

Quarterly Report

Quarterly Report to the Minister of Research, Science and Innovation

For the third quarter ending 31 March 2019

Introduction

This report provides an update of performance for the third quarter of the 2018/19 financial year. Each quarterly report contains:

- progress against the performance measures in our Statement of Performance Expectations 1 July 2018 – 30 June 2019
- financial performance
- update on significant projects
- significant risks or issues that may impact performance.

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Executive Summary

Our highlights this quarter:

- This quarter has seen significant progress at Gracefield including:
 - Continued construction of the new, purpose-built facility for the Measurement Standards Laboratory (MSL), with the roof completed, exterior cladding being fitted, and a tender issued for construction of the interior fit-out.
 - Completed asbestos remediation work for the operational areas of the McKay building that MSL occupy.
 - In response to December's fire in the A block research building, focus was on improving the temporary accommodation arrangements for the former occupants of the building.
- The year to date operating surplus of \$3.9m is ahead of budget by \$7.5m for the nine-month period. This is primarily due to higher overseas commercial revenue and lower expenses experienced over the period. However, the lower than forecast expenditure is due to timing and the favourable expense variance will reverse as the year progresses. We continue to expect to record a small full year operating loss.
- In the 12 months to 31 March 2019 we worked with 2,845 organisations to provide services including programmes, events, international missions and grants, with a Net Promoter Score of +58.
- We are on track to achieve 13 out of 18 performance measures. We have partially achieved five, however are confident that measures underway to improve our customers' experience of our services will positively impact these measures.
- Significant progress was made in implementation of our strategic agenda during the quarter including:
 - With regards to our digital strategy, we have selected our implementation partner for Google G-Suite transition, upgraded and migrated our CRM to the cloud, and completed the optimised network design for our Auckland office.
 - Worked with Inland Revenue on designing the detailed aspects of how the R&D Tax Incentive will be delivered and supported the Finance and Expenditure Select Committee in its deliberations over the proposed R&D Tax Incentive legislation.
 - Scale Up NZ successfully launched on 16 April. We have received over 1,140 registrations from companies to be part of the platform and launched media campaigns to boost this number.
 - Started the Customer Journey project, with the production of the first prototype tested by key stakeholders to ensure that the current hypothesis and proposed frameworks are valid.
 - Identified gaps from customer research on our R&D services. Presented a revised two-scenario approach to the Board for direction on where attention should be focused in the finalisation of the RTS Strategy.
 - Continued building our leadership pipeline with Emotional Intelligence programme almost complete, delivery of refreshed People Leaders forum, and development of leadership skills analysis process ready for delivery.
 - Published thought leadership material including the "Growing the Pie" report on successful innovation in New Zealand to improve public understanding of what success looks like.
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- Other key points to note include:
 - Significant increase in volume of grants applications as the deadline for Growth Grant application and extensions closed 31 March. This has impacted delivery times.
 - Ran an RFP process for Accelerator programme and completed work to begin developing the RFP process for appointing new technology incubator partners.

- Led a delegation of over 150 software as a service (SaaS) business executives, founders and entrepreneurs to the annual SaaStr conference in San Jose in February.
- Completed lease agreement for the Textile Centre, our new Auckland premise and progressed the interior design of the new tenancy.
- Led a delegation of Crown research institute chief executives to San Francisco to look at emerging technologies and examples of research commercialisation best practice.

Our focus next quarter:

- Strategic delivery focus:
 - Gracefield:
 - Completing construction of the exterior of the MSL building and progressing construction of the interior fit-out.
 - Construction of the new MSL Time lab, and Café improvements.
 - Starting GIQ programme work on the four MSP governance themes from Vision through to Blueprint Delivery and Design.
 - Undertake recruitment for a member of the executive to lead implementation of our Gracefield programme of work and support onboarding of the new board director with property development expertise.
 - Developing plans for longer-term accommodation solutions to restore workspaces destroyed in the fire.
 - Preparing a business case to improve the capacity, safety and efficiency of operational workspaces for KiwiStar Optics and other tenants in the Robertson Building.
 - Continue to collaborate with Inland Revenue on the detailed operational policy and design of the R&D Tax Incentive and begin recruitment for the joint 'core team'.
 - Continue to promote Scale-Up NZ to ensure that our customers, partners and those in the wider innovation ecosystem engage with the platform post launch.
 - Continue our digital transformation by completing selection of an outsourced payroll solution, begin the Discovery and Design phase of our Google G Suite implementation, define our requirements for the new data architecture and Grants platform, and define our overall strategy and approach for process optimisation.
 - Leadership development is a key focus for us and this quarter we complete two leadership programmes, "Emotional Intelligence" and "Storytelling at Work". Continuation of leadership skills assessment programme to work 1:1 with our leaders to develop the skillset for leading a transformed organisation.
 - RTS Strategy will go to our board for input and then approval.
- Operational priorities include:
 - Planning and managing the move of our two Auckland-based teams into a single premise in Parnell.
 - Opening of the technology incubator RFP and announcing the successful Accelerator partners. We will also be recruiting a new leader for the start-up team.
 - Organising Callaghan Innovation's annual two-day Southern SaaS event in Auckland in August.

