

REANNZ

RESEARCH AND EDUCATION
ADVANCED NETWORK
NEW ZEALAND

Research and Education Advanced Network New Zealand

Statement of Intent 2006 – 2010

January 2007 (revised)

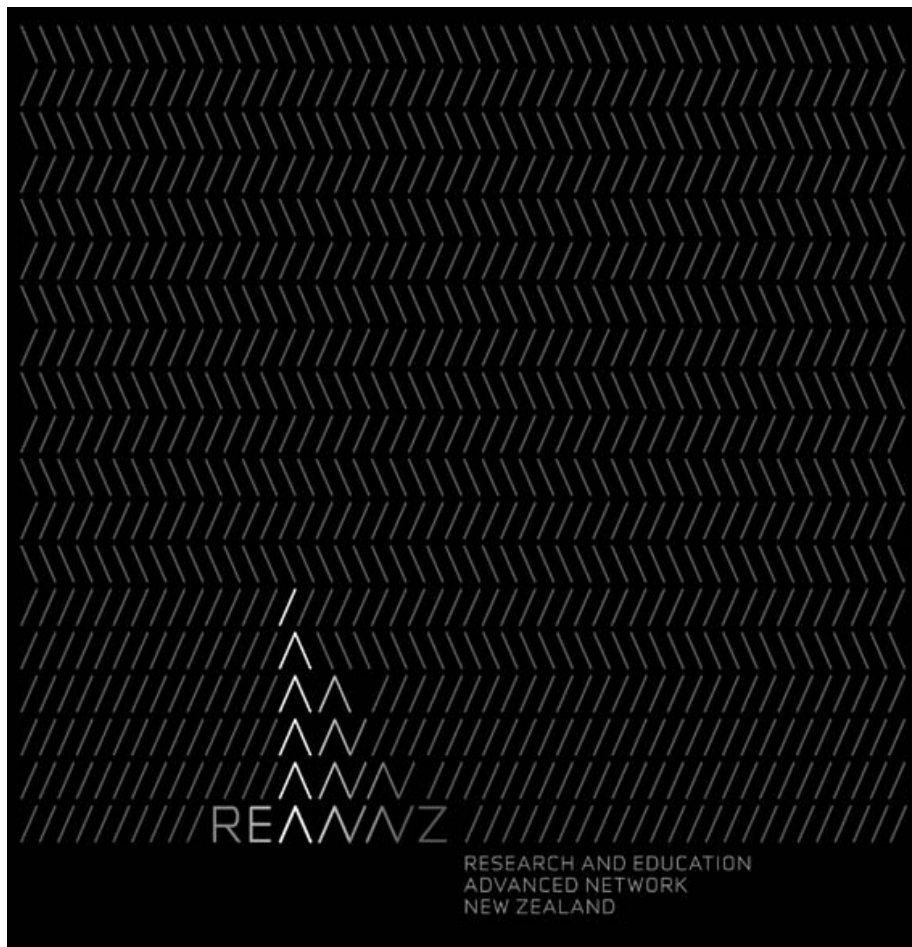




Table of Contents

1. Introduction	3
2. Purpose, vision, mission and objectives	4
2.1. Purpose	4
2.2. Vision	4
2.3. Mission	5
2.4. Objectives	5
3. About research and education networks	6
3.1. Operating environment	6
3.2. Relation to the market	7
4. Performance measures.....	9
4.1. Long term	9
4.2. Medium term	9
4.3. Near term	9
5. Accountability	9
5.1. Corporate.....	9
5.2. Stakeholders	10
5.3. Acquisitions and disposals	10
5.4. Reporting	11
6. Organisation.....	11
6.1. Capability.....	11
6.2. Structure	11
6.3. Values	13
7. Business and Statutory policies	13
7.1. Operating responsibilities	13
7.2. Statutory requirements	14
7.3. Accounting policies	14
7.4. Dividend policy	15
8. Output agreements	15
9. Annex 1: Statement of Service Performance	16
10. Annex 2: Forecast financial statements	25
10.1. Statement of Forecast Financial Performance	25
10.2. Statement of Forecast Financial Position	26
10.3. Statement of Forecast Changes in Equity	27
10.4. Statement of Forecast Cash Flows	28
10.5. Statement of significant assumptions	29
11. Annex 3: Statement of accounting policies	31



1. Introduction

This Statement of Intent is submitted by the Board of Directors of the Research and Education Advanced Network New Zealand Limited (REANNZ), pursuant to the Crown Entities Act 2004. It sets out the intentions and objectives for REANNZ for the period 1 January 2007 to 30 June 2010.

This Statement of Intent replaces REANNZ's previously published statement of intent for 2006/07. It provides updated strategic and financial information.

A handwritten signature in blue ink that reads "Jim Watson".

