Callaghan Innovation

STATEMENT OF INTENT

1 FEBRUARY – 30 JUNE 2013

Accelerating commercialisation of innovation in New Zealand firms

6 May 2013

MESSAGE FROM THE BOARD

On behalf of the Board we are pleased to present this interim Statement of Intent for Callaghan Innovation.

Callaghan Innovation is a new statutory Crown agent established on 1 February 2013 by the Callaghan Innovation Act 2012, to accelerate the commercialisation of innovation in New Zealand firms.

This is a very important milestone for New Zealand's innovation system. For the first time we have an organisation that will bring together in one place the range of resources and services required to support our business sector to drive innovation built on science, engineering, technology and design, and successfully commercialise that innovation for their own and New Zealand's benefit. We are honoured to be able to name ourselves after the late Sir Paul Callaghan, a great New Zealand scientist and innovator.

International evidence shows that advanced technology institutes like Callaghan Innovation have been successful in helping businesses to step up beyond their current capabilities and limitations – and in doing so build innovative capabilities that contribute to their growth and the broader economy.

We cannot do this alone; Callaghan Innovation will earn its reputation through the way it partners with others. We will work closely with New Zealand Trade and Enterprise, the primary government facilitator of export-led growth and business internationalisation, as well as with regional development agencies and the many providers of innovation services throughout New Zealand.

Callaghan Innovation will not duplicate or compete with the wider system, but will be an informed and honest broker. When Callaghan Innovation succeeds, all New Zealanders will benefit from a stronger economy, higher-value exports, more productive and sustainable resource use, more jobs and higher incomes.

We would like to thank all those from the constituent organisations and others that helped us get to the point of start-up. We have a challenging and intense five months ahead as we put in place a strong and enduring foundation for the new organisation. The focus will be on the successful execution of our establishment projects and building the new organisation, while ensuring that we continue to deliver on our critical existing business activities.

This interim Statement of Intent covers the five months to 30 June 2013, and is based on the five-month business plan approved by the Ministers of Science and Innovation, and Finance. The financial projections are based on the five-month business plan, amended to include changes in the funding transferred from the Ministry of Business, Innovation and Employment (MBIE) on establishment and changes to Industrial Research Limited's (IRL's) position and projections as signed off by the outgoing IRL Board. Other performance measures are drawn from the existing commitments and priorities of the organisations that came into Callaghan Innovation on 1 February (taken from MBIE's Statement of Intent and IRL's Statement of Corporate Intent as appropriate), and Ministers' expectations. A major priority will be the delivery of a long-term business plan, and our Statement of Intent for 2013-2016.

Sue Suckling
Chair

SH Suckling

Richard Janes
Board member

Richard Janes

CALLAGHAN INNOVATION ROLE AND PURPOSE

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

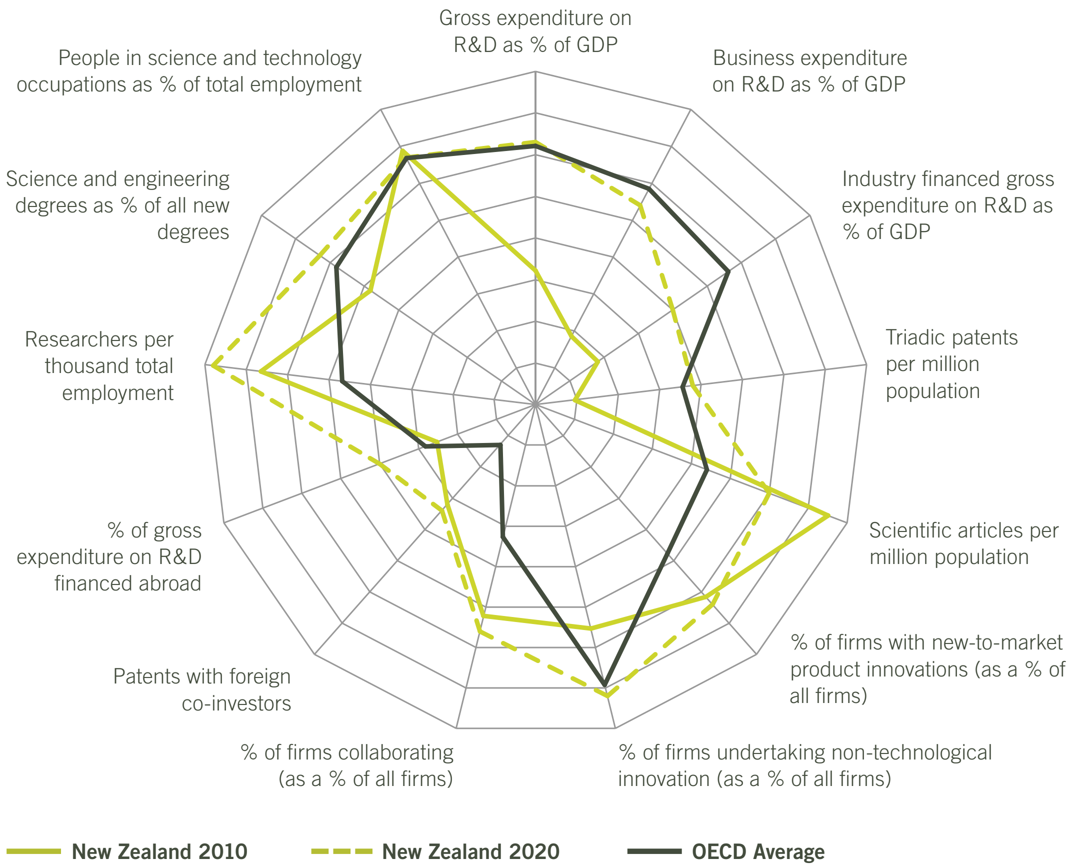
We will achieve this by accelerating the commercialisation of innovation in New Zealand firms. Our focus is to:

