# NATIONAL INSTITUTE OF WATER AND ATMOSPHERIC RESEARCH LIMITED

# STATEMENT OF CORPORATE INTENT

**1999/2000**

**14 July 1999**

**THIS STATEMENT IS SUBMITTED BY THE BOARD OF DIRECTORS OF THE NATIONAL INSTITUTE OF WATER & ATMOSPHERIC RESEARCH LIMITED (THE INSTITUTE) IN ACCORDANCE WITH THE CROWN RESEARCH INSTITUTES ACT 1992. IT SETS OUT THE BOARD'S OVERALL INTENTIONS AND OBJECTIVES FOR THE COMPANY TO 30 JUNE 2000, AND THE TWO SUCCEEDING FINANCIAL YEARS.**

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# PREAMBLE

The National Institute of Water and Atmospheric Research Ltd (NIWA) is a Crown Research Institute wholly owned by the New Zealand Government and incorporated on 1 July 1992. NIWA is New Zealand's foremost institute in atmospheric and aquatic science. NIWA undertakes a mix of public good research and commercial scientific services which benefit New Zealand by transferring technologies to agencies responsible for the sustainable management of aquatic and atmospheric natural resources.

## *Organisational Structure*

NIWA's main locations are at Wellington (Greta Point), Hamilton, Christchurch, Auckland, Lauder and Nelson. The Executive comprises the Chief Executive, Director of Operations, Research Director, Director of Fisheries Research and General Manager - Finance. Regional Managers at each location report to the Director of Operations and are responsible for the implementation of policies and delivery of scientific and commercial outputs. Project management forms the basis of NIWA's operations, with budgeting, financial and line control of staff by project.

This single unified organisational structure facilitates multidisciplinary science, separates policy from delivery, provides a direct and consistent interface between policy development and implementation, promotes consistent application of strategies and policies, and enables common standards and culture to be developed across the whole company.

The flexibility of NIWA's structure allowed a largely seamless merger with MAF Fisheries Research to take place in July 1995 when 170 MAF staff were transferred to NIWA and the associated assets and facilities were purchased from the Crown. This included the research vessels *Tangaroa* and *Kaharoa*.

## *Financial Situation*

Since the establishment of NIWA on 1 July 1992, shareholders' funds have increased consistently, PGSF and commercial revenue have grown strongly and the company has operated profitably. NIWA's shareholders' funds stood at $41.65 million at the end of the 1997/98 year, compared with $9.83 million at the beginning of its first year of operations, 1992/93. After allowing for a further share subscription by the shareholder of $14.97 million to finance the purchase by NIWA of the fisheries research assets from MAF in 1995, this represents a growth in equity of $16.85 million (171.5%) over the five-year period.

Financial targets for 1999/2000 and the subsequent two years are indicated in section 5.

### *Public Good Science Fund*

Although the overall growth of the PGSF has been less than projected by the Government's 1995 statement on priorities for the PGSF, NIWA successfully increased its PGSF revenue by 18.3% (more than $5 million) over the two-year period of the 1998-2000 bidding round. These gains are largely due to increased market share in NIWA's core PGSF outputs.

### *Ministry of Fisheries*

NIWA has retained more than 90% of the funding for stock assessment contracts from the Ministry of Fisheries since this became fully contestable in 1997/98. We expect to retain a high share of this market. After several successive years of decline, there are indications that the Ministry's total research funding has stabilised and may increase in the next few years. This may be necessary to meet the continuing demand for the assessment of major fish stocks, and the need for information on new or poorly studied stocks and on environmental impacts of fishing.

### *Commercial Revenue*

NIWA's commercial revenue, i.e. revenue other than PGSF, NSOF and MFish, has grown by more than 50%, from $10.5 million in 1992/93 to more than $16.0 million in 1998/99. We have now achieved a high level of market dominance in New Zealand. We are therefore developing carefully targeted offshore market opportunities to ensure that NIWA maintains strong growth.

### *Vessel Ownership*

A subsidiary company, NIWA Vessel Management Ltd, owns and operates the two research vessels *Tangaroa* and *Kaharoa.* Concern exists over the declining commitment to fisheries research over the last three years which impacts directly on vessel sea days. The vessels only remain viable through the addition of NIWA's ocean and marine science programmes from the Public Good Science Fund. Alternative charter opportunities are being actively sought to ensure that the fullest possible use is made of the vessels.

