability to undertake R&D and innovation.	They will benefit from Innovation Skills and Business Services to lift their capability. These groups will be a core focus of Callaghan Innovation aiming to increase the base of innovation-ready firms.		These can engage with Callaghan Innovation for bespoke needs. Callaghan Innovation may look to partner with these firms or sectors to give momentum, scale to platform and sector type initiatives.
Light touch, information services	Guidance on process and technical "how to"	Guidance and linkages to find solutions	Solutions-based assistance to build off scale

A number of services have been identified at a high level to address the needs of these customer segments, based on the demand analysis work undertaken by Deloitte and stakeholder engagement by the Establishment Board. The following diagram illustrates how the services together form a comprehensive and integrated suite of programmes to address the innovation

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needs of a company, based on their current capability and the ability of Callaghan Innovation to service those needs:



The main focus of services offered by Callaghan Innovation is expected to be to *Innovators with Potential* and *Dynamic Innovators*, where working with these firms is likely to create the greatest value. However, in line with the sector leadership role, “no wrong door” approach and because clients initially will often self-select, all customers will be able to access Callaghan Innovation light-touch services – the Self-service Support and Systems Development and Scene Setting. Firms accessing the first point of contact services such as the website will enable Innovation Agents to identify “pipeline” clients.

Innovation Skills and Business Services, designed to build innovation potential, will target the two focus groups in the centre columns. This service will provide programmes, training and advice to develop capability in firms, equipping them to effectively carry out SETD-based innovation. Innovation Agents will work with these firms to identify services or programmes they need.

The Firms and Sector Accelerator will be targeted towards firms with high innovation potential – i.e. with the skills and processes to undertake, apply and commercialise SETD-innovation, but without the scale or capability to provide them in-house. Callaghan Innovation will provide or assist access to SETD capability and technical services; Innovation Agents will work with firms to assess their needs, and direct them to services and/or funding support where appropriate.

Platforms for Comparative Advantage will span *Dynamic Innovators*, *Innovators with Potential* and *Established Innovators*. These platforms will involve a wide range of firms, industry and SETD providers and combine different levels of capability, leveraging expertise. This will also be the case for Creating Demand of Scale, where Callaghan Innovation will work with selected firms to leverage their expertise and scale across different platforms or projects.

A1.2 Identification of Customer Need & Services

This initial portfolio was informed by studies investigating the opportunities and barriers to innovation in New Zealand. The figure below summarises common barriers encountered by HVMS

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firms and the types of service offerings that could reduce the problem and/or or provide additional benefit:

Common barriers	Problem / Opportunity	Service Offering
Lack of scale with few large firms or groupings of companies	Transaction costs	<ul style="list-style-type: none"> • Web-portal to provide information and advice • Consultancy on R&D, tech transfer, scoping of need • "No wrong door" approach • Access to R&D • Pilot facilities
Lack of critical mass	Information asymmetries	<ul style="list-style-type: none"> • Technology transfer • Organise and hold events • Web-portal to provide information and advice • Discovery and navigation – diagnostic of need and identification of appropriate SETD capability • Networks and forums • Specialist equipment or expertise • Advice on IP management
Rising costs of production	Cost containment	<ul style="list-style-type: none"> • Programmes focussed on improving efficiency • Capability and consulting
Need to stay ahead of competitors with product development	Product development	<ul style="list-style-type: none"> • Activity to support product development • Research and development • Tech transfer • Forecast SEDT trends • Develop pathway to market strategies
Lack of staff with the right skills	Need to develop human capital	<ul style="list-style-type: none"> • Promote education and career pathways into SETD • Raise the profile and value of STED through leadership and scene setting • Internships and mentoring • Mobility of staff

A1.3 Priority services for development and implementation

Using this framework, the Establishment Board developed a proposed portfolio of services to be introduced over the first years of operation. The tables below provide a high level description of the services and outline key features of the work programme over the first 5 months. They also indicate possible expansion and further development in the out-years; although these depend on the outcome of work yet to be completed, they are provided here to give an indication of the potential roll-out of services and activities as the new organisation gears up.

Table A1.1 below outlines the proposed growth pathway for the selected portfolio of services.