J. D. Watson
Chair

A handwritten signature in blue ink that reads "D. J. Taylor".

D. J. Taylor
Director

30 January 2007



2. Purpose, vision, mission and objectives

2.1. Purpose

REANNZ’s purpose is to establish, own and operate a high-speed data network dedicated to New Zealand’s research, education and innovation (R,E & I) sector. This network is called KAREN – the Kiwi Advanced Research and Education Network.

Detailed up-to-date information about KAREN, including its topology, service offerings, community and capability building activity, and connection information can be found on our website: www.karen.net.nz

2.2. Vision

“A New Zealand where location, distance, size and wealth are no barrier to the exchange and development of ideas and knowledge, nationally or internationally.”

One of the government’s three themes for the next decade is Economic Transformation: ensuring that the economy is better able to continuously adapt and lift its performance. Developing a high income, knowledge based economy requires accelerating the pace of change in our economy and becoming more internationally integrated. Economic transformation requires more globally competitive firms that are internationally connected and have productive and innovative workplaces which are supported by high standards in education, skills and research – and world class infrastructure.¹

Cabinet agreed a set of indicators of a transformed economy. Three that are highly relevant to our vision are:

- people invest in acquiring new knowledge and skills and these are effectively applied in the workplace to create ideas and capitalise on them
- the country is fully hooked into the latest technology, ideas, knowledge and market trends through world class infrastructure, higher levels of investment in science and technology, and strong people-to-people connections.

¹ *Economic Transformation: securing New Zealand's future prosperity*, Cabinet Policy Committee, 21 Aug 2006



- that has more globally competitive firms that are nimble, creative and innovative, investing more in science chains and technology, and linking into domestic and global value chains.

2.3. Mission

“To make KAREN essential infrastructure for an innovative New Zealand.”

Modern science, education and technical development is increasingly taking place via collaborations that extend beyond institutional, geographic and international boundaries. Vast datasets are shared and manipulated around the world, digitised reference and educational materials are being accessed remotely, and personal and group interaction is being made more real and intimate through applications like virtual reality, even from opposite sides of the globe². This is made possible by high speed ICT infrastructure.

The government has identified the lack of such infrastructure, as constraining the development and introduction of advanced technology and business applications and, therefore, as a “critical issue” in achieving economic transformation³.

The implementation of KAREN is one of the agreed actions to address this issue. Our mission enshrines this action in an appropriate context.

2.4. Objectives

REANNZ’s objectives are clearly set out in the original Cabinet decisions and carried through in our constitution. They provide the touchstone by which we guide our existing activities and assess new activity.

REANNZ’s research, education and innovation objectives:

- Enable leading edge e-research.
- Facilitate universal connectivity throughout the New Zealand and international research and education community.
- Encourage broad participation by the research and education sector in New Zealand through accessible technology and reasonable pricing.

² Cabinet paper EDC (04) 69 *Establishment of an Advanced Network*

³ *Giving Effect to the Five Themes*, Cabinet Policy Committee, 21 Aug 2006



- Connect research and education sector to the broader innovation community for pre-commercial, research and development based collaboration.
- Facilitate participation by multiple telecommunications sector partners so as to ensure the greatest possible flexibility for ongoing evolution.

REANNZ’s governance objectives

- Operate in a financially sustainable manner and manage foreseeable upgrades and increases in network capacity through the accumulation of reserves.
- Endeavour to transfer the Crown's share in the company to users (for example, tertiary education institutes and Crown research institutes) within a reasonable timeframe.

3. About research and education networks

3.1. Operating environment

R&E networks are required as “modern science and education is increasingly taking place via collaborations that extend beyond institutional, geographic and international boundaries. Vast datasets are shared and manipulated around the world, digitised reference and education materials are being accessed remotely, and personal and group interaction is being made more real and intimate through applications like virtual reality, even from opposite sides of the globe.”⁴

Such networks, common overseas, are sometimes called ‘advanced networks’ as they typically offer advantages to their members over normal ‘commodity internet’ connectivity.

Due to the non-profit / public good aspect of the research, education and innovation sector, telecommunication infrastructure owners typically provide access to capacity (usually at the fibre optic cable or wavelength of light level) at a price much lower than the open market (or that could be obtained by any single institution). The R&E community therefore gains everyday access to communication speeds far quicker than the general populous.

Commercial networks focus on quality and reliability of service. As such, the ability to innovate with new network protocols (methods of transmitting data), optimise the network for certain events / activities and

⁴ Cabinet paper EDC (04) 69 *Establishment of an Advanced Network*



generally push the boundaries of what is capable with networking technologies is very restricted. An R&E network provides a test-bed for new communications technologies and approaches that may eventually become mainstream.