### *Human Resources*

Staff numbers have grown substantially since NIWA's establishment, and staff turnover has been low (less than 3% per annum). The net changes to NIWA's staff numbers between 1 July 1992 and 30 June 1999 have included the establishment of more than 50 new, permanent positions (over and above the transfer of MAF Fisheries staff in July 1995).

NIWA has put in place a performance management system and remuneration policy that rewards staff for individual performance. Our financial performance over the last four years has enabled

us to raise the salary levels of our scientists and science technicians to 3-16% above the market median at equivalent levels of skills, qualifications and experience (source: Cullen Egan Dell science sector salary survey, September 1998). In addition, all staff have received substantial profit-linked bonuses each year since 1996.

### *National Climate Centre for Monitoring and Prediction*

NIWA has established a National Climate Centre for Monitoring and Prediction. The Centre has been created to meet the large and growing need for a more focused facility to provide government officials, industry and the general public with authoritative information on climate variations and trends and their associated impacts on New Zealand's environment. NIWA has maintained and fostered New Zealand's skill base in climatology since the split of the former Meteorological Service's staff between NIWA and MetService in 1992. In addition, NIWA's hydrologists, coastal scientists, oceanographers and satellite experts have a wealth of experience in predicting floods, droughts, sea level, marine winds and waves, storm-surges, UV levels and sea-surface temperature. These skills will be combined into the National Climate Centre for Monitoring and Prediction.

### *Institute of Aquatic and Atmospheric Sciences*

In November 1998 NIWA signed a Memorandum of Understanding with the University of Auckland to establish the Institute of Aquatic and Atmospheric Sciences (IAAS). The purpose of this joint initiative between NIWA and the university is to provide postgraduate degree courses in aquatic and atmospheric sciences. The Institute is linked to the University's Schools of Biological Sciences, Engineering, Geography, Environmental and Marine Sciences, and the Departments of Geography, Geology, Mathematics and Physics. It will concentrate on educating MSc and PhD students in areas where there is a global shortage of qualified specialists.

The Institute covers a diverse range of research areas including atmospheric chemistry, meteorology, climatology, oceanography, fisheries science and management, freshwater ecology, hydrology, hydraulics, coastal and estuarine marine science, ecotoxicology, marine and freshwater taxonomy, and aquaculture. It is the first formal association between a university and CRI in New Zealand to offer such an extensive postgraduate programme. NIWA and university staff will jointly teach a broad selection of programmes and supervise a range of postgraduate research projects. The university will reimburse NIWA for teaching by our staff. IAAS students will be provided with access to the full range of NIWA's research facilities and equipment.

## 1.0 MISSION

NIWA is an independent research institute that conducts international quality science and provides applied science services. NIWA's science and services assist in understanding natural processes and human influences operating in atmospheric and aquatic systems.

Our mission is:
*To provide a scientific basis for the sustainable management of New Zealand's atmospheric, marine and freshwater systems and associated resources.*

We are committed to:

- maintaining and enhancing NIWA's position as New Zealand's **leading provider** of atmospheric and aquatic science

- directing our science principally towards providing the basis for **sustainable resource management**, with the intention of providing a strong knowledge base to assist in the implementation of New Zealand's Resource Management Act, **sustainable management of fisheries** and finding solutions to broader **global environmental concerns**

- producing **high quality science**, delivering **scientific services** to high professional standards, and positioning ourselves to exploit **new opportunities** as they arise

- developing and maintaining the **science capabilities** needed to achieve the priorities set for the Public Good Science Fund, including continuing the **Institute of Aquatic and Atmospheric Sciences** established with the University of Auckland and the **Centres of Excellence** which have been established with other universities in areas of science where New Zealand has a growing demand for quality graduates

- operating with financial efficiency to ensure that we generate the surpluses needed to develop our business and provide an adequate **return on shareholders' funds** to maintain the Institute's financial viability

- developing excellence in strong **multidisciplinary** research and the ability to work in large, integrated teams on difficult environmental problems, leading to outcomes which improve New Zealand's ability to manage and benefit from our aquatic and atmospheric **environment** and associated resources such as **fisheries**

- ensuring that the **working environment** is responsive to our science direction and that all staff are treated in a fair and equitable manner

- securing a **diverse client base** to broaden our source of revenue, increase our awareness of new commercial opportunities and to minimise the Crown's ownership risk

- recognising the principles of the **Treaty of Waitangi** in formulating and undertaking research programmes.