- **Motivate** industry and individuals to innovate more through inspirational information, training, advice and funding
- **Connect** industry with innovation ideas, opportunities, partners, expertise and solutions
- **Deliver** project management services, resources and the expertise required for high-priority innovation opportunities.

In the coming five months we will be developing our business and financial models, our product and service offering, and how we will engage with customers and partners in order to achieve our objective.

The context for this is set out in the extensive work undertaken in the past two years in the *Powering Innovation* report, and the *Building Innovation* and *Building Export Markets* progress reports on the government's business growth agenda.

The challenge for New Zealand, which goes to the heart of Callaghan Innovation's purpose, is best captured in the following diagram, which shows key areas where we aim to improve our performance compared with others in the OECD:



New Zealand's record in creating useful knowledge is good, but we are less effective when it comes to fully converting that knowledge into valuable products and services. While progress is being made – the latest statistics show that business R&D (research and development) spend in 2012 was almost 25% higher than in 2010 – expenditure by business and levels of patenting remain well below OECD averages. New Zealand's small domestic market and distance from global markets mean that most export-oriented New Zealand businesses have to become internationally active at a much earlier stage than companies in larger markets. Often businesses do not have the expertise in design, product and service development, distribution and marketing that their competitors have, and that they need in order to make that step successfully. The capabilities of these young firms to engage in market-led innovation are therefore more limited. The result is that many very promising businesses fail to exploit fully their commercial potential.

Our value proposition lies in the creation and provision of innovative services and products to businesses that enable them to grow and to invest more in research, science, engineering, technology and design, so that they can be more successful in the global market.

Callaghan Innovation will operate across the whole innovation system in a business-friendly manner and will be a highly networked organisation, linking its own and others' expertise with businesses. We will be a portal for firms to access services and support.

Important measures of our success over time will include our contribution to:

- Faster growth in R&D expenditure in the private sector, towards the government goal of 1% of GDP per annum
- The creation and growth of knowledge-intensive, high-value manufacturing and services (HVMS) export businesses
- Growth in new patents and other forms of intellectual property (IP) protection, especially triadic and/or co-owned IP, relating to HVMS
- Growth in HVMS exports towards the government goal of 40% of GDP
- Growth in the number of people with advanced skills in science, engineering, technology and design employed in the private sector
- Above-average service delivery performance against national and international benchmarks, as assessed by our customers.

WHAT WE DO

At start-up, Callaghan Innovation is a team of approximately 400 researchers, scientists, engineers, technologists, business people, project managers, investment managers and account managers, located in Auckland, Wellington and Christchurch.

Science, engineering and technology capabilities and services

Most of our staff currently work in the Science, Engineering and Technology (SET) Delivery business unit of Callaghan Innovation, within the subsidiary company Callaghan Innovation Research Limited (CIRL, previously Industrial Research Limited [IRL]). This business unit provides science, engineering and technology services both directly with the private sector and under contract to the Crown, with a strong focus on supporting growth in HVMS.

SET Delivery operates under a commercial business model to maintain financial sustainability over time, and a significant portion of its funding currently comes through participation in contestable investment processes run by the Ministry of Business, Innovation and Employment (MBIE).

This unit will also continue to deliver the services provided by the Measurement Standards Laboratory (previously part of IRL).