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Table A1.1 Proposed growth pathway for selected portfolio of services

System development and scene setting				
Callaghan Innovation will lead the conversation and commitment to increased innovation intensity by HVMS firms. It will play a leadership role in identifying and championing priority areas for industry and SETD innovation. Callaghan Innovation will work in partnership with other organisations, ROs and firms to develop, run or sponsor events to promote the sector. Specific service offerings will include events, forums and networks, think pieces, informing and influencing education choices, and providing general leadership and voice for the SETD sector.				
1 February – 30 June 2013				
<p>Leadership</p> <p>Callaghan Innovation will influence innovation in leadership and leadership in innovation. Callaghan Innovation will engage in the policy debate on innovation and the government role in facilitating and supporting innovation and SETD. Influencing innovation in the wider economy influencing business to aspire above what they thought possible and finding new ways to do things, and supporting alternative sources of innovation such as engaging in Maori economic development.</p>	<ul style="list-style-type: none"> Internal engagement and capability development led by CEO and Board. This will include training of staff and ongoing development of the Callaghan Innovation culture Chairperson, CEO and internal champions speak to business forums where possible to increase awareness of Callaghan Innovation's vision and role. Develop strategy to engage and influence key target groups that includes leveraging existing initiatives and is market led. Develop a modus operandi to work with Maori and engagement with Maori ED strategy. 	*	*	*
<p>Events</p> <p>Callaghan Innovation will develop and run (in partnership with other organisations where appropriate) forums, conferences and awards. Conferences and forums will be targeted at raising the profile of SETD-based innovation by firms and will be targeted at specific technologies, topic areas or innovators. Co-sponsorship with other organisations including NZTE, industry association, networks and ROs will be encouraged to ensure these are targeted at the needs or interest of specific audiences.</p>	<ul style="list-style-type: none"> Develop an event strategy detailing existing commitments and new (potentially co-funded) events including conferences/forums and invitations to international experts. Sponsorship of awards committed to in the period: <ul style="list-style-type: none"> REAP 2013, MIT Award for entrepreneurs (depends on transfer from MBIE) NZTE International Business Awards, sponsorship with Callaghan Innovation (March/April) 	*	*	*
<p>Networks and forums</p> <p>Callaghan Innovation will initiate and run forums and networks for firms, industry, SETD experts to engage and contribute to discussions on subject matter. A light touch option is to establish online communities where any interested party can contribute and comment. These will be hosted by Callaghaninnovation.govt.nz but will be led by contributors from business and SETD community. These will be established on technology or sector basis</p>	<ul style="list-style-type: none"> Online forum developed for firms and SETD providers to submit comments on where Callaghan Innovation should focus. These comments will be drawn into the development of the Callaghan Innovation vision and services in the future. Develop plan for stakeholder engagement and market research to identify areas where online networks and other connectivity channels will add value. This may include working groups or forums with industry and SETD providers. 	*	*	*
<p>Publishing and Think Pieces</p> <p>Callaghan Innovation will invite key influencers to contribute to a Working Paper series, that will contribute to the conversation in New Zealand on innovation and the need to step change New Zealand's growth. These can be turned into webinars, and podcasts to reach a wider audience and time-poor business owners.</p>	<ul style="list-style-type: none"> Develop protocols and processes to publish working papers and online content. Develop calendar of publications to be produced or commissioned by Callaghan Innovation. (Callaghan Innovation will continue to sponsor TIN100 Report) 	*	*	*
<p>Education choices</p> <p>Callaghan Innovation will have staff dedicated to raising the profile of SETD-based innovation in students and school to inspire an increasing number of the next generation to have careers in SETD and its commercialisation. A key focus of this will be to influence education choices of secondary and tertiary students. Callaghan will be on campus in June/July to provide information and guidance on courses in SETD. This will include information about courses with practical placements in businesses or research organisations</p>	<ul style="list-style-type: none"> Smooth transition for FutureIntech service Develop plan for engagement with universities and other stakeholders to inform strategy development 	*	*	*

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Table A1.1 Proposed growth pathway for selected portfolio of services - *continued*

Self-service support

Callaghan Innovation will reduce the costs of discovery for businesses trying to access SETD assistance and services, as well as business support services more generally (e.g., those offered by NZTE and EDAs). Callaghan Innovation will provide a highly-automated, light-touch and self-service solution open to all. Specific service offerings will include a "smart but quick" 0800 support service, a web-based gateway providing access to services provided by Callaghan Innovation as well as external parties (e.g., KiwiNet, Universities, CRIs, private providers, EDAs, other Government agencies). The approach will align with the Better Public Service principles, including "no wrong door", reducing clients' compliance costs, and shared services where it is efficient and effective to do so.