Our Strategy



Strategic Initiatives for 2018/19

Strategic Pillar	#	Initiative
Build the critical foundations	1	Develop funding strategy
	2	Deliver digital architecture and innovation process
	3	Develop leadership capability and talent
	4	Cyber-security initiatives delivered
	5	Gracefield reinvigoration
Show the Future	6	NZ Futures, impact and modelling capability
Fuel Demand	7	RTS role and strategy defined
Connect the system	8	Super connector platform delivered
Empower innovators	9	Successful R&D tax credit migration plan agreed
	10	Customer segmentation / portfolio models implemented

Progress Report

Show the Future

Show New Zealand where technology is taking the world, how we must adapt, and how innovation drives success.

Our highlights this quarter

- Our new Innovation Impact team has started to define a systems transformation programme. Work has begun to identify and understand the data and impact reporting status-quo and the challenges and needs of internal stakeholders.
- Completed market scan of environmental innovation in New Zealand that has led to research and analysis for a report about future opportunities for environmental innovation in New Zealand.
- Promoted the findings from the 'Innovation Challenge' to challenge business leaders to look beyond the business-as-usual horizon and towards longer term strategies fuelled by innovation and emerging technologies. The Innovation Challenge, an online discussion forum, helped a group of 100+ thought leaders form a collective vision about how the innovation system can help NZ achieve a best possible future. Follow on work has begun to develop several possible scenarios for Aotearoa in 2040. The scenarios will provide a narrative for various possible futures New Zealand could find itself in and will help New Zealand businesses understand the risks and opportunities associated with different future scenarios and develop more robust strategies.
- Published a report, "Growing the Pie", on successful innovation in New Zealand, to improve public understanding of what success looks like. Provided additional thought leadership with a series of articles and presentations from our experts providing insights in a variety of areas of interest to New Zealand businesses including technologies to watch for 2019, sustainable packaging, and artificial intelligence.

Our focus for the next quarter

- Develop the systems transformation programme to improve the access, tools, efficiency, and quality of data and deliverables to ultimately improve customer experience through reliable and insightful reporting.
- Completing and releasing two insights reports – an environmental innovation report and Aotearoa 2040 scenarios. These will be publicised in the media, and presented in conferences and business meetings.
- Continuing to work alongside our strategic partners to launch Techweek TV and deliver several sessions featuring our staff and customers including environmental innovation, industry 4.0, top technologies and megatrends, R&D and commercialisation.
- Starting our Industry 4.0 thought leadership programme. We will aim to answer the fundamental question whether companies that want to grow should intensify their efforts into Industry 4.0. Work this quarter will focus on defining what Industry 4.0 looks like in New Zealand as opposed to Industry 3.0, and research which sectors are growing (in terms of their adoption of Industry 4.0) and what the drivers are. As well as presenting at Techweek in May we will attend a top Industry 4.0 conference in Europe in June.

Fuel Demand

Be an exemplar for innovation and a voice for innovators. Showcase innovation as a pathway to success.

Our highlights this quarter

- In the development of the new RTS Strategy we have identified gaps in the current service offerings and continue to draw together the information from across the ecosystem and market. A second paper was presented to the Board in March with two scenarios for where Callaghan Innovation should focus its attention in the finalisation of the RTS Strategy. These scenarios covered support to early stage growth companies with strong global ambition, and supporting the more established businesses that could more afford to pay for science as a service. The ultimate strategy is likely to have a mix of both.
- Led a delegation of over 150 software as a service (SaaS) business executives, founders and entrepreneurs to the annual SaaStr conference in San Jose in February. The New Zealand mission represented around 85 SaaS firms, ranging from big, established players to start-ups. The focus of the event was on helping SaaS businesses to scale, with ambitious targets of \$100m in recurring revenue set for companies. Callaghan Innovation contributed an article to NZ Business magazine showcasing the outcomes from the conference.