Research and development grants and business development services

Callaghan Innovation also manages the annual allocation of $115m of business R&D grants, and provides other business development services (previously carried out by MBIE). These activities support capability and provide incentives to grow R&D in HVMS businesses. They are currently delivered through the Business R&D Grants business unit. Callaghan Innovation allocates these grants in accordance with the ministerial direction issued by the Minister of Science and Innovation (Ref. Gazette Notice 728 [7 February 2013]). An MBIE review of these grants is expected to result in a number of changes to grant criteria and parameters and aims to simplify the grants process and focus more closely on addressing market failures. Work is also underway to identify ways to improve customer service, including response times. Implementation of these changes is expected to begin during the five-month period.

New products and services

Callaghan Innovation is adding a range of services and functions focused on:

- **Building innovation potential**

Building increased appetite and appreciation in businesses for science, engineering, technology and design as an affordable, low-risk and often preferred response to address commercial challenges and opportunities.

- **Converting innovation potential to commercial outcomes**

Proactively increasing the intensity of business innovation, and increasing the returns from public and private investment in science, engineering, technology and design.

In the five months to 30 June 2013, the focus will be on further developing, refining and validating the products and services within these two areas. Both of these areas will be supported through new appropriations from 1 July 2013, subject to acceptance of the final business case.

OPERATING INTENTIONS TO 30 JUNE 2013

The Callaghan Innovation Establishment Board developed a business plan for the five months to 30 June 2013, which outlined the intended activities and deliverables for the period.

This plan was accepted by the Ministers of Science and Innovation, and Finance, and can be found on the Callaghan Innovation website:

http://www.callaghaninnovation.govt.nz/about-us/key-documents

As outlined in more detail in the business plan, the five months to 30 June 2013 will be a period of intensive change management alongside the continuation of existing outputs and the development of new products and services. Our priorities as agreed with Ministers are:

Priority one

Maintaining continuity of activities and services transferred to the SET Delivery business unit:

- Preparing and submitting submissions to the MBIE contestable funding round
- Delivering contracted research outputs for MBIE and commercial clients
- Participating in the internal review of SET capability and its future potential
- Meeting financial performance targets

Additional information on the context for this business unit and its capabilities is available in the IRL Statement of Corporate Intent 2012/13, found at:

http://www.irl.cri.nz/sites/all/files/about-us/IRL_SCI_2012vers3ONLINE.pdf

Priority two

Maintaining continuity of activities and services transferred to the Business R&D Grants business unit:

- Selecting and contracting business R&D grants, and providing support and advice to businesses to grow their R&D, in line with appropriations, ministerial instructions and directions, and advertised processes.

Additional information on the context for this business unit is available in the Ministry of Science and Innovation 2012-2015 Statement of Intent[1], found at:

http://www.msi.govt.nz/assets/SOI-2012-15.pdf (in particular, priorities three and five in that document).

Priority three

Laying the foundation for a long-term successful organisation through a number of change management projects:

- **Organisational design** – crafting a "fit for purpose", integrated and agile organisation, with the right culture and skills, and ensure a smooth transition of staff into the new structure

1 This was adopted by MBIE as part of its Statement of Intent.

- **Service and product development** – defining, designing and validating the product and services offerings of the new organisation
- **Aligning science, engineering and technology capabilities** – identifying future opportunities, positioning and location of capability to best serve the interests of Callaghan Innovation and the New Zealand innovation system
- **External partners** – identifying and building relationships with demand- and supply-side partners to maximise Callaghan Innovation's reach and connection
- **Better Public Services** – maximising opportunities for shared services and access to existing Crown infrastructure
- **Stakeholder communication** – building awareness of, and confidence in, the new organisation, and informing the development of new products and services.

Priority four

Incorporating further services into Callaghan Innovation, including:

- **Better By Lean**

We will work with New Zealand Trade and Enterprise (NZTE) to transfer the Better by Lean programme into Callaghan Innovation from 1 July 2013, as part of the broader portfolio of services and products.

- **The FoodBowl**

We will work closely with Auckland Tourism Events and Economic Development (ATEED) to transfer the FoodBowl to Callaghan Innovation, and develop a strategy for how the facilities will be integrated with additional products and services, together with the networking functions of the New Zealand Food Innovation Network, to support growth in the high-value food and beverage sector. A business plan for the FoodBowl strategy will be delivered by 30 June 2013.

OUR ORGANISATIONAL HEALTH AND CAPABILITY

The five months to 30 June 2013 will be a period of intensive change management and organisational development.

Priorities include the effective integration of the incoming business units and the development and adoption of the new culture and values that Callaghan Innovation represents.

A new Chief Executive, Dr Mary Quin, has been appointed and will take up her position on 3 May 2013.