For users who have lower bandwidth requirements, eg schools, the advantage of an NREN lies in its focus on their sector and, frequently, with some national public good mandate to facilitate or provide (subsidised) connectivity.

Many countries have had an R&E network for well over a decade. They have been proven time and again as essential infrastructure; as a natural and neutral focus for collaboration and joint problem solving.

It is important that New Zealand has its own R&E network so that it can participate fully in an ever globalising economy and increase the value of its exports.

3.2. Relation to the market

A recent foresight project run by TERENA, the trans-European Research & Education Networking Association, examined the differences⁵ between NRENs such as KAREN and standard commercial networks. The following factors were identified as important to NRENs in retaining their distinctive value offering.

1. A successful NREN has to anticipate the needs of the users, otherwise it will soon become obsolete.
2. NRENs need to focus on advanced services (e.g. λ switching), not those commercially available.
3. NRENs need to keep full control of the networking infrastructure while at the same time leaving it open.
4. NRENs can/should invest in projects with higher risk and serve user minorities with specific needs which will never be a "business case".
5. NRENs should go up in the protocols stack creating economies of scale, but be careful that moving up may change the operating model (millions of users instead of decades).
6. The Pan-European NREN solidarity, the collaborative role of European NRENs that allows for taking care of aspects like the

⁵ <http://www.terena.nl/activities/earnest/ws1/presentations/EARNEST-CommonQuestions-GroupC-2006-05-23.ppt>



4. Performance measures

4.1. Long term

The long-term success metric for REANNZ is the continued existence of KAREN on a financially sustainable basis.

4.2. Medium term

Within three to five years we have to:

- Make KAREN essential infrastructure for research, education and innovation.
- Achieve financial sustainability.

The first of these will be evidenced by:

- Recognition that membership is value for money
- An increasing number of users (human or otherwise) and their increasing dependence on KAREN to achieve their goals.

The second of these will be evidenced by:

- REANNZ securing enough income to meet its financial sustainability objective on an immediate and projected medium-term basis.
- The ability to open sensible discussions on the sale of REANNZ.

4.3. Near term

Detailed near-term financial and non-financial performance targets are contained in the *Statement of Service Performance* and *Forecast Financial Statements*, Annexes 1 & 2.

REANNZ is in a transition state between implementing and operating KAREN. This is accompanied by a transition between project delivery milestones as key performance measures and value and service performance targets. The *Statement of Service Performance* in this SoI reflects this transition state.

5. Accountability

5.1. Corporate

REANNZ is a Crown-owned company, listed under schedule 4 of the Public Finance Act 1989 and incorporated under the Companies Act 1993. Its shareholders are the Minister of Finance and the Minister of Research,



6.3. Values

REANNZ’s values underpin the way we work and do businesses.

Open

- we are transparent and upfront with our stakeholders and each other
- we seek out and embrace new ideas and thinking, irrespective of source
- our actions and our outputs are designed to be enabling, not restrictive
- we share our learning

Collaborative

- we work with others, nationally and globally, not in isolation
- we aren’t constrained by roles and responsibilities
- our network is required to inter-connect and inter-operate

Advanced

- we build our community’s capability to push back boundaries...
- our network is ahead of the game technically, operationally and commercially

Reliable & Efficient

- when we say we will do something, we will
- our network can be relied upon
- we do the right thing, even when no one is watching
- we will maximise the value of each dollar we spend

7. Business and Statutory policies

7.1. Operating responsibilities

REANNZ will:

- consult with members on strategic development of the network



- maintain a network development plan and a network use policy (Network Access Policy)
- approve applications for network connections and participation of members, associates, or partners.
- review and set of tariffs in consultation with members
- set standards and protocols for use in the operation of the network
- manage relationships with overseas NRENs
- manage the capability build fund to enhance network use.

7.2. Statutory requirements

- REANNZ is established under the Companies Act 1993 and the Company, the Board, each director and each shareholder have the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act, by the REANNZ Constitution.
- REANNZ acts as a 'good employer' where 'good employer' has the same meaning as in section 118 of the Crown Entities Act 2004 (CEA).
- Under the Public Audit Act 2001, the Controller and Auditor-General is to be the auditor of the Company.
- REANNZ is listed on Schedule 4 of the Public Finance Act 1989 (PFA), rather than as a Crown entity under the Crown Entities Act 2004 (CEA). This is to allow flexibility for the company to achieve one of its key objectives: to obtain a commitment from users to acquire the Crown's shares in the company.
- REANNZ is subject to certain sections of the CEA⁶ as if it were a Crown entity, and also to the Official Information Act 1982 and the Ombudsmen Act 1975.
- The Company must have regard to any whole of government direction that would apply to the company if it were a Crown entity company under the Crown Entities Act 2004.