Our focus for the next quarter

- Preparing and presenting recommendations for the new RTS strategy to the Board for approval in June.
- Organising Callaghan Innovation's annual two-day Southern SaaS event in Auckland in August. This event exclusively connects New Zealand SaaS business founders, leaders and executives with information and networks to help them to grow their businesses faster.

Connect the Ecosystem

Actively connect people, opportunities and networks. Collaborate to remove friction.

Our highlights this quarter

- Preparation for, and execution of, the official Scale-Up NZ platform launch event on Tuesday 16 April. The event was attended by approximately 200 industry, business and government representatives, as well as media and influencers. Since the launch event, over 450 new users have registered on the platform, bringing the total number of registered users to 1,140. There are now over 600 company profiles live on the platform.
- Vic Crone led a delegation of Crown research institute (CRI) chief executives to San Francisco. The focus of the trip was to look at emerging technologies and examples of research commercialisation best practice. The trip included visits to research organisations, innovation support organisation and innovative tech companies. An output of the trip will be a piece of work focussed on how the CRIs can play a better role in leading discussions around the opportunities of emerging tech for New Zealand.

Our focus for the next quarter

- Continuing the promotion of Scale-Up NZ through ongoing multi-channel campaigns to maintain momentum and engagement with the platform.
- Delivering, in collaboration with the University of Canterbury, the pilot Student Grants Roadshow on 9 April. The intention of the event is to foster collaboration and connections between businesses and the wider New Zealand research and innovation ecosystem and expose companies to the benefits of engaging students in their R&D programs. Talks from selected businesses about their experiences with Callaghan Innovation's Student Grants schemes are planned. If the pilot is successful, the roadshow will be rolled out to other universities across New Zealand.

Empower Innovators

Be a partner – offer the right service and funding at the right time for greatest impact.

Our highlights this quarter

- With the customer personas in place and showing evidence of effective use, we have started the Customer Journey project. The project has produced its first prototype which has been reviewed by internal and external stakeholders, including customers and non-customers of Callaghan Innovation, to ensure that the current hypothesis and proposed frameworks are valid. Results have been mainly positive with the challenging feedback helping ensure we understand what's required for the next phase of work.
- Worked with the Ministry of Business, Innovation and Employment (MBIE) and Inland Revenue to support the implementation the R&D Tax Incentive. This included working with Inland Revenue on designing the detailed aspects of how the incentive will be delivered and supporting the Finance and Expenditure Select Committee in its deliberations over the proposed R&D Tax Incentive legislation.
- Ran an RFP process for our Accelerator programme. Cabinet decisions were made on the future of the technology incubator programme, allowing us to begin developing the RFP process for appointing new technology incubator partners.

Our focus for the next quarter

- We will be validating the Customer Journey model, building the actual map itself and framing up tools that will make the tool tangible and fit for purpose in terms of understanding the Innovation, R&D eco-system.
- Continuing to collaborate with Inland Revenue on the detailed operational policy and design of the R&D Tax Incentive. We will also work with Inland Revenue and MBIE to refine the R&D Tax Incentive policy in regard to how loss-making businesses, and those with atypical corporate structures, are supported by the incentive.
- Opening of the technology incubator RFP and announcing the successful Accelerator partners. We will also be recruiting a new leader for the start-up team.

Build the critical foundations

Foundation initiatives to drive our ambition.

Our highlights this quarter




- Continued to progress our digital transformation including: selected our implementation partner for Google G Suite, upgraded and migrated our CRM to the cloud, completed the optimised network design for our Auckland office. We continued to develop our continuous improvement programme including increasing our cyber and physical security maturity and improvements to our OIA, Privacy Act, accounts payable and contractor recruitment processes.
- Continued construction of the new purpose-built facility for the Measurement Standards Laboratory (MSL). The roof was put on, exterior cladding was being fitted, and the design of the interior layout is close to completion with a tender issued for construction of the fit-out.
- Completed lease agreement for the Auckland relocation project (to move both existing sites to a new single site) and progressed the interior design of the new tenancy. The Engagement Group for this project has provided valuable input and feedback to the project.
- As part of the work to build our leadership pipeline, we have completed three quarters of the Emotional Intelligence programme, delivered a refreshed People Leaders forum to 70 staff members, and developed a leadership skills analysis process to assist Callaghan Innovation in identifying the critical leadership development needs of our leaders and target investment effectively in the next financial year.