A dedicated Organisation Development team has been established to support the Board and Chief Executive to:

- Develop the new organisation structure
- Develop a comprehensive change support programme, available to all staff to assist them with managing and coping with change
- Champion culture change from the top and provide regular interactions with staff to keep them informed and provide for their participation in organisational design.

Organisational health and capability – initiatives to 30 June

Area	Deliverables
Organisational design and integration of new organisation	• Chief Executive appointed • Māori name and whakatauki developed and endorsed by Māori • Organisational design available for consultation with staff • Advice to Board on interim measures for Christchurch accommodation
Aligning SET capabilities	• SET alignment proposals developed by research teams considered and agreed by the Board, and implications incorporated into the business plan
Better Public Services	• Draft requirements for information technology (IT), customer relationship management and other infrastructure determined in consultation with NZTE and MBIE
Stakeholder communication	• Weekly internal staff newsletters • Monthly open forums with Callaghan Innovation staff • At least three external newsletters to the innovation sector • New Chief Executive introduced to key stakeholders • Operational website and Intranet • Customer database developed

ENGAGING WITH THE MINISTER

A close relationship between a Crown agent and its responsible Minister is important to ensure the alignment of activities with government expectations. This is especially important for the start-up phase of Callaghan Innovation.

The Minister of Science and Innovation is the Responsible Minister for Callaghan Innovation and we will operate a “no-surprises” policy on matters of significance and relevance, such as the review of science, engineering and technology capability.

To this end Callaghan Innovation will provide services to the Minister through briefings, responses to ministerial enquiries and Official Information Act requests as required.

We will brief the Minister regularly, and the Chief Executive and Chair will also meet regularly with the Minister and officials, to provide updates on progress and identify issues for ministerial attention.

We will report on our progress and performance in annual reports according to the required guidelines and timeline.

The Minister of Science and Innovation, with the Minister of Finance, will seek appropriations for Callaghan Innovation beyond 30 June 2013. Callaghan Innovation will work closely with Ministers and their departments on developing the final business case for submission by 30 June 2013.

MAJOR RISKS IN THE PERIOD 1 FEBRUARY – 30 JUNE 2013

Risk	Description	Mitigation
Continuity of business	There is a risk of distraction and disruption leading to loss of continuity in delivering on existing commitments Staff involved in new product and service development may be diverted from business-as-usual activities	Use of project management, prioritisation and dedicated resources to allow ring-fencing of necessary existing activity Use of Service-Level Agreements to manage use of resources in subsidiary company
Financial	A worse-than-expected financial result for CIRL owing to factors outside its control, including market conditions, staff changes, additional activities required from the establishment of Callaghan Innovation and decisions made by the outgoing IRL Board (in particular relating to balance sheet provisions, and income projections for the remainder of the year). This would reduce funds available to invest in the future products and services of Callaghan Innovation	Close monitoring of financial performance Use of Service-Level Agreements for the additional services provided by CIRL to its parent
	Note: Some risks for the period beyond 30 June 2013 are being mitigated through current actions: • CIRL faces significant downside risk from the MBIE contestable funding round. This risk would materialise from 1 October 2013 • Ministers may not seek to approve funding requirements indicated in business plan	Submit a range of high-quality proposals to MBIE to mitigate impacts of maturing contracts Work closely with MBIE and Treasury and regularly update the Minister while developing the business plan

Culture change	There is a significant task ahead to manage the cultural change that will be required to align the values of staff coming from two very different organisations, IRL and MBIE, into the new operating model, accountabilities and culture	Callaghan Innovation has a dedicated organisational development project led by the acting executive leadership team The acting executive leadership team has agreed values for the way it operates and promulgated these to staff
Stakeholder uncertainty	There is uncertainty and anxiety about the role of Callaghan Innovation in the system, with its new role of connecting and facilitating being untested	Regular external newsletters Focus on engagement with key external partners, to explore how best to engage in a way that addresses these concerns Establishment of Stakeholder Advisory Group Demonstration of engagement and value add in the long term
Conflicts of interest with other research providers	There may be (at least perceived) conflicts of interest between Callaghan Innovation's influence on government direction setting and funding, its role in allocating business R&D grants, and its participation in contestable funding processes	Retain contestable research contracts and funding within a separate subsidiary, at least in the interim Publish transparency criteria for business R&D grants

FORECAST OF SERVICE PERFORMANCE

Statement of responsibility

The prospective financial statements for Callaghan Innovation presented in this report for the five months ended 30 June 2013 have been prepared in accordance with the Crown Entities Act 2004.