1 February – 30 June 2013				
<p>Web portal</p> <p>This will be the main gateway to Callaghan Innovation. The website will be interactive and include information on services provided by Callaghan Innovation and external to Callaghan Innovation (eg provided by KiwiNet, PROs, Universities, CoREs etc.) updates, calendar of events, new technology, forums, contacts, self-diagnostic tools.</p>	<ul style="list-style-type: none"> By 1 February the website will be online and linked to existing IRL & MBIE websites. RFP for web developer to develop improved functionality, including interactive forums. Supported by Callaghan Innovation IT team. Develop protocols and systems to respond to enquiries and comments online and content requirements. Database for information collection and collation. Work with MBIE to develop portal for Business R&D Grants Ensure embedded links between NZTE and EDAs websites. All comments and enquiries are logged and information used to populate website during this time. Collate calendar of event for business in consultation with bis.govt.nz, posted and continually updated on website 	<p>*</p>	<p>*</p>	<p>*</p>
<p>0800 phone line</p> <p>A 'quick but smart' 0800 number as a first point of contact for firms. This service will provide information, advice and initial assessment of firms' needs and be able to direct the firms to expertise where practical.</p>	<ul style="list-style-type: none"> By 1 February the 0800 number will be established and staffed, with an experienced and useful person answering the phone. Ongoing training of staff to respond to phone and web-based comment and enquiries. 	<p>*</p>	<p>*</p>	<p>*</p>

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Table A1.1 Proposed growth pathway for selected portfolio of services - *continued*

Innovation skills and business services				
Callaghan Innovation will seek to raise aspirations and increase potential and opportunities of the critical players in the HVMS innovation system, most notably strengthening firms, SETD providers and innovation workers. Specific service offerings will include developing and promoting programs for improving innovation intensity and effectiveness in firms; developing SETD expertise in engaging commercially and more effectively with business in technology transfer, and supporting the two way exchange of staff and students between SETD providers and businesses.				
1 February – 30 June 2013				
<p>Develop and promote innovation capability in firms</p> <p>Callaghan Innovation will provide services designed to raise the skill base of innovators or potential innovators to commercialise ideas for the market. These programmes may either be provided in-house or by a third party. Existing programmes such as Better By Lean will continue to be provided. Work will be undertaken to. There will also be support specifically for inventors, both</p>	<ul style="list-style-type: none"> Preparation for transfer of Better by Lean on 1 July 2013. Common referral systems with NZTE in place to service clients (NZTE and Callaghan Innovation) and ensure continuity of access to existing programmes. Ensure financial provision for access to NZTE programmes by Callaghan Innovation firms. Information on firms collected and collated from web portal, diagnostic and working with NZTE and EDAs to identify key firms, sectors and clusters to engage. Develop a suite of programmes and service offering required for firms to innovate such as innovation management, process and project management and IP management, informed by knowledge of firm needs collected from diagnostic and working with NZTE and EDAs. This will include testing and validation through workshops with staff, firms and SETD providers. These services and support may be web-based and other. Work with partner providers to map full range of services and programmes including where there are currently gaps. Develop or contract these services as appropriate. Scope co-funding rates and fee for service charges. 	*	*	*
<p>Building SETD commercial disciplines</p> <p>Callaghan Innovation will provide courses or programmes designed to lift the capability of SETD providers to engage with firms. This is to develop skills in SETD providers align them with industry and are better able to understand commercial needs.</p>	<ul style="list-style-type: none"> Scope the needs of the SETD system working with them to determine how best to engage and work with firms. Develop programmes for SETD to increase connectivity and commercialisation between industry and SETD providers 	*	*	*
<p>Enable recruitment of skilled personnel into firms</p> <p>Callaghan Innovation will facilitate internships for undergraduates and postgraduate students building on existing programmes, through universities, into business and innovation projects</p>	<ul style="list-style-type: none"> Manage and integrate existing capability and internship programmes currently within TechNZ (including scoping changes required as a result of new policy settings, if any). Work with firms to assess needs and the best channels to identify interns from tertiary providers. 	*	*	*
<p>Promote and influence tertiary education for the innovation workforce</p> <p>Callaghan Innovation will work with universities, polytechnics and other tertiary providers to influence and promote courses in business, the sciences, engineering, technology and design with an aim to promote careers in SETD and business that can create the skills required for innovative firms</p>	<ul style="list-style-type: none"> Populate website with information on courses currently available both in business and SETD disciplines (includes third-party providers, universities, polytechnics etc.) 	*	*	*