7.3. Accounting policies

- The policies will be consistent with the legal requirements for the Companies Act (as amended) and any other relevant legislation

⁶ As laid out in REANNZ's Letter of Expectations and Constitution

REANNZ Statement of Intent 2006-2010

REANNZ Statement of Intent 2006-2010



- Forecasts are made in accordance with generally accepted accounting policies and are compliant with NZIFRS.

7.4. Dividend policy

- It is one of the Objectives of the Company that it accumulates reserves to pay for foreseeable upgrades and increases in network capacity. Any funds surplus to this requirement will be distributed to the Company’s shareholders.
- REANNZ is not covered by s165 of Crown Entities Act which governs payment of surpluses.

8. Output agreements

REANNZ has entered into two Output Agreements with the Ministry of Research, Science and Technology (MoRST):

1. for the governance and operation of REANNZ (network fund)
2. to support development of REANNZ members’ capabilities to access and use the Advanced Network (capability build fund)

The network fund provides the cash to purchase KAREN for an initial period, and support REANNZ’s ongoing corporate and network costs until KAREN is sustainable from member income. Total payments from MoRST to REANNZ during 2006/07 are scheduled to be \$11.655m (inc GST).

The capability build fund is being administered by REANNZ, with the help of a specialist Advisory Panel. Total payments from MoRST to REANNZ over the expected three year life of this fund are scheduled to be \$5.495m.

Each output agreement contains specific outputs and performance targets. These outputs are included in the milestones and outcomes listed below in section 9 using the following notation:

- (*) – milestone is an output under the network fund
- (†) – milestone is an output under the capability build fund

[In the case of the capability build fund, detailed performance measures and standards are provided in the output agreement and the milestones in this SoI do not include all of these].

Both these output agreements are posted on REANNZ’s website <http://www.karen.net.nz/documents/> .



9. Annex 1: Statement of Service Performance

Activities and outputs to measure near term (one to three year) performance against are provided below. These are grouped by our four operational focus areas: connection, communities, capability and development, compliance and control.

Likely performance metrics are listed for each focus area. Actual values for these metrics are still being defined as we learn more about the operations of the business. Target outputs for each focus area are provided as a supplement to allow interim performance measurement.

Connection

“Connection” is the title used to describe aspects of REANNZ’s activity that relate to:

- the physical network
- logical design
- operations and support functions
- associated technologies, standards, policies and designs.

It does not include the applications that use the network – these are covered in the Capability area. It may, at some future point, cover network services provided by REANNZ over KAREN.

Connection performance reporting will be based on:

1. Statistics and Trend information on:
 - a. Number of users/type/connections
 - b. Traffic over the network/usage
 - c. Network availability
2. Services supported and usage
3. Protocols and applications supported
4. Annual Stakeholder Survey results in the areas of
 - a. Helping members to connect
 - b. Responsiveness and behaviour of help desk and support staff
 - c. Research, education and innovation opportunities missed because the network did not support the necessary protocols/functions



Target outputs for the near-term are shown (key outputs are underlined).

Sub-Area	Milestone/Outcome	Date
National Network Implementation	First tranche of equipment delivered	Jun 06
	* <u>Proof of Concept starts</u>	<u>24 Jul 06</u>
	* <u>Proof of Concept ends</u>	<u>1 Sep 06</u>
	Procedures Manual, Connectivity Design, Logical Design finalised	27 Oct 06
	Operational services and Core network ready for Acceptance Testing	27 Oct 06
	Second tranche of equipment delivered	15 Nov 06
	Acceptance testing ends	21 Nov 06
	* <u>Network goes live</u>	<u>21 Nov 06</u>
	Swap out of X450a-24T's to X450a-24X's	20 Feb 07
	Implementation project closes	13 Mar 07
	* <u>Upper South Island redundancy</u>	<u>30 July 07</u>
* <u>Lower South Island Build complete & operational</u>	<u>30 Mar 08</u>	
International Network Implementation	* Ready for service target date	1 Jul 06
	Peering established in Australia and USA	30 Jul 06
	Peering established with 5 European / Asian networks	30 Apr 06
POPs	Accommodation ready for Equipment installation	Up to August 2006
	* <u>PoPs commissioned</u> New PoPs designed for Queenstown, Tauranga, Twizel/Tekapo	<u>30 Oct 06</u> Jun 06 (or as required)
Forward Planning	Annual review of network architecture and key services	Nov – Feb annually (starting 2007)
	Annual review of connectivity design, logical design and operational processes	May – Jun annually
	Annual rolling strategic programme of national and international network and service augmentations (3 year focus)	Jan – Mar annually
	International contract renewal decision	Feb 09
	National contract renewal decision	May 10

The bulk of REANNZ’s near-term connection risk is well defined and has contractual and procedural mitigation in place.