Callaghan Innovation is responsible for the preparation of the prospective financial statements and Statement of Objectives and Forecast Service Performance and for the judgements contained in them. Callaghan Innovation is also responsible for internal control systems that provide reasonable assurance as to the integrity and reliability of financial reporting.

This interim Statement of Intent covers the five months to 30 June 2013, and is based on the five-month business plan approved by the Ministers of Science and Innovation, and Finance. The financial projections are based on the five-month business plan, amended to include changes in the funding transferred from MBIE on establishment and changes to IRL's position and projections as signed off by the outgoing IRL Board. Other performance measures are drawn from the existing commitments and priorities of the organisations that came into Callaghan Innovation on 1 February (taken from the Ministry of Science and Innovation's Statement of Intent and IRL's Statement of Corporate Intent as appropriate), and Ministers' expectations.

As Callahan Innovation is a new entity, there are a number of issues yet to be resolved regarding accounting treatment, including the fair value of assets and liabilities in the opening balance sheet. These issues will be resolved by 30 June 2013. It is the Board's view that the prospective Statement of Financial Performance and Statement of Objectives and Forecast Service Performance for output performance fairly reflect the expected operations of Callaghan Innovation in the five-month period.

Sue Suckling
Chair, Callaghan Innovation Board
12 April 2013

Richard Janes
Member, Callaghan Innovation Board
12 April 2013

INTRODUCTION

The overarching output sought from the activities of the period 1 February to 30 June 2013 is the creation of an integrated, fit-for-purpose organisation and the further development of the product and service offering of Callaghan Innovation for implementation in coming years, alongside continuity of existing service delivery.

This will support achieving the statutory objective of Callaghan Innovation, to support science and technology-based innovation and its commercialisation by businesses, primarily in the manufacturing and services sectors, in order to improve their growth and competitiveness.

More detail on the work programmes that will deliver some of the outputs described below is in the five-month business plan, found at:

http://www.callaghaninnovation.govt.nz/about-us/key-documents.

Ministers intend to seek appropriations in output classes that are aligned to the longer-term operations of Callaghan Innovation, from 1 July 2013. For the interim five-month period, however, outputs will be funded through a mix of existing and new appropriations, as outlined below.

Output class – high value manufacturing and services research

This output class supports research and research allocations to develop new technologies, novel materials and new products, processes and services for the manufacturing and technology sectors.

Callaghan Innovation activities funded through this output class will contribute to Priorities Three and Four – *building a fit-for-purpose organisation and developing an integrated suite of products and services to support business innovation* – and Priority One – *maintaining continuity of activities and services transferred to the SET Delivery business unit* (by supporting continuity of activities and services transferred from IRL).

Total Amount: $16.818m

Output	Performance Measure	Standard
Maintain continuity of service delivery in HVMS research	As per IRL 2012/13 Statement of Corporate Intent	Achieved
Advice to Ministers and Statement of Intent	• Business case provided to Ministers by 30 June 2013 • Statement of Intent 2013 – 2016 published to deadlines	Achieved, in accordance with the five-month business case

New services and products	• 0800 Callaghan Service operational • At least two stakeholder workshops held to inform development of new products and services • Framework developed for provision of services with and to Māori • Advice to Ministers on Strategic Investment Fund Proposal • Advice to Ministers on Callaghan Innovation's role in supporting technology platforms	Achieved, in accordance with the five-month business case
External partner arrangements	• Discussions completed with four supply-side providers to develop proposed modus operandi, to support implementation of new products and services • Discussions completed with four business-facing organisations to develop proposed modus operandi, to support implementation of new products and services • Māori engagement strategy developed	Achieved, in accordance with the five-month business case
Integration of Better By Lean	Implement processes to ensure transfer of Better By Lean programme from NZTE to Callaghan Innovation from 1 July 2013, with no loss of business continuity	Achieved
Transfer of the FoodBowl	Business case for transfer of the FoodBowl from ATEED to Callaghan Innovation on agreed terms, by 30 June 2013	Included in business case to Ministers by 30 June 2013

Output class – national measurement standards

This output class provides specified standards to satisfy the needs for traceable physical measurement in New Zealand.

These services will contribute to Priority One – *maintaining continuity of activities and services transferred to the SET Delivery business unit* (by supporting continuity of services provided by the Measurement Standards Laboratory).

Total Amount: $2.402m

Output	Performance Measure	Standard
Maintain continuity of National Measurement Standards services	As per the IRL 2012/13 Statement of Corporate Intent	Achieved

Output class – business research and development contract management

This output class supports the selection of businesses or individuals for either the provision of research, science and technology outputs or the award of grants; and the negotiation, management and monitoring of appropriate contracts with those businesses or individuals.