Firms and Sector Accelerator

Firms and industries will be prioritised through a diagnostic methodology (common with NZTE) to assess their innovation maturity and potential, which will determine whether Callaghan Innovation (or others in the system, notably NZTE) is well placed to assist and what level of service is appropriate (i.e., segmentation of the client base). Where Callaghan Innovation determines it has the potential to make a material difference, it will assign an innovation agent who will work with the firm to realise their commercial potential through SETD innovation, including: improving their understanding for the merits of increased levels of SETD innovation and how to go about it; discovering the specific opportunities additional SETD innovation offers each of them; identifying possible solutions, including project specification and management, delivery options and potential service providers, assisting businesses to access and manage the necessary skills, intellectual property, equipment or facilities, and accessing

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R&D client Table A1.1 Proposed growth pathway for selected portfolio of services - continued commercial outcomes due to the contribution of more intensive SETD Innovation agents in this business line will be expected to service between 10-20

February – 30 June 2013				
<p>Connect firms with appropriate programmes Callaghan Innovation will assess firms through diagnostic process to direct them to appropriate service (either Callaghan Innovation or other providers)</p>	<ul style="list-style-type: none"> Integration of the IRL Industry Engagement team and MBIE Business Innovation and Investment Teams to service clients and develop an integrated team of customer facing Innovation agents, with in depth knowledge of Callaghan Innovation's SETD capability and teams as well as where to go for external expertise. Work with NZTE and EDAs to identify a list of key firms with SETD Innovation potential. Develop strategy for new effective engagement, firm industry or sector level. Work with firms and SETD providers to establish what is required for commercialisation of science, including how Callaghan Innovation will connect firms with expertise (in business or SETD). Initiate quarterly review of programmes suite and implementation with NZTE, MBIE. 	*	*	*
<p>SETD Capability and Consultancy service Callaghan Innovation will work with SETD providers to establish working relationship to work with firms addressing problems.</p>	<ul style="list-style-type: none"> Continuity of contract services provided by IRL groups providing this function. Maintain and develop relationships with SETD providers across the system Scope establishment of database of SETD expertise/suppliers for efficient mediation through system to find the right capability for the problem Scope co-funding rates and fee for service charges. 	*	*	*
<p>SETD Relationships and Procurement Callaghan Innovation will work with SETD Providers to establish working relationship for access to expertise or firm referrals.</p>	<ul style="list-style-type: none"> Engage with supply side to explain Callaghan Innovation value proposition and agree how to work together. Set up initial working relationships for day-to-day operations with key NZ supply side providers ie Uniservices, KwiNet, Lincoln Ventures, Scion etc. Scope arrangements with CRIs, Universities, Research Organisations to part-own teams or staff, access facilities and retain relevance of skills. (MOUs with partner institutions to engage where and when best placed to do so, and SLA arrangements with key partner institutions to formalise relationships with experts and teams to provide resources when required). Select "test case" institutions to trial and further develop MOU and SLA arrangements. 	*	*	*
<p>Access to technical services and facilities Callaghan Innovation can provide access and associated service to firms requiring pilot or technical facilities</p>	<ul style="list-style-type: none"> Complete negotiation for FoodBowl transition target date [Withheld under s9(2)(g) of the Official Information Act 1982], ensuring continuity of services. Scope the potential client base of food and beverage firms. Explore additional services required to fully exploit potential contribution of FoodBowl. Scope IRL Incumbent pilot facilities, Glycosyn, Lipid extraction, power lab; develop strategy and assess if any services should be wrapped around facilities. 	*	*	*
<p>Links to Regional Business Partners and EDAs Callaghan Innovation will seek to promote no wrong door and common tools and systems with RBP and act as a channel for services offered by the RBP.</p>	<ul style="list-style-type: none"> Build working relationship with EDAs, building on existing business model e.g. ATEED, CDC. Work with Regional Business Partners to develop criteria and protocols on identification of potential innovative firms and common referral system. Run pilot with key partner EDAs to test approach. 	*	*	*
<p>Business R&D grant support Callaghan Innovation administers business R&D grants on behalf of the Government</p>	<ul style="list-style-type: none"> Continuity of Business R&D grants process and current contracts. Work to integrate IMS systems. Engage with policy team to implement any changes arising from the review of Business R&D tools. 	*	*	*