# 2.0 CORE BUSINESS

## 2.1 Key Scientific Competencies

NIWA's core business is based on key competencies in the following areas:

- behaviour and composition of the atmosphere and its interaction with the oceans
- natural processes of marine, coastal and freshwater ecosystems of New Zealand, together with impacts that human activities have upon them
- measurement of fish abundance and productivity
- marine and freshwater aquaculture
- development of criteria for environmental standards
- fish population modelling and the assessment of risk
- frequency, magnitude and timing of atmospheric and hydrological phenomena, in particular extreme events and long term changes and variability
- the nature and variability of oceanic water masses, currents and waves
- marine geological processes and bathymetry
- identification and evaluation of the biota of marine, estuarine, river and lake ecosystems
- repair and rehabilitation of aquatic ecosystems
- development of marine natural products with chemotherapeutic, industrial and agricultural applications
- design and servicing of national information bases on atmospheric trace gases, climate, water resources and quality, aquatic biota, bathymetry and sediments
- provision of public information, technology transfer and international liaison in atmosphere and water disciplines.

## 2.2 Core Research Areas

NIWA's core research areas are:

- **atmospheric research,** including urban air quality, greenhouse gases and tropospheric aerosols, stratospheric chemistry (including UV and ozone dynamics), Antarctic atmospheric research, climate/weather processes and national climate database network

- **freshwater research,** including hydraulics, hydrology, aquatic pollution prediction and control, river ecosystems, lake ecosystems, aquatic plant management, freshwater fish biology/ecology, Antarctic ecological research and national freshwater database network

- **fisheries research,** including fisheries biology and ecology, population dynamics, fisheries modelling and stock assessment, fisheries genetics and pathology, and assessment of impact of fishing activities on non-target species

- **coastal research,** including coastal and estuarine processes (physical, biological and chemical), aquaculture and aquatic pollution prediction and control

- **marine research,** including physical and biological oceanography, taxonomic assessment of biodiversity, current and wave analysis, seabed geological processes and ocean productivity

- **aquaculture production research,** including life histories, hatchery technology, field technology, disease management and stock enhancement.

## 3.0 BUSINESS POLICIES

NIWA is committed to the principles of operation stated in section 5 of the Crown Research Institutes Act 1992:

a) That research undertaken by NIWA should be undertaken for the benefit of New Zealand.

b) That NIWA should pursue excellence in all its activities.

c) That in carrying out its activities, NIWA should comply with any applicable ethical standards.

d) That NIWA should promote and facilitate the application of: -

* the results of research; and

* technological developments.

d) That NIWA should be a good employer.

e) That NIWA should be an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage those interests when able to do so.

## 4.0 BUSINESS STRATEGIES

NIWA's business strategies include

- conducting multidisciplinary science which further establishes nationally and internationally recognised expertise in water, atmospheric and fisheries science and consolidates NIWA's position as New Zealand's leading provider of research and related services in these fields

- promoting NIWA's research with a view to its application, leading to outcomes which improve New Zealand's ability to manage fisheries resources and the environment

- consolidating the unification of NIWA as a commercial science business with high staff morale, confidence in senior management, long-term retention of staff and a high level of staff "ownership" of the company

- providing a premium level of innovative and specialised service to clients

- providing for the professional and career development of staff and ensuring that appropriately qualified staff are available where and when required

- recognising the principles of the Treaty of Waitangi in formulating and undertaking research programmes

- achieving strong financial performance and retaining profits by reinvesting in personnel, infrastructure improvement and strategic capital.

## 5.0 PERFORMANCE MEASURES AND TARGETS

***Financial Performance***

NIWA is operating as a commercially viable organisation and continues to perform satisfactorily with its return ratios:

- 1998-99 NPAT budget return on equity 7.6% (1999-00 budget 8.6%)
- 1998-99 EBIT budget return on assets employed 10.1% (1999-00 budget 10.2%)

NIWA is conservatively funded:

- 1998-99 proprietorship rate 78.0% (1999-00 budget 80.0%)

NIWA will continue to fulfill the institute's financial obligations as specified in section 5 of the Crown Research Act 1992, viz.:

- 2 "...operate in a financially responsible manner so that it generates operating funds sufficiently to maintain its financial viability"
  3a "...providing a reasonable return on the shareholders' funds invested in the Crown Research Institute"
  3b "...operated as a going concern"

We aim to achieve the following specific targets:

## NIWA Consolidated
## Business Plan 1999-00

| | Budget 1998/99 | Budget 1999/00 | Forecast 2000/01 | Forecast 2001/02 |
|---|---|---|---|---|
| **Revenue ($000s)** | 63,559 | 68,213 | 70,301 | 72,515 |
| Operating expenses & depreciation ($000s) | 57,930 | 61,957 | 63,832 | 65,448 |
| Operating profit before tax ($000s) | 5,629 | 6,256 | 6,469 | 7,067 |
| Net profit after tax ($000s) | 3,771 | 4,192 | 4,335 | 4,735 |
| EBIT | 5,687 | 6,256 | 6,469 | 7,067 |
| **EBIT Margin (%) KFPI** | 8.95 | 9.17 | 9.20 | 9.75 |
| Average total assets ($000s) | 56,386 | 61,307 | 64,042 | 68,657 |
| **Profitability** | | | | |
| Operating profit margin (%) | 8.86 | 9.17 | 9.20 | 9.75 |
| **Return on equity (%) KFPI** | 7.61 | 8.56 | 8.15 | 8.20 |
| **Return on assets (%) (EBIT/Ave tot asset) KFPI** | 10.09 | 10.20 | 10.10 | 10.29 |
| **Liquidity and Efficiency** | | | | |
| Current ratio | 0.99 | 1.83 | 2.27 | 2.74 |
| **Quick Ratio KFPI** | 1.91 | 2.97 | 3.74 | 4.53 |
| Non-FRST debtor days | 72.09 | 77.55 | 65.19 | 63.43 |
| **Financial Leverage** | | | | |
| **Gearing (%) KFPI** | 20.28 | 0.00 | 0.00 | 0.00 |
| **Interest cover KFPI** | 98.05 | 0.00 | 0.00 | 0.00 |
| **Equity ratio KFPI** | 0.78 | 0.80 | 0.83 | 0.84 |
| **Diversification (%)** | | | | |
| Non-FRST & Non-MFish / Total Revenue | 26.52 | 26.44 | 27.67 | 29.20 |

*Non-Financial Performance*

In 1999-2000 NIWA will report on the following non-financial performance indicators in its Annual Report:

| Indicator | How Measured |
|---|---|
| **Staff Composition** | No. of staff FTEs, turnover and age composition in the following categories (as defined by CCMAU): research teams; research support; general support and management. |
| **Research Output** | No. of publications in the categories (as defined by CCMAU): papers in international, externally refereed scientific journals, series or books; papers in local, internally refereed, journals, series or books; conference papers and abstracts; research monographs or books; popular books; scientific and technical reports. Where available, we will also report on results of external reviews of excellence (FRST reviews), numbers of patents and/or products licensed, equipment developed and results of quality assurance programmes. |
| **Application and Promotion of Science** | No. and value of consultancies and contracts to supply information to NZ users; extent of achievement of technology transfer objectives in PGSF contracts; no. of workshops, field days, training sessions, etc; no. of joint ventures or licence agreements with NZ users; no. and value of TBG contracts; availability and degree of use of National Climate Database, Water Resources Archive and NZ Freshwater Fisheries Database; no. of magazine and newspaper feature articles, TV programmes. |
| **Social Responsibility** | A narrative outlining initiatives and achievements in this area. |
| **Benefits to NZ** | A narrative outlining initiatives and achievements in this area. |
| **Good Employer** | A narrative outlining policies to meet the provisions of the Crown Research Institutes' Act 1992 in this area, and the no. of days lost due to work-related accidents as a % of total working days as a measure of "good and safe working conditions". |

It is anticipated that the following targets will be met by 30 June 2000:

*Staff Composition*

A total staff of 571, comprising 421 in research teams, 59 research support, 79 general support and 12 management, with an overall staff turnover of less than 5% per annum.

***Research Output***

280 papers in international, externally refereed scientific journals, series or books.
20 papers in local, internally refereed journals, series or books.
230 conference papers and abstracts.
20 research monographs or books.
No popular books.
250 scientific and technical reports.