Risks	Mitigations
The physical network is not delivered on time	Contractual provisions Weekly Project meetings Escalation as appropriate
The network does not support the protocols and features required by Researchers and Educators	Logical design and architecture peer reviewed by stakeholder representatives and by technical staffing other National Research and Education Networks The equipment is able to support all the commonly used Internet protocols, and has



Risks	Mitigations
	been selected in part because of its flexibility
The network does not have the service and availability performance required by users	The network has been engineered to TelstraClear core network standards The operational and support processes are based on those used for large corporate customers buying mission critical services

Community

Community activity will build communities with a strong usage of KAREN and of the benefits network brings to them. This will involve:

- Awareness raising: publicity, media, presentations, events, networking, corporate branding and brand values.
- Communications: newsletters, website, publications, media.
- Training: working groups, events, Capability Build Fund activity.

Community performance reporting will be based on:

1. Number of workgroups established and maintaining reasonable activity levels.
2. Event success evaluated through feedback forms.
3. Number of KAREN champions identified and supported by REANNZ.
4. Website effectiveness measured through blog registrants and web interaction levels.
5. Number and reach of communications created.

Target outputs for the near-term are shown (key outputs are underlined).

Sub-Area	Milestone/Outcome	Date
Events	* <u>Stage a successful public launch of KAREN</u>	<u>August 06</u>
	KAREN go live event	Nov 06
	Chair ICT in Government conference	Nov 06
	Speak at APAN Manila	Jan 07
	Present at TUANZ Telco day	May 07
	Thought leadership event/s	July 07
	<u>Annual KAREN anniversary event</u>	<u>Nov 07 (then annually)</u>
	<u>Host APAN in New Zealand</u>	<u>Jul-Aug 08</u>
Workshops	Vendor sponsored workshops	Two per annum
	* Vendor and technical workshops REANNZ workshops	Two in 2006, two per annum Quarterly



Sub-Area	Milestone/Outcome	Date
	Training materials and documentation available	Following each event
Workgroups / communities of interest	Stakeholders surveyed <u>Workgroups established</u>	Nov 06 <u>Three by Dec 06</u> <u>Six by Dec 07</u>
Partners	Partner strategy developed Most likely potential partners met	Nov 06 Mar 07
Communications	* Website phase 1 up <u>Website phase 2 up</u> Weekly blog updates <u>Case studies</u> <u>Newsletters</u> Media articles / profile Stakeholders surveyed	Aug 06 <u>Nov 06</u> From Aug 06 <u>2 per quarter</u> <u>1 quarterly</u> ongoing May 06
Others	NGO stakeholders met and regular interaction plan established	Sep 07
International	Communicate KAREN's availability and progress in overseas NREN publications	Sep 07 then ongoing

Communities risk is less severe on a single event basis but just as significant as network risk on an aggregate basis. The large element of influencing and education in communities activity makes this risk more difficult to manage.

Risks	Mitigations
KAREN only seen as valuable to a small percentage / niche community of users	Implement planned changes to business model Put more effort into new community members rather than existing
Under resourced for activities	Employ extra staff or adjust outputs Use electronic fora to maximise reach of activities Leverage existing Member / stakeholder communication channels and activities
Activities have little impact	Research and plan activities well Align KAREN usage incentives into existing R&E system incentive / funding processes

Capability & Development

Capability building aims to ensure the skills and awareness of end-users and institutional ICT support staff is high enough to obtain the benefits from access to KAREN. It also covers learning from and collaborating with overseas NRENs.

Capability activities involve:



- Awareness raising and promotion
- Training in network and application areas
- Sharing of experiences
- Development of common middleware

Development activities fall loosely into four areas:

- A revenue focus: Identifying and signing new connectees
- A network federation focus: Identifying and engaging with other NRENs on peering and middleware
- A KAREN enhancement focus: implementing new network functionality, reach and performance
- Policy development focus: influencing MinEd, Nat Lib, MCH in policy and funding approach to network services and physical access

There is a close relationship between community communications activity and capability building and development. The key difference is focus: development activity seeks out new stuff; community activity reinforces and extends existing stuff. Potential overlaps are managed as part of standard internal processes.

Capability performance reporting will be based on:

1. Number and success of national events and workshops delivered
2. CBF applications approved (\$310,000 event and travel, \$1.5m working group and development in 2006/07)
3. Project and travel reports published
4. Speaking engagements by REANNZ
5. International events / workshops attended by members and REANNZ

Development performance reporting will be based on:

1. New subscription income and sponsorship revenue
2. New members, associates and partners connections and income
3. Education sector ICT network architecture and associated budget
4. Network event participation and presentations
5. MoUs, interconnection and peering with other NRENs
6. National and international traffic growth



Target outputs for the near-term are shown (key outputs are underlined).