Our focus for the next quarter

- Continuing our digital transformation by completing selection of an outsourced payroll solution and beginning the Discovery and Design phase of our Google G Suite implementation. This phase includes a number of optimisations to our network, identity management platform and mobile security solution. In parallel, we will define user requirements for our new data architecture, Grants platform and will define our overall strategy and approach for process optimisation; starting with a programme of work to map our current processes before kicking off a continuous improvement programme.
- Continuing to develop our leaders, including the completion of the 'Emotional Intelligence' and 'Storytelling at Work' programmes, the cascade of leadership skills assessments including leader-led, one to one coaching and development planning and identification of critical leadership development needs. We will also continue work on the FY19/20 leadership development plan including development programmes, leadership change readiness assessment and culture change programme integrations.
- Completing construction of the exterior of the MSL building and progressing construction of the interior fit-out. Starting construction of a new laboratory for the MSL Time Standard and accompanying improvements to the Café that is in close proximity.
- Preparing a business case to improve the capacity, safety and efficiency of operational workspaces for KiwiStar Optics and other tenants in the Robertson Building. We will continue the transition of all GIQ activity into the Managing Successful Programmes framework.
- Ongoing planning for the early-FY20 move of both Auckland-based Callaghan Innovation staff into a single premise that includes office space, laboratories and an innovation showcase.



Performance Measures

Callaghan Innovation Operations: Multi-Category Appropriation

Performance measure	2018/19 Performance standard	12 months to end Q3 FY 18/19	Status
Total number of organisations working with Callaghan Innovation on services this Financial Year	2600	2845	
Net Promoter Score of all surveyed customers	+60	+58	
Total number of organisations working with Callaghan Innovation and NZTE as a F700 customer	300	381	

Callaghan Innovation is focused on improving our customers' experience engaging with us. Detail is provided below on initiatives underway to improve our Net Promoter Score.


Category 1: Building Business Innovation

Performance measure	2018/19 Performance Standard	12 months to end Q3 FY 18/19	Status
Number of organisations working with Callaghan Innovation in the following services: <ul style="list-style-type: none"> • Programmes • Events • International Missions • Global expert 	1500	1336	
Net Promoter Score for Callaghan Innovation Services: <ul style="list-style-type: none"> • Programmes • Events • International Missions • Global expert 	50	+53	

Following a ten percent increase in the number of businesses we worked with in 2017/18, we are focused on deepening engagement with our customers who are increasingly using more than one of our services.




Our event activity has increased as our experiences become a platform to connect, communicate and strengthen our brand and reputation with customers and stakeholders. We are implementing a number of initiatives to drive an increase in our Net Promoter Score for our events, including an extensive events guide to support staff training (now in circulation), developing presentation training and tools for staff, investing in event management software, and providing more focused and effective event marketing and communications.


Category 2: Business Research and Development Contract Management

Performance measure	2018/19 Performance Standard	Progress to end of Q3	Status
Percentage of growth, project and student fellowship applications who have received a decision within 30 working days of receipt of the completed application	90%	70%	

Last quarter we received a significantly higher number of Student Experience Grant and Project Grant applications compared to previous years. The backlog this created, coupled with the Growth Grant application and extension scheme deadline of 31 March 2019, has continued to impact processing times this quarter. However, at the end of the quarter processing times were beginning to reduce and we are confident the processing times will continue to improve.



Category 3: Research and Development Services and Facilities for Business and Industry

Performance measure	2018/19 Performance Standard	Progress to end of Q3	Status
Total commercial revenue from Research and Technical Services (excluding commercial group)	\$8.9 million	\$5.9m	
Total commercial revenue for the Commercial Group (excluding Research and Technical Services)	\$12.6 million	\$12.2m	
Net Promoter Score from Research and Technical Services, services (excluding commercial group)	+60	+49	


Performance measure	2018/19 Performance Standard	12 months to end Q3 FY 18/19	Status
Number of New Zealand organisations with a research and technical service project this financial year (excluding commercial group)	175	246	

There is work underway to improve survey data collected from RTS customers that will provide more accurate measures of customer satisfaction. Additionally, the work underway by the Research and Technical Services (RTS) Group to develop its new strategy and reorganise its customer engagement process is expected to positively impact RTS' Net Promoter Score.