These services will contribute to Priority Two – Maintaining continuity of activities and services transferred to the Business R&D Grants business unit (by supporting the continuity of the grants administration services transferred from MBIE).

Total Amount: $2.525m

Output	Performance Measure[2]	Standard
Maintain continuity of business R&D grant administration	Contracts managed so that 95% of contracts will be on track to achieve their objectives, and critical steps	95% of contracts
	All contracts are monitored in terms of their likelihood of delivering on the contract outcomes	100% monitored
	An independent Advisory Group will provide advice to Callaghan Innovation on investment decisions for all business R&D grants	100% of proposals recommended
	Protocols to ensure fairness and transparency in business R&D grants published in accordance with Section 14(2) of the Callaghan Innovation Act 2012	Achieved
	Applications for on-demand investments over $250,000 are independently reviewed by experts	100% of proposals recommended
	For successful applicants – the time between receipt of a proposal for business R&D support (TechNZ, Technology Development Grant or Technology Transfer Voucher) from a business to the finalisation of a contract will not exceed six months	95% of proposals

2 These performance measures have been largely drawn from those in the MBIE Statement of Intent.

FORECAST FINANCIAL STATEMENTS FOR THE FIVE MONTHS TO 30 JUNE 2013

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

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

Differences compared with the five-month business plan

The financial statements for the five months to 30 June 2013 are based on information provided by incoming business units, some of which has been updated since the presentation of the five-month business plan. The financial statements reflect the budget for the organisation as signed off by the Board on 26 February 2013.

The most significant change was due to a change in accounting treatment agreed by the outgoing IRL Board, on the advice of IRL's auditors. In January 2013 IRL's auditors advised that, due to the variation of IRL's funding agreement with MBIE signed in October 2012, $2.9m of core funding carried forward from 2011/12 had to be recognised immediately rather than pro-rated over the full financial year (as had been assumed in preparation of the business plan). This change adversely affects the five-month forecast financial result for the subsidiary business CIRL within Callaghan Innovation, reducing revenue in the period to 30 June 2013 by $1.2m (with no offsetting reduction in costs). However, as it is a timing difference only, it does not affect the combined CIRL/IRL financial forecast for 2012/13 overall.

Other changes affecting IRL's 31 January position included:

- Redundancies and termination payments for four corporate staff as a result of the transition to Callaghan Innovation, and for six research scientists due to the loss of contestable funding in the 2012 HVMS round
- The impacts of shareholdings in associated companies
- A $3.5m increase in the cash balance reflecting revenue in advance, as IRL core funding for February and March was paid out in January to assist with the transition of funding arrangements for Callaghan Innovation (offset by a change in Other Current Liabilities).

The statements also reflect updated IRL forecasts for the remaining five months of the financial year, and changes in the funding transferred from MBIE, which were not included in the business plan projections.

Key assumptions

- Callaghan Innovation will invoice MBIE (on behalf of the Minister of Science and Innovation) monthly in arrears for outputs produced.
- Operating expenses are recognised in the periods in which they are incurred.
- All salary and wage-related costs, including PAYE and withholding tax, are expensed in the months in which they are incurred.
- Depreciation and amortisation are expensed once a capital item has been commissioned.

- Accounts receivable are due on the 20th of the month following the dates of invoices.
- All prepayments are amortised over the periods to which they relate.
- Capital expenditure is budgeted over the periods in which the payments are made.
- The two business units delivering “business as usual” over the period, SET Delivery and Business R&D Grants, will continue to operate as they did when they were IRL and the Business Innovation Investment team within MBIE respectively, with no significant change in functions over the period.
- The financial projections assumed the FoodBowl will be integrated from 1 April. However, in line with the Ministers’ expectations, a business case for the FoodBowl is being developed and will be submitted by 30 June 2013. Following a consideration of that business case a final decision will be made on when its operations will be integrated.
- The Business R&D Grants administration has been transferred to Callaghan Innovation from 1 February 2013. However, the forecast financial statements do not reflect the grants themselves at this stage, in either the budget profit and loss statement or the balance sheet.

  The final treatment of grants in the Callaghan Innovation financial statements has not yet been determined. The potential impact is material, with annual grant revenue/expenses of $115m and assets/liabilities of $180m. It is expected that there will be no impact on the reported surplus or the value of net assets (because revenues match expenses and assets match liabilities).
- Personnel leave liabilities from MBIE have not been included, as the amount has not yet been finalised by MBIE. There will be no net impact on net assets, as funding for the liabilities will be passed to Callaghan Innovation by MBIE once the amount has been agreed.