Sub-Area	Milestone/Outcome	Date
Capability Build programme	Output agreement signed	Jun 06
	† Advisory Pan Established	Jun 06
	Board approves initial activity funding	End Jul 06
	† <u>First round travel and event fund applications close</u>	<u>30 Oct 06</u>
	† <u>First round working group and development applications close</u>	<u>30 Nov 06</u>
	† <u>First half-yearly report</u>	<u>February 07</u>
	† Second round travel and event fund applications close	28 Feb 07
	† CBF roadmap developed	30 Mar 07
	† Second round working group and development fund applications close	30 Mar 07
	† <u>Second half-yearly report</u>	<u>July 07</u>
† Subsequent activity funding approvals	Every 2 – 3 months	
† Subsequent half-yearly reports	Every 6 months	
Members	* <u>Initial 18 Membership agreements signed</u> Plan for Poly/other TEI developed	<u>Oct 06</u> Nov 06
Associates	Tariffs sets for Associates (ex schools and libraries)	Aug 06
	Develop position on interface with MUSH networks	Dec 06
	Education sector engagement - ICT policy / strategy - architecture and connection standards - funding (regional and national) options	Ongoing (at least monthly interactions)
	<u>Schools connection pilot (2 schools / groups of schools)</u> <u>1st non-school associate connected</u>	<u>Mar 07</u> <u>Dec 07</u>
Partners	Tariffs set for Partners	Aug 06
	<u>1st partner signed up/connected</u>	<u>Mar 07</u>
	5 partners signed up/connected	Dec 07
	All identified partners signed up	Dec 08
Others	Influence positively govt networks group	Ongoing
International	Plan of REANNZ / NZ attendance at international events & meetings	Sep 06 Attendance ongoing
	* <u>Five interconnection agreements / MoUs</u>	<u>Mar 06</u>
Services	Consult with community on REANNZ service model / framework and produce initial position statement <u>Publish framework for supporting partner provided services over KAREN, eg VoIP</u>	Feb 07 <u>Feb 07</u>



The capability and development area is again a more difficult one for REANNZ to manage risk in due to the requirement for a number of external parties to be influenced in a particular direction.

Risks	Mitigations
Low levels of awareness cause slow adoption	Outreach program coordination with CBP activities and REANNZ Deliberate participation in key international events by REANNZ and member representatives Early assistance by CBP to exemplar project initiatives and centres of network excellence
Poor sector-specific participation and liaison limits new initiatives	Broad invitation base for national workshops and events Program of member and REANNZ participation in key sector events nationally and internationally Specific invitations and assistance to overseas experts to visit New Zealand to workshop key subject areas
Lower revenue growth	Top down policy and budgetary solutions driven by management and Board with Government agencies Identification of important institutions and development of individual engagement plans Vigorous promotion of KAREN for sponsorship opportunities with private sector organisations.
Lower than expected international traffic inferring low levels of international collaboration via KAREN	Promotion of KAREN's international linkages and opportunities Alignment of other funded activity (including CBP) to international collaboration Engagement with offshore parties by REANNZ and members

Compliance & Control

Compliance and control activity relates to the operations and performance of REANNZ as a company, including planning and reporting activity.

Compliance and control performance reporting will be based on:

- Accuracy of financial forecasts, provided by variance reporting against budget
- Compliance with statutory deadlines and other expectations, eg OSH
- Staff retention / climate survey



- Audit performance

Target outputs for the near-term are shown (key outputs are underlined).

Sub-Area	Milestone/Outcome	Date
Business Plan / SOI	New Business Plan/SOI written including: medium-term performance metrics longer-term strategic issues	Nov 07
	* <u>Revised Business Plan/SOI submitted to shareholders</u>	<u>Dec 07</u>
	<u>Member Advisory Committee established</u>	<u>June 07</u>
Organisation & Performance	* <u>CEO Recruited by July 2006</u>	Jul 06
	* Office premises established	Aug 06
	* Manager, Communities recruited	Aug 06
	* Operations Manager recruited	July 06
	* Core REANNZ team in place Values and Operating Charter implemented	Dec 06 May 07
	Staff performance framework and performance plans agreed	Jan 07
Facilities	Operational in new office accommodation with new IT infrastructure	Jul 06
	KAREN connection, videoconferencing in office	Feb 07
Policies, inc OSH	Draft policies in place	Jul 06
	* Good employer and EEO policies implemented	Jul 06
	OSH assessment of new office	Sep 06
	ACC audit	Mar 06
	Attain first level ACC rating	Jun 07
	Attain second level	Mar 08
Financial management	Financial advisors selected	Jul 06
	* Financial practices documented and implemented by July 2006	Jul 06
	Delegated Authority Policy in place	Jul 06
	New accounts structure prepared	Jul 06
	Accounts package implemented and staff trained	Aug 06
	* <u>First audit completed</u>	<u>Oct 06</u>
	Reporting templates / format finalised	Dec 06
* <u>Second audit completed</u>	<u>Aug 07</u>	
Reporting	*† <u>Annual report (including on MoRST output agreements)</u>	<u>Oct 07</u>
	* Quarterly reports	1 month following end of each quarter
	Monthly board reports (new format)	Aug 06 (constantly refine)
	* Output Agreement reporting	As per



Sub-Area	Milestone/Outcome	Date
		agreements
Ministerial / Cabinet report backs	Provide solid input into Ongoing financial viability report back to Cabinet	Early 07

REANNZ has a good ability to manage its compliance and control risks through adoption of best practice policies and standards.