***Application and Promotion of Science***

More than 500 consultancies (total value $12.5 million) to supply information predominantly to NZ users.
95% achievement of technology transfer objectives in PGSF contracts.
6 TBG contracts (total value to NIWA $250,000).
The following number of enquiries for information met from NIWA databases:

| | |
|---|---|
| National Climate Database | - 1,800 |
| Water Resources Archive | - 100 |
| NZ Freshwater Fisheries Database | - 25 |

5 magazine and newspaper feature articles and TV programmes

***Good Employer***
Less than 2.0% of total working days lost due to work-related accidents.

# 6.0 POLICY STATEMENTS

## 6.1 *Accounting Policy*

The Group will adopt the generally accepted accounting principles and policies prescribed by the Institute of Chartered Accountants of New Zealand. Further details are given in the Appendix to this Statement.

## 6.2 *Borrowing Policy*

The Institute will follow a conservative borrowing policy. Investment in new assets or programmes and activities will predominantly be financed from the Institute's own cashflows.

We will undertake an annual independent audit to assure the Crown that no borrowings have been undertaken that imply any guarantee by the Crown.

Any information or documentation produced by the Institute in support of debt raising or credit agency revenues will be provided to our owners.

## 6.3 *Dividend Policy*

This will be determined by the level of surplus funds available which will be determined each year by reference to:

* Our medium and long term capital expenditure programmes
* Our replacement cost provisions for the research vessels
* Our working capital requirements

Any distribution would be paid within four months of financial year end.

However, until the Institute has established itself on a firm basis in respect of fisheries research, with secure sources of income from a broad mix of clients, the board does not consider any distribution should be made. With a legacy of serious capital underspending in science prior to the establishment of the CRIs, the Institute expects to continue to need significant retained profits to support investment in its capital infrastructure. Free cashflows will be used for reinvestment to avoid the need for further injections of equity or debt.

## 6.4 *Compensation Sought*

Where the Government wishes the Company to undertake activities or assume obligations that will result in a reduction of the Company's profit or net worth in terms of its investment in research, the board will seek compensation sufficient to allow the Company's position to be restored.

No requests for compensation are currently under consideration.

### 6.5 *Treasury Policy*

a) The Board will;

- Approve finance plans when budget for the year is approved;
- Set minimum and maximum limits when the budget for the year is approved;
- Approve any maturities in excess of one year;
- Approve allowable foreign exchange currency instruments and counterparts;
- Approve allowable NZA instrument and counterparts;
- Approve liquidity limits incorporating funding facilities when the budget for the year is approved.

b) New bank accounts require approval of the Chief Executive Officer plus the General Manager - Finance, but must be ratified by a subsequent Board meeting.

c) The Chief Executive, plus the General Manager - Finance, are authorised to:

- Sign negotiable instruments;
- Borrow funds from approved Finance Institutions, within specific parameters set by the Board;
- Invest surplus funds with the Finance Institutions approved by the Board.
- Arrange fixed and floating debt up to the maximum limits set by the Board;
- Structure maturities of debt up to a maximum of one year as decreed appropriate given yield curves, debt requirements and interest rate outlook trends. Dealing may be further delegated to the Corporate Accountant subject to reporting requirements.
- Enter foreign transactions above NZ$2million.
- Approve the use of fixed floating mix by synthetic instruments, but terms of any contract not to exceed one year without Board approval. The approval is to cover up to 100% of total debt.

d) The General Manager - Finance has the authority to:

- Enter into Foreign exchange transactions up to NZ$2million.
- Add new signatories to bank accounts.

- Delete signatories from bank accounts.
- Open new bank accounts.
- Close bank accounts.

e) All investments in shares, patents and copyrights, require specific Board approval;

f) Any write-down or write-off of investments requires specific Board approval;

g) Leased Assets - Financing

As leasing is in fact a form of financing, delegations for fixed asset purchases/construction apply, ie. the appropriate approvals for the asset purchase must be obtained.

h) The Corporate Accountant has the authority to:

- Enter into foreign exchange transactions up to NZ$100,000.

### 6.6 *Purchases and Disposals Policy*

The following activities will only be undertaken following consultation with our owners:

* Subscription for purchase of shares in other organisations.
* Loan to any other organisation.
* Establishment of subsidiary companies.
* Disposal of significant assets, shares or undertakings of the Institute or any of its subsidiaries.
* Disposal of shares in any company in which the Institute holds more than 20% of the total shares.