National Measurement Standards




Performance measure	2018/19 Performance Standard	Progress to end of Q3	Status
Provision of national measurements and standards and related services in accordance with statutory obligations under section 4 of the Measurement Standards Act 1992, reported annually to the Minister and accepted	Achieved	In progress	
All technical procedures related to the maintenance of national measurement standards (in accordance with the resolutions and recommendations of the Metre Convention) independently reviewed and validated, with all external review actions completed by 30 June 2018	Achieved	<p>In progress</p> <p>There were 101 technical procedures in validation on 1 April 2019 of which 3 were validated or revalidated during the three months from 31 December 2018 to 31 March 2019.</p> <p>IANZ carried out the annual surveillance audit of MSL from 5 – 7 March 2019. This was the first assessment of MSL against the new ISO/IEC 17025:2017 standard. The Laboratory was found to conform to the new standard. Our accreditation has been confirmed and updated schedules have been issued for Metrology & Calibration and Applied Physics Testing measurement capabilities. No conditions requiring further action arose from the surveillance audit.</p>	

Research and Development Growth Grants



Performance measure	2018/19 Performance Standard	12 Months to end Q3 FY 18/19	Status
Percentage of businesses receiving a Growth Grant that maintain or increase eligible R&D expenditure over the grant period ¹	70%	65%	

The result is assessed on R&D expenditure reported by customers in their financial year end reports. Customers have 6 months beyond the end of their financial year to file their report. Because the majority of Growth Grant customers' financial year ends March 31, the Q3 figure is based on a particularly small return of reports and is anticipated increase as further financial year end reports are filed over the next quarter.

Targeted Business Research and Development Funding

Performance measure	2018/19 Performance Standard	Progress to end of Q3	Status
Percentage of businesses completing research and development Project Grants that positively rate Callaghan Innovation's assistance as valuable in their final reports	80%	98%	
Percentage of surveyed recipients who would recommend the R&D Experience Grants to others ²	80%	Results will be available at year end	
Percentage stating that grant enabled them to improve or accelerate their research and development	90%	95%	

Repayable Grants for Start-ups

Performance measure	2018/19 Performance Standard	Progress to end of Q3	Status
Percentage of incubator contracts that are assessed as delivering as required (founder focused, and technology focused) ³	90%	Results will be available at year end	
Percentage of surveyed start-ups who agree that they have gained business or commercialisation skills due to working with the incubator/accelerator	60%	Results will be available at year end	

¹ This compares the average eligible quarterly R&D spend in the two years prior to the Growth Grant (the years used to enter the scheme) with the average eligible quarterly R&D spend during the Growth Grant period. Note: the wording about eligible R&D spend being maintained or increased has changed in the latest Ministerial direction. It was previously 'the business has maintained or increased non-government funded eligible R&D expenditure over the two years of the grant period as compared to the two years prior to the grant period'. It is currently 'has maintained or increased eligible R&D expenditure over the two years of the grant period as compared to the two years prior to the grant period'.

² Surveyed recipients are companies that found a student and students who identified as working on the company projects.

³ Callaghan Innovation will be assessing the contracts as meeting the reporting requirements which were agreed between us and the incubators

Financial Performance

Financial Summary

Key Financial Indicators to 31 March 2019

	Actual \$m	Budget \$m	Variance \$m
Group Surplus after non-operating items	3.9	(3.6)	7.5
Revenue	84.8	77.2	7.6
Expenses	81.8	81.4	(0.4)
Interest income and non-operating items	0.9	0.6	0.3
Cash and deposits	41.7	18.2	23.5

The operating surplus for the nine months ended 31 March 2019 was \$3.0m compared to a budgeted operating loss of (\$4.2m). After including non-operating items consisting of share of loss from Associate (\$0.0m) and interest income \$0.9m the Group Surplus for the nine month period is \$3.9m compared to the Group budgeted loss of \$(3.6)m.

Total revenue was higher than budget \$7.7m. The favourable revenue variance is due to favourable overseas commercial revenue \$4.6m, other income \$0.6m and the recategorisation of government funding from capex to revenue \$1.4m. Other income includes higher than budgeted insurance recoveries, \$0.3m. Overseas commercial revenue is favourable to budget due to work completed by Glycosyn for overseas clients including higher than planned Kifunensine overseas product sales.