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Table A1.1 Proposed growth pathway for selected portfolio of services - *continued*

Platforms for comparative advantage				
<p>Callaghan Innovation will organise resources around firms and SETD platforms and capabilities which offer New Zealand (potential) comparative advantage and scale. Organising themes for these collaborations might be technological (e.g., advanced materials), sector (e.g., food and beverage, electronics and electrical systems), or project (e.g., new product or process) based. The success of these projects will entail co-creation by a range of joined-up commercial, SETD, government and other parties. A flexible approach will be taken to the development of appropriate collaborations arrangements for building these platforms, recognising the commitment, incentives and competencies of the participating parties. Callaghan Innovation's role in building these platforms will vary on a case-by-case basis – ranging from project leader, project manager to facilitator, as will the extent and form of Callaghan Innovation's contribution. In this business line, an innovation agent will typically be committed to one (perhaps two) platform initiatives spanning multiple years.</p>				
1 February – 30 June 2013				
Sector-based networks	<ul style="list-style-type: none"> Establish network for Food and Beverage industry that includes food industry participants, manufacturers and industry groups. Work with NZFIN to agree a plan for the 4 network hubs. Review existing industry networks, who is involved, and how they are resourced and managed. 	*	*	*
Technology platforms	<ul style="list-style-type: none"> Industry research and stakeholder engagement undertaken to scope industry, firms and network needs and identify existing networks. Identify where the opportunities are for competitive advantage. Initial scoping work to identify current disparate expertise that can be linked for more effective engagement eg photonics, wave energy and titanium. 	*	*	*

Creating demand of scale				
<p>Callaghan Innovation will target customers or market segments for scale, to discover opportunities and develop value propositions whereby New Zealand's SETD and business capabilities collaborate to provide attractive new solutions. Callaghan Innovation's roles will include discovering such opportunities; assessing the potential for domestic capability to provide a compelling value proposition; bringing together the right consortium of domestic and international capabilities; coordinating and project managing the process from pitch development through to sale, delivery, aftercare and subsequent leveraging of intellectual property and new capability. This small team of innovation agents will be expected to have a significant number of "discovery" conversations underway at any point in time, and look to convert one or two new projects each year. The sales cycle might be anywhere from 6 months to upwards of two years.</p> <p>The Christchurch rebuild will be one area of initial focus where there is a need for innovative solutions and will also benefit New Zealand. Further work will be undertaken to identify opportunities potentially in Health, Defence, Corrections, the DoC Estate and draw together teams to service them.</p>				
1 February – 30 June 2013				
Creating Demand of Scale	<ul style="list-style-type: none"> Explore opportunities and appetite for potential "big win" projects that could be unlocked through innovation. Engage with key functional leads (e.g. ICT, procurement, Health, Justice, Defence) and explore other resources to support projects including NZ industry suppliers and research partners. 	*	*	*

SET Delivery				
<p>The Research, Science and Technology Delivery business unit will provide research, science and technology capability for which there is potential for material New Zealand-based commercial demand. This includes providing services where capability may already exist elsewhere, but is not accessible or responsive to business needs on commercial terms. On 1 February 2013 Callaghan Innovation will have all of IRL's existing capability in-house and operating largely on the same basis as previously. All current contracts will be maintained. It is not possible with any certainty to project future numbers of RS&T Delivery FTEs, as the Establishment Board is proposing an in-depth review over the first 5 months to determine where science capability should be located to maximise its value to the innovation system.</p>				
1 February – 30 June 2013				
SET Capability	<ul style="list-style-type: none"> Continuity of existing projects and contracts maintained as BAU. Continuity of current contestable bidding rounds – note significant bidding round this year for several groups. Undertake a formal, open and transparent process with the various SET teams within Callaghan Innovation. This will assess capability within the organisation and where it would be best placed or configured to support Callaghan Innovation's purpose. 	*	*	*

* Withheld under s9(2)(f)(iv) of the Official Information Act 1982

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Annex Two: Withheld under s9(2)(j) of the Official Information Act 1982.