### 6.7 *Non Core Activities Policy*

The Institute is engaged primarily in the business of undertaking research and providing related information and consultancy services. The nature of our various research programmes means that we undertake activities which have the opportunity to earn additional income. For example, we operate an instrument servicing business and are in the vessel charter business. Any and all such activities will be regularly reviewed to ensure that they remain relevant and necessary to our core activities and that they operate on a strictly commercial basis. Where these criteria cease to be met, the activity in question will either be sold or liquidated.

The Institute has no current proposals to diversify beyond its present core business.

### 6.8 *Control of Subsidiary Companies*

The Institute will ensure at all times that:

* Control of the affairs of every subsidiary of the Institute is exercised by the majority of the directors of that subsidiary.

* A majority of the directors of every subsidiary of the Institute are directors or employees of the Institute or have been approved by our owners for appointment as directors of the subsidiary.

### 6.9 *Co-operative Activities*

The Institute prefers its relationship with other CRIs and universities to be co-operative. NIWA has established the Institute of Aquatic and Atmospheric Sciences with the University of Auckland and joint post graduate Centres of Excellence with Auckland, Waikato, Victoria, Canterbury and Otago Universities.

NIWA is committed to establishing an effective relationship with iwi. NIWA will continue to identify key areas of its work of specific relevance to Maori in consultation with tribal groups throughout the country, and develop plans in collaboration with iwi which enable NIWA to provide appropriate and relevant science for different tribes. Memoranda of Understanding have now been entered into with a number of iwi to formalise these relationships.

The Institute participates in a wide range of international committees or organisations. Generally it is on the basis of the scientific standing of the individual, or on an informal basis as the relevant organisation in New Zealand. The Institute believes that participation in international organisations is an essential part of science, for the informal linkages it offers, and will strongly support its staff's participation.

Organisations on which we are represented include:

* Scientific Committee on Antarctic Research

* WESTPAC National Focal Point

* Biography International Geological Correlation Programme

* World Ocean Circulation Experiment

* International Association of Physics of the Ocean

* Freshwater Fish Specialist Group, Indo Pacific Fisheries Council, FAO

* Fish Specialist Group, Species Survival Commission, IUCN

* NZ National Committee for International Hydrological Programmes

* International Association of Hydrological Sciences

* SIL Working Group on Biological Monitoring of Freshwater
* WMO Commission for Atmospheric Science
* WMO Commission for Agricultural Meteorology
* WMO Commission for Climatology
* WMO Commission on Hydrology
* WMO Ozone Commission
* International Union of Pure and Applied Chemistry
* UNEP/WHO Global Environmental Monitoring System
* NDSC Steering Committee
* Southern Bluefin Tuna Commission
* Commission for the Conservation of Antarctic Marine Living Resources

### 6.10 *Databases*

The Institute is responsible for five covenanted national databases or reference collections:

* Biology Collection of Marine Biota
* Geology Collection of Seabed Sediments
* Water Resources Archive
* Climatological Database
* Freshwater Fisheries Database

Management of these databases and collections will be in accordance with the following principles:

The Institute will provide access to these national databases and reference collections so long as they are substantially paid for from the public purse and in providing this access:

1. the costs of collection, archiving and maintenance will be recovered only to the extent that they have not been paid for from public good funding;

2. the costs of actual retrieval of data from databases and collections will be recovered;

3. the data supplied will be subject to copyright, so that the right to further copy the data and acknowledgement as to source is subject to normal conventions; and

4. in situations where a third party wishes to obtain large portions of data from a database or collection for direct commercial use then the Institute will charge a copyright, royalty or licence fee.

## 7.0 INFORMATION REPORTING

The Institute has established information systems and reporting mechanisms both for its own management use and to fulfil its obligations to its owners, including quarterly, half yearly and yearly annual reports together with audited annual financial results:

* Quarterly Reports - with summary financial statistics indicating:
  - Financial and operating performance versus the same period in the previous year, when applicable.
  - Explanations for divergence from budget.
  - Forecasts for the remainder of the financial year including key financial and performance measures and cashflows.
  - Explanations for significant changes in forecasts from business plan targets.
* Half-Yearly Reports - within two months of the end of the first half of the financial year, indicating:
  - Financial and operating performance for the half year, versus the same period in the previous year where applicable.
  - Major issues during the period.
  - Profit and loss statement, end-of-period balance sheet and cashflow statement.
* Annual Reports - within three months of the end of the financial year, indicating:
  - Full annual report, accounts and proposed dividend for the year.
  - Comparison of performance against targets.
  - Auditors' statement.
* Business Plans - at the start of each year, the Institute will submit a summary of its business plans to its shareholders. Any material revision to these plans during the course of the year will be advised to shareholders.
* Any other information reasonably required by shareholders.
* Internal reporting will be monthly.