The unfavourable expenditure variance of \$(0.4)m is due to Personnel \$(0.6)m mainly higher spend on contractors \$(1.0)m offset by salary savings \$1.4m and unbudgeted severance costs \$(0.5)m. Services and Contracts are unfavourable \$(1.3)m due to higher payments to external National Science Challenge and Biological Processing Alliance subcontractors \$(1.8)m (offset by higher Crown Contestable contracts and other revenue \$1.9m) and other costs \$0.8m favourable due to lower spend on strategic initiatives \$1.5m.

The cash balance at 31 March totalled \$41.7m which is \$23.5m higher than budget. The higher cash balance figure is due receipt of capital appropriation \$21.1m (not yet budgeted in nine months, 2019 budget \$10.0m), better than plan operating cash flow \$5.2m and year to date under spend on investing activities \$0.1m.

All output classes at 31 March 2019 were ahead of budget except Measurement Standards Laboratory which is expected to on budget by 30 June 2019.

Grants expenditure for the six months was \$139.3m. Full year (2019) planned grant expenditure is \$212.9m.

Interest income is \$0.3m ahead of budget reflecting higher than budgeted cash balances.

Statement of Comprehensive Revenue and Expenses

For the nine months ended 31 March 2019

Statement of revenue and expense				
For the nine months ended 31 March 2019				
\$000		Group		Full Year
Revenue	Actual	Budget	Variance	Budget
Crown operating:				
Crown funding other	1,413	-	1,413	-
Other departmental transfers	2,533	2,533	-	3,378
Callaghan Innovation Funding	22,500	22,500	-	30,000
Strategic Investment	13,892	13,892	-	18,523
Business R&D Grants administration	5,812	5,813	(1)	7,751
National Measurement Standards	5,302	5,312	(10)	7,069
Total Crown operating	51,452	50,050	1,402	66,721
Crown contestable contracts and other	11,495	9,521	1,974	12,487
Commercial revenue				
Domestic commercial	5,969	6,789	(820)	9,062
Overseas commercial	14,135	9,577	4,558	12,463
	20,104	16,366	3,738	21,525
Other income	1,812	1,238	574	2,420
Total revenue	84,863	77,175	7,688	103,153
Expenses				
Personnel	36,941	36,378	(563)	48,583
Services and contracts	17,066	15,773	(1,293)	24,792
Other costs	22,093	22,898	805	26,914
Depreciation	5,725	6,354	629	8,636
Total expenses	81,825	81,403	(422)	108,925
Operating surplus / (deficit)	3,038	(4,228)	7,266	(5,772)
Finance Income	(857)	(578)	279	(765)
Non operating items	12	-	(12)	-
Net surplus / (deficit)	3,883	(3,650)	7,533	(5,007)
The following grants funding and expenditure occurred in the nine months ended 31 March 2019:				
	\$000			
Grants funding from MBIE	139,289			
Grant expenditure	<u>(139,289)</u>			
Net impact	-			

Statement of financial position

As at 31 March 2019				
\$000	Actual	Group Budget	Variance	Full Year Budget
ASSETS				
Current assets*	115,074	99,688	15,386	93,793
Non-current assets				
Fixed Assets	53,580	66,829	(13,249)	72,234
Investment in associates	9,315	8,871	444	8,871
Total assets	177,969	175,388	2,581	174,898
Liabilities				
Current liabilities*	(80,098)	(93,903)	(13,805)	(94,770)
Non current liabilities:				
Non current employee entitlements	(309)	(423)	(114)	(423)
Total liabilities	(80,407)	(94,326)	(13,919)	(95,193)
Net assets	97,562	81,062	16,500	79,705

Statement of equity

As at 31 March 2019				
\$(000)	Actual	Group Budget	Variance	Full Year Budget
Equity				
Capital	93,679	84,712	8,967	84,712
Current year surplus (deficit)	3,883	(3,650)	7,533	(5,007)
Total equity	97,562	81,062	16,500	79,705

* includes the following estimated grants liability at 31 March 2019:

Current assets	
MBIE grants receivable	65,960
Current Liabilities	
Provision for grants payable	(65,960)