Annex Three: Detailed Assumptions and Longer-Term Projections

Callaghan Innovation will start operations on 1 February 2013, incorporating:

- On Day One, a number of functions from MBIE, and IRL which will become a wholly-owned subsidiary company (Callaghan Innovation (Research) Ltd)
- Withheld under s9(2)(j) of the Official Information Act 1982, The FoodBowl which will be transferred from ATEED (subject to negotiation)
- From 1 July 2013, the "Better By Lean" function and associated funding which will transfer from NZTE.

Chapter 5 of this document sets out the financial projections for the transition period, 1 February to 30 June 2013. This annex first sets out the main technical/accounting assumptions relating to those projections. It then outlines the key assumptions behind the high-level financial projections for the period 2013/14 to 2015/16. These out-year projections are based on the indicative roll-out of services shown in Annex One, and are provided to give an indication of likely costs and funding requirements. They will be recast following completion of the service and product development and other transition projects over the transition period, as part of the detailed business case to be provided to joint Ministers by 30 June 2013.

A3.1 Technical assumptions

Data/figures used to build the budget and financial plan have been drawn from a number of sources:

- A reforecast of IRL to 30 June 2013, supplied in early November and including actuals to 30 September 2012. The audited Balance Sheet to 30 June was used as base Balance sheet data. As outlined in Chapter 5, updated figures from IRL including a reforecast end year outturn will be available shortly.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- The figures for the Business R&D Grants & Better By Lean functions were supplied by MBIE and NZTE respectively. These are based on 2012/13 budget. These figures have been included as presented. The change in appropriations resulting from these transfers has yet to be finalised.

Technical assumptions for the five month period and out-year projections are:

Revenues

- Performance contract monies will be paid on the 1st of each month and on an even one-twelfth basis. Other monies will be paid monthly in arrears for outputs produced.
- Core funding will be able to be recognised in Callaghan Innovation as revenue in 2012/13. Due to the way the contract on core funding is constructed, Accounting Standards on revenue recognition may deem the core funding revenue for 2012/13 to all belong to IRL regardless of the partial year.
- Existing revenue contracts will be delivered on time and in full and to specification

Costs

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- Opening Salaries have been used as a starting base for the cost structure. The assumption has been that science salaries, in particular, are in line with market rates.
- It has been assumed staff will be paid fortnightly and all salary and wage related costs (PAYE and withholding tax) will be expensed in the month they occur.
- Administration and other operating expenses are recognised in the period in which they occur.
- Accounts receivable and accounts payable, unless otherwise specified are due on the 20th of the month following invoice.
- Depreciation has been included for all inherited and new assets. Existing useful lives on assets has been applied into the future.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- Withheld under s9(2)(j) of the Official Information Act 1982.

Capital expenditure

- Capital expenditure is budgeted over the periods in which it is seen to be required. It is assumed all Capital Expenditure will be paid for in the period in which it is approved by the Board to be commissioned.
- No major refit of the Gracefield premises has been included in the budget, although there is some earthquake remediation underway in some buildings. Withheld under s9(2)(j) of the Official Information Act 1982. Further work on the future of the site will be undertaken following completion of the SETD capability alignment project.

Balance sheet assumptions

- Withheld under s9(2)(j) of the Official Information Act 1982.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- Withheld under s9(2)(j) of the Official Information Act 1982.
- It has been assumed that all redundancy costs incurred by the pre-existing entities are paid in full and no liabilities are transferred to Callaghan Innovation.
- Withheld under s9(2)(i) of the Official Information Act 1982.
- The opening valuations of the inherited assets are subject to a final external audit. At this stage we are not aware of any valuation issues associated with these assets, however there may be a remaining impairment asset risk.
- Tax losses currently in IRL will be lost on transfer due to the change of organisational status.
- All obligations (for example leases) are novated to Callaghan Innovation. The exception is the two MBIE offices which are being vacated in Auckland and Wellington.
- Risks relating to possible impairments of the balance sheets of IRL and the FoodBowl have been discussed in Chapter 5.