## 8.0 COMMERCIAL VALUE OF THE CROWN'S INVESTMENT

Shareholders funds include issued shares, reserves and retained earnings. The value of the Crown's investment as represented by shareholders funds are:

| | June 1997 000 | June 1998 000 | Forecast June 1999 000 |
|---|---|---|---|
| Opening Shareholders Funds | 24,799 | 24,799 | 24,799 |
| Retained Earnings | 11,331 | 13,947 | 17,466 |
| Vessel Replacement | 1,940 | 2,910 | 3,880 |
| Closing Shareholders Funds | $38,070 | $41,656 | $46,145 |
| | | | |
| External Debt | $1,900 | | |

Valuation of the Institute agreed at time of asset transfer (July 1992) was $12.3m net of provision for restructuring costs.

The Institute acquired the assets and undertaking of MAF Fisheries Research on 1 July 1995 and the research vessels in November 1995 for a total of $25.0m.

The directors previously planned to conduct a full review of the commercial value of the Company at the end of the 1995/96 year, 12 months following the fisheries research merger. The major reductions that have since taken place in the 1996/97, 1997/98 and 1998/99 fisheries research contracts have led the directors to defer the revaluation until the full impact of contestability of the MFish contract on NIWA's activities can be measured. Fisheries research contracts through MFish became fully contestable from 1 October 1997. We now believe that revenue from fisheries research has plateaued and there is some indication of modest growth in the future. Therefore the Board has concluded that it will conduct a commercial valuation of the company before the end of the 1999 calendar year.

The board conducted a valuation of the Vessel Company in the year ending June 1997 and considered the value determined to be appropriate to the current level of the Crown's investment. This decision was made after taking into consideration the sensitivity of assumptions used in the cash flow projections by the independent valuer Coopers & Lybrand.

The board expects to conduct a valuation review in late 1999 now the profile of the fisheries research business has now stablised.

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**Don Sollitt**
**Chairman**

# APPENDIX I

## Accounting Policies

The Group will adopt general accounting principles as recommended by the Institute of Chartered Accountants of New Zealand for the measurement and reporting of results and financial position under the historical cost and accrual accounting conventions for a going concern.

The following specific accounting policies which materially affect the measurement of financial performance and financial position are applied.

## Shareholder's Funds

Shareholder's funds are defined to be the total of retained earnings, revenue reserves and equity capital at the end of the financial year.

## Total Assets

Total assets include all tangible assets.

## Revenue Recognition

Contract revenue is recognised based on the stage of completion of the contract, or the value of the work done, whichever is lower.

## Basis of Consolidation

The consolidated Financial Statements are prepared from the Financial Statements of the Parent Company and its subsidiary as at 30 June 1999, using the purchase method. All significant transactions between the Group companies are eliminated on consolidation.

## Debtors

Debtors are stated at their estimated realisable value.

## Inventory

Inventory is stated at the lower of cost and net realisable value on a first in, first out basis.

## Fixed Assets

Fixed assets are shown in the balance sheet at historical cost less accumulated depreciation to date. Assets purchased from the Crown at 1 July 1992 and 1 July 1995 are stated at the transfer price at those dates and used for subsequent disposals and depreciation.

**Depreciation**

Assets are depreciated over their useful life using the straight line method of depreciation. Assets costing less than $2,000 and computer software are fully depreciated in the year of purchase. Useful lives are as follows.

| | **New Assets** |
|---|---|
| RV *Tangaroa* Hull | 26 years |
| RV *Kaharoa* Hull | 16 years |
| Buildings | 40 years |
| Plant and equipment | 10 years |
| Scientific Equipment | 4 years |
| Vehicles | 4 years |
| EDP equipment | 3 years |
| Furniture and fittings | 10 years |
| Office equipment | 5 years |
| Small boats | 5 years |
| Leasehold improvements, Freehold property | 10 years |
| Leasehold improvements, Rented property | 5 years |
| Super computer | 5 years |

**Income Tax**

Income tax is assumed at 33% of operating profits. No allowance for deferred taxation has been made.