Statement of forecast comprehensive income

For the five months to 30 June 2013

$(000)	Callaghan Innovation Group	Notes
Revenue		
Crown operating:		
SET Delivery	10,380	1
Business R&D Grants administration	2,525	
Other	8,840	2
Total Crown operating	**21,745**	
Crown contestable contracts	8,490	
Commercial revenue		
Domestic commercial	4,665	
International commercial	3,210	
Total commercial	**7,875**	
Other income	1,465	
Total revenue	**39,575**	
Expenses		
Personnel	20,365	
Services and contracts	9,440	3
Other costs	6,980	4
Depreciation	2,640	
Total expenses	**39,425**	
Net surplus/(deficit)	**150**	**5,6,7**

Notes:

1. SET Delivery includes:

Remaining IRL core funding for 2012/13	$8.0m
National Measurement Standards	$2.4m
Total	**$10.4m**

The remaining IRL core funding for 2012/13 will be transferred to the HVMS appropriation for the five-month period. Note the amount for the five months is lower as a result of the payment in advance for February and March to ease the transition, as outlined earlier.

2. Other Crown operating costs include:

Budget 2012 appropriation	$8.0m
Carry-forward establishment funding	$0.5m
Transfer of Futureintech funding	$0.3m
Total	**$8.8m**

3. Services' and contracts' costs include the following major categories: sub-contracts for SET Delivery, the cost of the Regional Business Partners programme, and costs related to the change management projects.
4. Other costs include the following major categories: rental expense on operating leases, property maintenance, administration including HR recruitment and change management.
5. No capital charge has been included.
6. In January this year IRL's auditors advised that $2.9m of core funding carried forward from 2011/12 had to be recognised immediately rather than pro-rated over the full financial year. This accounting treatment is in line with accounting standards for government grants and new guidance provided last year by the Office of the Controller and Auditor-General. The key reason for the change was that the core funding was no longer tagged to the specific deliverables under the original core funding agreement and it was effectively able to be utilised at IRL's discretion. This has significantly affected the net result for the five months.
7. The issue of fair-value adjustments for assets and liabilities transferred to Callaghan Innovation is being finalised. However, it is likely that any fair-value adjustments agreed by the Callaghan Innovation Board will have to be recognised in the five-month earnings for the Group. Revenue and expenditure figures may also be affected by the accounting treatment of the business R&D grants being transferred to Callaghan Innovation (although with no impact on the net earnings result).

Statement of forecast financial position

For the five months to 30 June 2013

$(000)	Callaghan Innovation Group As at 30 June 2013	Notes
Assets		
Current assets	13,045	1
Non-current assets		
Fixed assets	40,930	
Investments	445	
Total assets	**54,420**	
Liabilities		
Current liabilities		
Non-current liabilities	10,790	
Non-current employee entitlements	2,850	
Total liabilities	**13,640**	
Net assets	**40,780**	**2**

Notes:

1. The 1 February cash balance included $3.5m subsidiary revenue in advance, as MBIE paid out February and March IRL-based core funding in January to assist with the transition of funding to Callaghan Innovation.
2. This figure is subject to change as a result of two main outstanding issues:
   - **Accounting treatment of business R&D grants.** The accounting treatment for the business R&D grants being transferred to Callaghan Innovation has yet to be finalised. However, if the same treatment is adopted as is currently followed by NZTE, the balance sheet will be significantly increased by grant provisions (and associated receivables from MBIE). The accounting treatment will be confirmed and incorporated by 30 June
   - **Fair-value adjustments for incoming assets and liabilities.** The Callaghan Innovation Board has yet to make a decision on any fair-value adjustments for assets and liabilities inherited from the incoming organisations. These will be considered and decisions made by 30 June 2013.

Statement of forecast changes in equity

For the five months to 30 June 2013

$(000)	Callaghan Innovation Group as at June 30 2013
Equity	
Capital	40,630
Reserves	150
Total equity	**40,780**

Statement of forecast cash flows

For the five months to 30 June 2013

$(000)	Callaghan Innovation Group
Net cash flows from:	
Operating activities	1,324
Investing activities	(6,739)
Financing activities	-
Net increase/(decrease) in cash held	(5,415)
Add cash at start of period	11,166
Balance at end of period	**5,751**

Reconciliation: statement of service performance to statement of comprehensive income

For the five months to 30 June 2013

$(000)	**Callaghan Innovation Group**
Statement of service performance:	
Output class: HVMS research (part)	16,818
Output class: National measurement standards	2,402
Output class: Business R&D contract management	2,525
Total Crown operating funding	**21,745**
Crown contestable grants	8,490
Other revenue, including interest	9,340
Total as per statement of comprehensive income	**39,575**

STATEMENT OF ACCOUNTING POLICIES

Reporting entity

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

The consolidated financial statements of the Group consist of the parent entity, Callaghan Innovation, and Callaghan Innovation Research Limited. The FoodBowl is consolidated following acquisition.