Statement of cash flow

For the nine months ended 31 March 2019				
\$000	Actual	Group Budget	Variance	Full Year Budget
Net cash flows from:				
Operating activities	4,637	(595)	5,232	2,518
Investing activities	(12,168)	(12,265)	97	(29,951)
Financing activities	21,152	-	21,152	10,000
Net increase / (decrease)	13,621	(12,860)	26,481	(17,433)
Add cash at start of period	28,061	31,016	(2,955)	31,016
Balance at end of period	41,682	18,156	23,526	13,583

Reconciliation: statement of service performance to statement of comprehensive income

For the nine months ended 31 March 2019				
\$000	Actual	Budget	Variance	Full Year Budget
Statement of service performance:				
Output class: Building Business Innovation	5,370	3,280	2,090	4,313
Output class: Research and Development Services	244	(4,202)	4,446	(5,610)
Output class: Business Research and Development Contract Management	(1,600)	(2,795)	1,195	(3,779)
Output class: National measurement standards	(13)	67	(80)	67
Total crown operating funding	4,001	(3,650)	7,651	(5,009)
Non operating items	(118)	-	(118)	2
	3,883	(3,650)	7,533	(5,007)

Appendices

R&D Grants Forecast

Please note that we are unable to provide an updated R&D Grants Forecast for this quarter (please refer to report for the second quarter ending 31 December 2018). With the forthcoming closure of the Growth Grant scheme in 2021 we are in the process of seeking updated grant spending forecasts from Growth Grant extension customers to map their forecast spend in line with their projected dates to transition to the R&D Tax Incentive. We will provide updated figures in the report for the fourth quarter ending 30 June 2019.

Repayable Grants Forecast

The Repayable Grants for Start-ups multi-year appropriation (MYA) totals \$33,530,000 over 2 years. \$27,992,000 for the 2017-19 MYA plus \$5,538,000 transferred from the 2015-17 MYA. The MYA runs from 1 July 2017 to 30 June 2019.

As at the end of March 2019 the appropriation was forecast to be underspent by approximately \$23m. Advice will be provided to the responsible Minister by MBIE on options for reprioritising this funding.

	21-month spend (to 31 March 19) \$	3-month forecast Apr-Jun 19 \$	2-year forecast (to 30 June 19) \$	2 year Budget (to 30 June 19) \$	Variance \$
Incubator Operational	5,932,000	307,500	6,240,000	7,112,000	872,000
Accelerators	1,125,000	550,000	1,675,000	1,500,000	(175,000)
Repayable Grants	478,724 ¹	1,800,000	2,278,724 ²	19,380,000	17,101,276
2016/17 Carry forward				5,538,000	5,538,000
Total	7,536,224	2,657,500	10,193,724	33,530,000	23,336,276³

Notes:

- 1: Cash paid for Repayable Grants over the 21-month period to 31 March 2019 was \$4,333,759 but the net payment of grants is lower due to the reversal of funds that were accrued for grants that were approved but never drawn down.
- 2: The forecast is based on the new repayable and pre-incubation grants that have been approved or submitted to Callaghan Innovation since 1 April 2019.
- 3: Estimated underspend for the 2017-19 MYA.

Measurement Standards Laboratory Report

Overview

- MSL held "Redefining How We Measure Our World" roadshow events in Dunedin and Christchurch to communicate the changes arising from the redefinition of the International System of Units (SI). There were 111 attendees at the two roadshow events and university talks.
- Commonwealth Gold medallist in the hammer throw, Julia Ratcliffe, filmed a [video](#) with MSL to promote the farewell to the kilogram and the SI Roadshows and we are holding a competition to guess how far Julia can throw the kilogram.
- MSL has recently launched a new Proficiency Testing service for testing and calibration laboratories. Proficiency Testing assesses a laboratory's performance at carrying out a specific test or measurements. MSL is running three proficiency tests this financial year covering temperature, humidity, and pipette measurements.