A3.2 Callaghan Innovation Revenues in the out-years

As outlined in Chapter 5, Callaghan Innovation will have three main sources of revenue:

- A **performance contract** with the Crown to cover services delivered on behalf of Government
- **Contestable science contracts** with MBIE, won through the annual contestable science funding rounds
- **Commercial income**, including funding received for scientific research from businesses (often linked with contestable science funding, i.e. a private sector contribution to the same project),

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subcontracted revenue received from other research organisations, as well as fee-for-service income, income from IP, etc.

Performance contract

The level shown in the financial projections for the out-years is essentially that required to fund the activities and services indicated, once contestable and commercial revenues have been taken into account. The detailed business case in June 2013 will provide the value for money analysis which will underpin final decisions on the service portfolio and resource allocation.

Contestable funding

It has been assumed Callaghan Innovation successfully bids for an amount which maintains the level of contestable funding at 95% of current levels. This is a conservative approach, particularly given the pressures on the rounds outlined elsewhere. The final level of funding will depend on the final outcome of the STED capability alignment review, the strategic positioning of Callaghan Innovation and decisions to be made regarding e.g. the Strategic Investment Fund.

Commercial revenue from third parties

IRL currently receives some revenue from domestic industry partners, mainly short-term fee for service work. This component also includes revenue from contestable funding subcontracts.

The budget assumes IRL's current activities which generate commercial revenue will continue. IRL's domestic commercial revenue has fallen in real and nominal terms in recent years, and this weakness is expected to continue given the current state of the global economy and the newness of Callaghan Innovation's business model. In time this revenue stream is expected to increase as Callaghan Innovation becomes established in the market and realigns relationships.

Withheld under s9(2)(i) of the Official Information Act 1982.

The FoodBowl currently has [Withheld under s9(2)(i) of the Official Information Act 1982] commercial revenue streams (Withheld under s9(2)(i) of the Official Information Act 1982). This revenue is expected to grow from 1 July 2013 and beyond once the FoodBowl is fully commissioned and resourced.

Overall the out-year projections include a conservative outlook for commercial revenue. Ahead of the completion of the SETD capability alignment project it is difficult to meaningfully forecast revenues to be raised by the SET Delivery unit (either contestable or commercial). Nor is it possible to project revenues to be earned from the new consultancy and business advisory services with any certainty ahead of finalisation of both the scope and rollout of these services, and the charging model to be applied. However the following are expected:

- Withheld under s9(2)(j) of the Official Information Act 1982.
- An increase in commercial revenue will be an important indicator of the relevance and support of businesses for Callaghan Innovation's service offerings
- However, a key role for Callaghan Innovation will be increasing engagement and expenditure of HVMS businesses with the innovation system, not necessarily through itself. Key performance indicators will need to include measures of such engagement, as well as outcome measures which can be used to re-prioritise offerings within the portfolio.

A3.3 Callaghan Innovation services and activities in the out-years

Most of the revenue for the new organisation on Day One is committed to existing activities, including many of the funding streams being brought together in the performance contract. To the extent core funding is tied to delivering existing science contracts, this funding will not be available to be redeployed until those contracts are completed. In addition:

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- BII's current project funding is largely already pre-committed through to the end of the financial year, which provides little head-room for the new entity to make a big impact through tailored grant funding to business.
- Withheld under s9(2)(j) of the Official Information Act 1982.

The current projections for the out-years are based on as much as possible of the additional performance contract funding being directed to support Callaghan Innovation's new service offerings, in particular the formation and management of platforms and other collaborations. It has been split across the new areas of activity - implementing new programmes and courses for businesses, and building coalitions of businesses and SETD providers for collaborative projects - in line with expected customer interest, the scalability of the activity and resource availability.

The Board believes in order to drive new projects (particularly in the first years of operation) it is important that there is additional funding to co-invest with platform/strategic project participants (similar to NZTE's International Growth Fund). [Withheld under s9(2)(j) of the Official Information Act 1982.] This appears very similar to the type of activity to be undertaken by Callaghan Innovation (and could perhaps be considered for transfer to the new entity.) In this business case funding has been progressively allocated for co-investment across a range of services and programmes, [Withheld under s9(2)(f)(iv) of the Official Information Act 1982].

The table below shows the indicative projected staff numbers and costs in the different new service lines in the out-years.

Withheld under s9(2)(f)(iv) of the Official Information Act 1982.