**Foreign Currencies**

Transactions in foreign currencies are converted at the New Zealand rate of exchange ruling on the date of the transaction. Monetary assets and liabilities are converted to New Zealand dollars at the exchange rate ruling at balance date and any exchange gains or losses are taken to the Statement of Financial Performance.

**GST**

Revenue and expenses have been calculated on a GST exclusive basis

**Inflation**

All forecasts assume a zero inflation rate.

# APPENDIX II

## Definitions of Staff Composition

**Scientists and science technicians** - all staff directly involved in actual research or scientific work. If they could conceivably be an author named on a scientific publication, they should be included.

**Science support** - any staff whose work logistically supports the research effort directly, but whose work could not have itself be described as research. For instance, laboratory assistants, research report editors, librarians, nursery staff, farm staff, ship crew and workshop staff.

**General support** - activities that support the generic non-research or infrastructural component of the organisation as a whole. Included here are financial, accountancy, salary, personnel, secretarial, stores, and ground and building maintenance staff.

**Marketing, promotion and liaison** - although elements of these activities are undertaken by many staff, this category should be confined to those staff who have designated positions.

**Management** - this category covers those that formulate strategy, plan and direct the organisation beyond the limits of a single science programme. It should not be reserved solely for staff designated as "management", but for management activities performed by any staff that are an overhead, and not accounted for directly within a programme or project budget.

# APPENDIX III

## Key Financial Performance Indicators

| Indicator | How Measured |
|---|---|
| **Revenue** | **Revenue** is income generated by the day-to-day operations of the business. It includes science research, contract work for the Crown or commercial clients, royalities, licence fees etc., plus income from the sale of produce and the lease of assets. It excludes income from capital gains, dividends, foreign currency gains/losses and interest on investments. |
| **EBIT Margin** | **EBIT** is earnings before interest, financial lease charges and tax. It excludes restructuring costs.<br>**Revenue** is as defined above.<br>EBIT Margin = EBIT ÷ Revenue, expressed as a percentage. |
| **Return on Equity** | **NPAT** is net profit after tax.<br>**Shareholder's funds** include share capital and retained earnings.<br>Return on Equity = NPAT ÷ Average shareholder's funds, expressed as a percentage. |
| **Return on Assets** | **EBIT** is as defined above.<br>**Total assets** include all the assets on the balance sheet.<br>Return on assets = EBIT ÷ Average total assets, expressed as a percentage. |
| **Equity Ratio** | **Shareholder's funds** include share capital and retained earnings.<br>**Total assets** include all the assets on the balance sheet.<br>Equity Ratio = Average shareholder's funds ÷ Average total assets. |
| **Current Ratio** | **Current assets** include bank balances, short term deposits, debtors and prepayments, and inventory.<br>**Current liabilities** include bank overdraft, accounts payable, current portion of term liabilities, and tax payable.<br>Current Ratio = Current assets ÷ Current liabilities. |
| **Gearing** | **Financial debt** is all interest bearing liabilities.<br>**Shareholder's funds** are as defined above.<br>Gearing = Financial debt ÷ Financial debt plus Shareholder's funds, expressed as a percentage. |
| **Interest Cover** | **EBIT** as defined above.<br>**Interest** is the cost of debt and financial leases.<br>Interest Cover = EBIT ÷ Interest |

# DIRECTORY

## BOARD OF DIRECTORS

| | |
|---|---|
| Donald Sollitt | Chairman |
| Alexander Laing | Deputy Chairman |
| Dr John Montgomery | |
| Paul Morgan | |
| Dr Brian Rhoades | |
| Dr Donald Thompson | |

**CHIEF EXECUTIVE**
Paul Hargreaves

**COMPANY SECRETARY**
Dene Biddlecombe

**SOLICITORS**
Bell Gully Buddle Weir

**AUDITORS**
Deloitte Touche Tohmatsu on behalf of the Office of the Auditor-General

**BANKERS**
National Bank of NZ Ltd

**INSURERS**
J&H Marsh & McLennan Ltd

**REGISTERED OFFICE**
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Newmarket
Auckland

Private Bag 99940
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