Callaghan Innovation Group commenced activities on 1 February 2013.

Basis of preparation

Statement of compliance

The financial statements of Callaghan Innovation have been prepared in accordance with the Crown Entities Act 2004, which includes the requirement to comply with generally accepted accounting practice in New Zealand (NZ GAAP). These financial statements have been prepared in accordance with NZ GAAP and they comply with NZ IFRS.

Measurement base

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

Functional and presentation currency

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

Significant accounting policies

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

Revenue

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

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

Revenue from the Crown

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

Revenue from the Crown is recognised as revenue when earned and is reported in the financial period to which it relates.

Interest

Interest income is recognised using the effective interest method.

Royalty income

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

Provision of goods and services (commercial revenue)

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

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

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

Borrowing costs

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

Basis of consolidation

The consolidated financial statements combine the financial statements of Callaghan Innovation and its subsidiaries and associates as at 30 June 2013 ("the Group").

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

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

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

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

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

Investment in associates

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

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

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

Foreign currency

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

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

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

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

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

Property, plant and equipment

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

Leased assets

Leases where Callaghan Innovation assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of a finance lease are stated at the amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease less accumulated depreciation and impairment losses.

Additions

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

Disposals

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

Subsequent costs

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that the future economic benefits or service potential associated with the item will flow to Callaghan Innovation and the cost of the item can be measured reliably.

The costs of day-to-day servicing of property, plant and equipment are recognised in the statement of comprehensive income.

Depreciation

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

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

Intangible assets

Research and development costs

Research costs are expensed as incurred.

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

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

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

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

Computer software

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

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

Patents

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

Impairment of non-financial assets

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

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

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

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

Recoverable amount of non-current assets

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

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

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

Financial assets

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

1. **Financial assets at fair value through profit and loss**

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

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

2. **Loans and receivables**

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

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

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

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

De-recognition of financial instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the dates that derivative contracts are entered into and are subsequently re-measured to their fair value. The method of recognising a resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of a transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in cash flows of hedged items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged items will affect profit or loss (for instance when a forecast sale that is hedged takes place). However, when a forecast transaction that is hedged results in the recognition of a non-financial asset (for example inventory) or a non- financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting, or hedge accounting has not been adopted. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

Inventories

Inventories are valued at the lower of cost and net realisable value (NRV), where NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing each item to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis
- Work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Trade and other receivables

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

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

Cash and cash equivalents

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

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

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are de-recognised and through the amortisation process.

Trade and other payables

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

Provisions

Callaghan Innovation recognises a provision for future expenditure of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax discount rate that reflects a current market assessment of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Restructuring

A provision for restructuring is recognised when an approved, detailed, formal plan for the restructuring has been announced publicly to those affected, or for which implementation has already commenced.

Leases

Finance leases

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

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

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

Operating leases

Leases that do not transfer substantially all the risks and rewards incidental to ownership of an asset to Callaghan Innovation are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease in the statement of comprehensive income.

Employee benefits

Short-term employee entitlements

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

Long-term employee entitlements

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

The calculations are based on:

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

Superannuation schemes

Obligations for contributions to KiwiSaver and the Government Superannuation Fund are accounted for as a defined contribution superannuation scheme and are recognised as an expense in the Statement of Comprehensive Income as incurred. (While the Government Superannuation Fund is a defined benefit scheme, insufficient information is available to use defined benefit accounting, and the scheme is therefore accounted for as a defined contribution scheme.)

Income tax

Callaghan Innovation is a public authority and is consequently exempt from paying income tax. However, its subsidiary Callaghan Innovation Research Limited is a limited liability for profit entity and pays income tax on any operating surplus.

The tax expense for the period comprises current and deferred tax. The income tax expense for the period is the tax payable on the current period's taxable income based on the tax rate enacted for that period. This is then adjusted by changes in deferred tax assets and liabilities attributable to temporary differences.

Deferred income tax is provided in full using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax is provided in full for all taxable temporary differences:

- Except if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the assets are realised or the liabilities are settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Goods and services tax (GST)

All items in the financial statements are presented exclusive of GST, except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as an input tax, it is recognised as part of the related asset or expense. The net amount of GST recoverable from or payable to Inland Revenue is included as part receivables or payables in the statement of financial position. The net GST paid to or received from Inland Revenue, including the GST relating to investing or financing activities, is classified as an operating cash flow in the statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

CallaghanInnovation

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