Risks	Mitigations
Loss of fiscal control leading to financial distress	Strong internal processes Good financial systems External accountancy support Monthly board reporting Clear delegated authorities
Strategy for REANNZ and KAREN fails	Continuous and strong engagement with stakeholders (members, government, private sector) Flexible attitude to new opportunities Focus on delivery of objectives
Reporting and compliance issues distract management	Work with external parties to streamline reporting requirements Expend sufficient effort upfront to ease ongoing effort

10. Annex 2: Prospective financial statements

10.1. Prospective statement of Financial Performance

RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD

(FOR THE YEAR ENDED 30 JUNE)

	06/07 (\$000)	07/08 (\$000)	08/09 (\$000)	09/10 (\$000)
CAPABILITY BUILD FUND				
Revenue				
Crown income	2,442	1,421	1,421	-
Other income	-	-	-	-
Total Capability Build Fund Income	2,442	1,421	1,421	-
Expense				
Capability Building Fund Transfer to REANNZ	136	156	157	-
Development Projects	750	650	480	-
TCL Capability Development co-funding	100	200	200	-
Workshops / workgroups	750	260	260	-
External advice	50	50	50	-
Other operating expense	375	386	266	-
Total Capability Build Fund Expenses	2,161	1,702	1,413	-
Net Surplus Capability Build Fund to Public Equity	281	(281)	8	-
REANNZ				
Revenue				
Crown income	10,360	2,000	2,000	2000
Capability Building Fund Transfer from CBF	136	156	157	-
Network Income	2,332	4,841	5,971	7,722
Other income	339	241	253	409
Total REANNZ Revenue	13,167	7,238	8,381	10,131
Expense				
Audit	25	26	27	28
Board Costs	77	77	80	83
Depreciation and amortisation	5,181	6,337	6,695	5,055
Directors Fees	157	150	156	162
External advice	132	82	84	86
Network costs	3,056	3,082	3,206	3,337
Personnel costs	1,231	1,477	1,533	1,591
Rent	53	53	53	53
Other operating expenses	682	626	645	686
Total REANNZ Expenses	10,594	11,910	12,479	11,081
Net Surplus REANNZ to Public Equity	2,573	(4,672)	(4,098)	(950)

10.2. Prospective statement of Financial Position

RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD

(AS AT 30 JUNE)	06/07	07/08	08/09	09/10
	(\$000)	(\$000)	(\$000)	(\$000)
CURRENT ASSETS				
Cash at Bank	2,913	3,104	5,708	3,132
Debtors and receivables	-	-	-	-
Total Current Assets	2,913	3,104	5,708	3,132
NON-CURRENT ASSETS				
Fixed assets	608	657	555	750
Prepaid leases	17,930	12,684	6,092	7,523
Total Non-Current Assets	18,538	13,341	6,647	8,273
TOTAL ASSETS	21,451	16,445	12,355	11,405
CURRENT LIABILITIES				
Creditors and payables	-	-	-	-
Employee entitlement	7	7	7	7
Net GST Payable	53	-	-	-
Total Current Liabilities	60	7	7	7
NON-CURRENT LIABILITIES				
	-	-	-	-
TOTAL LIABILITIES	60	7	7	7
NET ASSETS	21,391	16,438	12,348	11,398
Public Equity	21,391	16,438	12,348	11,398



10.3. Prospective statement of Changes in Equity

RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD

(FOR THE YEAR ENDED 30 JUNE)	06/07 (\$000)	07/08 (\$000)	08/09 (\$000)	09/10 (\$000)
PUBLIC EQUITY				
<i>Capability Build fund</i>				
Opening Balance - CBF	-	281	-	8
Retained earnings for the year	281	(281)	8	-
	281	-	8	8
<i>REANNZ Fund</i>				
Opening Balance - REANNZ	18,537	21,110	16,438	12,340
Retained earnings for the year	2,573	(4,672)	(4,098)	(950)
	21,110	16,438	12,340	11,390
TOTAL PUBLIC EQUITY	21,391	16,438	12,348	11,398



10.5. Statement of significant assumptions

Overall, the biggest drivers of REANNZ’s forecast financial statements are:

1. connection income from the various member sectors
2. renewal costs of the network contracts (corporate costs are significantly eclipsed by these)

Given that REANNZ’s current network cost base has been fixed (and its corporate cost base largely fixed), increasing connection income is the most important driver from a fiscal sustainability perspective for the period of this Statement of Intent. Unfavourable variances in network income will flow directly to REANNZ’s cash position.