Financial performance

Measurement Standards Laboratory				
Statement of revenue and expense				
For the nine months ended 31 March 2019				
\$000	Group			Full Year
Revenue	Actual	Budget	Variance	Budget
Crown operating:				
Strategic Investment	100	100	-	133
National Measurement Standards	5,302	5,312	(10)	7,069
Total Crown operating	5,402	5,412	(10)	7,202
Commercial revenue				
Domestic commercial	374	421	(47)	562
Overseas commercial	60	40	20	53
	434	461	(27)	615
Other income	30	11	19	15
Total revenue	5,866	5,884	(18)	7,832
Expenses				
Personnel	2,981	3,177	196	4,248
Services and contracts	230	277	47	369
Other costs	317	234	(83)	312
Depreciation	487	576	89	800
Total expenses	4,015	4,264	249	5,729
Operating surplus	1,851	1,620	231	2,103
Indirect expenses	1,737	1,453	(284)	1,903
Net surplus	114	167	(53)	200

- MSL is running a small surplus for the year mainly driven by an underspend in personnel costs, which will reduce later in the year due to other planned expenditure.

Use of the MSL capital appropriation

- \$812,204 of capital expenditure has been approved against the full-year appropriation of \$1.152 million.

MSL's outputs

- 23 calibration jobs were delivered to customers.
- 7 IANZ assessments of external laboratories were carried out by MSL staff.
- 16 course participants received measurement training from MSL
- Measurement standards were recalibrated for optical flats, gauge blocks (Length Standards) and primary trap detectors (Light Standards).

International acceptance of New Zealand's Measurement System

- MSL had a successful outcome during its annual IANZ surveillance audit from 5-7 March. MSL received no Corrective Action Requests or strong recommendations and MSL is fully compliant with the new standard 17025:2018.
- MSL currently has several collaborative projects underway with the National Measurement Institute of Australia (NMIA) under the Australia New Zealand Science Research and Innovation Cooperation Agreement. This quarter, a Lights Standards scientist visited NMIA to calibrate our primary scales in optical power and compare methods for photobiological safety testing of light sources like LEDs and lasers. An MSL Pressure Technician also worked with NMIA to get hands on experience of their advanced cross-float techniques for comparing pressure balances, and to develop his skills in data analysis.

Actions to address resilience of MSL

- Construction of the building envelope for the new MSL building is underway. Consent has been sought and a tender released for construction of the building interior.
- The Temperature Standards laboratory has now reopened in the McKay Building, and the Electricity, Time and Radiofrequency laboratories are likely to be closed until early April while asbestos removal work is completed, and the utilities are reconnected.



Kilogram to Kibble Exhibit at Otago Museum as part of MSL's Redefining How We Measure Our World event

Gracefield Innovation Quarter Report

Q3 2018/19 saw us continue to build on the momentum created in the second quarter, including:

- Focus remained on Programme Organisation (first governance theme of the MSP framework) and improving process and capability to deliver the programme.
- Construction of the new purpose-built facility for the Measurement Standards Laboratory (MSL) is progressing well. The roof is on, and exterior cladding is being fitted and the design of the interior layout is nearing completion with a tender issued for construction of the fit-out. Engagement with MSL to refine requirements and design details has been positive.
- Asbestos remediation work has been completed for the operational areas of the old McKay Building.
- Development of businesses cases for the new MSL Time Lab and main Café upgrade are in progress.
- Project to install the new gantry crane for KiwiStar including logistics to clear a critical production space has started. This is due for completion by 30 June.
- Remedial work has begun on KiwiStar Optics workspace to improve efficiency and safety of its operations, with requirements and options analysis underway.
- Project manager, planning and design, and contractor roles have been appointed.

Work continued in response to December's fire in the A block research building with focus on improving the temporary accommodation arrangements for the former occupants of the building. Next steps recommendations for the repair of the damaged A block are being assessed and expected to go to the board for approval next quarter.

Our focus next quarter:

- Continuing the adoption of the Managing Successful Programmes (MSP) programme management framework and Prince2 Project Management methodology.
- Starting GIQ programme work on the four MSP governance themes from Vision through to Blueprint Delivery and Design.
- Initial prioritisation and business cases for deferred maintenance projects.
- Project planning for site infrastructure improvements.
- Recruiting for:
 - An executive to manage development of the strategy for the site and delivery of the GIQ Development Programme
 - Additional project managers
- Supporting onboarding of the new board member, Angela Bull, who has been appointed to provide the board with property development expertise.
- To complement the board
- Developing plans for longer-term accommodation solutions to restore workspaces destroyed in the fire.

Financial Performance

- We are improving project forecasting processes and actively managing projects within available programme budgets.
- The initial funding of \$20m for the GIQ Tactical Estates Programme enables work to start – prioritised to deferred maintenance works.

A breakdown of forecast expenditure against our externally funded investments is available on the following page.

Section 9(2)(b)(ii)