Financial position

- For forecasting purposes, the simplification that REANNZ finishes the year with zero creditors and debtors has been applied

Income

- CRI and University income is forecast at pre-agreed rates, increasing by 10% after three years
- Crown grant income is forecast consistently with REANNZ’s output agreements with MoRST
- Non-university TEI connections, associate and partner connection income increases over the next four years to \$3.7m pa

Network costs

- A NZD:USD 20 year average rate of 0.5770 has been used for international connection costs
- The current 36 month international connectivity contract is renewed on the same cost basis
- The current 48 month national connectivity contract is renewed on the same cost basis

Corporate costs

- General cost escalation is factored at 3.8% per annum

Taxation

- No allowance for taxation has been made.

Based on preliminary advice to the directors (subject to verification), grant revenue which has been spent is considered to be non-assessable income to the company and hence costs relating to that income will be non-deductible. Further clarification is being sought as to the taxation implications on the unspent portion of grant revenue, connection revenue and deductibility of expenditure.



11. Annex 3: Statement of accounting policies

Reporting entity

The reporting entity is the Research and Education Advanced Network New Zealand Limited ("REANNZ"), a not-for-profit Company, incorporated in New Zealand entirely owned by the Crown. The principal activity of REANNZ is the establishment, ownership, and operation of a high speed communication network for the research and education sector.

REANNZ has designated itself as a public benefit entity. Public benefit entities are defined as "Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with the view of supporting that primary objective rather than for a financial return for equity holders".

Basis of preparation

The financial statements have been prepared on a historical cost basis except for the revaluation of certain items for which accounting policies are stated below.

Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements are presented in New Zealand dollars, rounded to the nearest thousand (\$000).

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements:

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable.

Grant income is recognised as it is received or receivable by REANNZ from the Crown where conditions relating to the grant are satisfied. Where there are no conditions specifically relating to the operating activities other than the requirement for REANNZ to own, and operate a high speed communication network for the research and education sector, grant income is recognised as it is received or receivable.

Interest revenue is recognised using the effective interest method.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less accumulated depreciation and impairment. Cost includes consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

Where an asset is acquired at no cost, or for a nominal cost, the asset will be recorded at fair value as at the date of acquisition.

Assets under construction are held in work in progress until they are completed when they will be transferred to the appropriate category of property, plant and equipment.



Depreciation is calculated on a straight-line basis on property, plant and equipment (excluding work in progress) once in the location and condition necessary for its intended use so as to write off the cost or valuation of the property, plant and equipment over their expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and adjusted if appropriate.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	10 years
Routers & switches	5 years
Information technology equipment	3 years
Information technology software	3 years
Office equipment	5 years

Operating leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the statement of financial performance in equal instalments over the lease term when the leased items are in use.

Where the leased items are not in use, the operating lease payments will be treated as a prepayment until the items are being used to derive income. These prepayments are released to the statement of financial performance on a straight line basis over the period of the remaining operating lease term.

Impairment

At each reporting date, the Directors review the carrying amount of the assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount. The impairment loss is recognised as an expense in the statement of financial performance.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the statement of financial performance immediately, unless the relevant assets is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: "Cash and cash equivalents" and "receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank



overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Receivables

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that REANNZ will not be able to collect all amounts due according to the original terms of receivables.

Financial liabilities

Payables

Accounts payable, comprising trade payables and other accounts payable, are recognised when REANNZ becomes obliged to make future payments resulting from the purchase of goods and services.

Derivatives

REANNZ enters into a variety of derivative financial instruments as part of its normal operations to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts.

Financial instruments that do constitute hedges, including forward foreign exchange contracts, are valued at the exchange rate prevailing at year end. Any unrealised gains or losses are recognised in the Statement of Financial Performance.

Financial instruments that do not constitute hedges are stated at fair value and any resultant gain or loss recognised in the Statement of Financial Performance.

Employee entitlements

Provision is made in respect of liability for annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months of reporting date, are measured at the best estimate of the consideration required to settle the obligation using the current remuneration rate expected.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months of reporting date are measured at present value of the estimated future cash outflows to be made in respect of services provided by employees up to reporting date.

Taxation

Based on preliminary advice to the directors (subject to verification), Growth and Information Framework and Tertiary Education Commission grant revenue is considered to be non-assessable income to the company and hence costs relating to that income will be non-deductible.

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive statement of financial position liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

