

Q2_FY20

Quarter.

Callaghan Innovation
Quarterly Report to the
Minister of Research, Science,
and Innovation

For the second quarter
ending 31 December 2020

Responding to a once-in-a-lifetime challenge

In this quarter

**Successful delivery of COVID-19
support package**

**Increased demand for innovation
support services**

**Moving beyond COVID-19 –
Strategy refresh**

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Overview of the Quarter

Last quarter, we shared our Callaghan Innovation 2020/21 plan. Following the impacts of COVID-19, in April 2020 we put in place a 2020/21 Transitional Strategy to support customers and the economic recovery. It has been a busy half year with very good progress in our customer facing services as well as our transformation programmes.

Overall we are on track to deliver on our planned work programme and meet agreed performance expectations for the year. Our COVID-19 specific initiatives such as the short-term R&D loan have been delivered successfully and are starting to wind down. Another key focus for us this quarter has been working with MBIE and IRD to ensure the intended outcomes from the R&D tax incentive are realised.

This year, we are undertaking a long term strategy refresh. For the first time, we are forming a new 20 year view of what the organisation might look like, which will set us up better for the future (more information about this is located in the 'Building critical foundations section of this report). The work has shown that our current five year strategy (adopted in 2018) is directionally correct. The work to update our business and operating models will be reflected in the final strategy.

The strategy is scheduled to be provided to the Board and Ministers in March/April 2021 for approval. This will enable us to form a clear operational plan in the June quarter for the 2021/22 year to support our delivery and performance. The work from these workstreams will be reflected in the Statement of Intent, Statement of Performance Expectations and other key accountability documents.

We are continuing to closely manage key risks identified in the last quarter (health and safety and funding risks due to COVID-19), while also actively managing emerging risks associated with implementing the R&D Tax Incentive scheme.

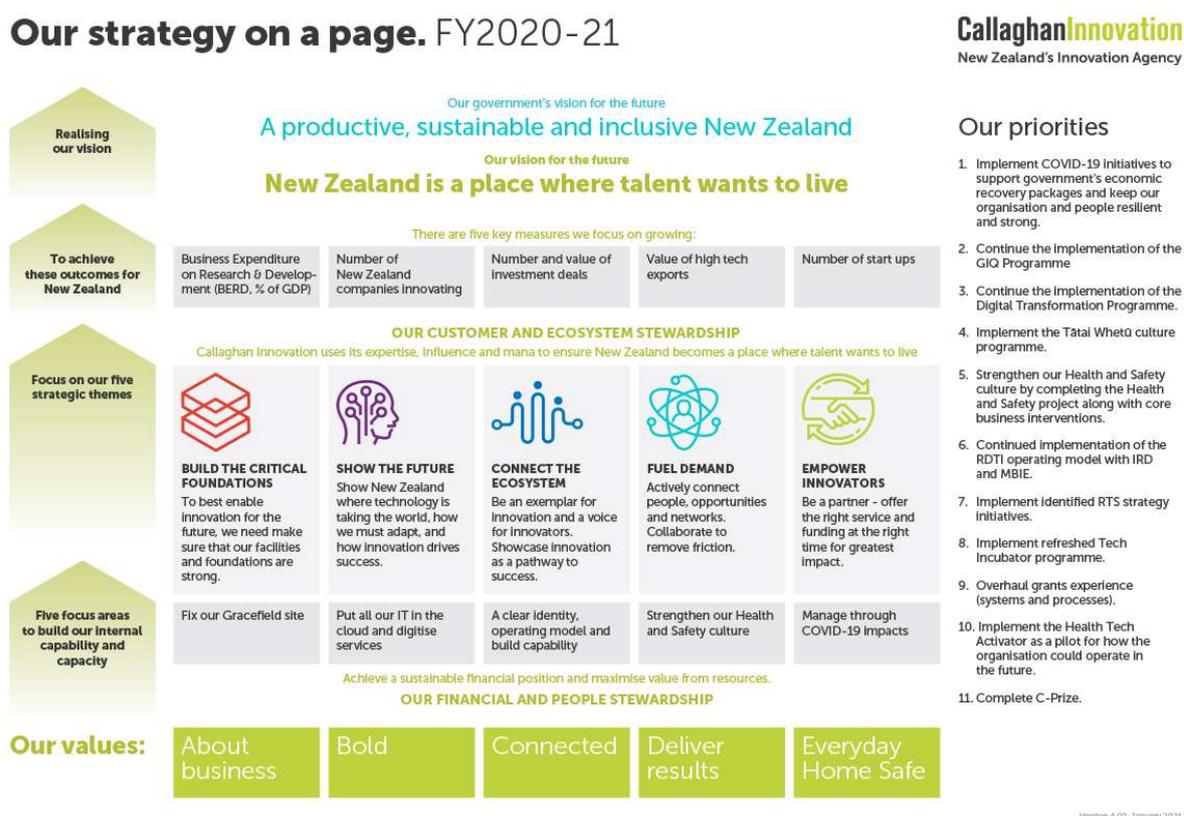
There is continued growth in demand for R&D grants and loans which has been challenging to manage given fiscal constraints in these funds. The high demand for R&D support provides exciting opportunities for New Zealand's economic recovery and future growth. We are working with MBIE and our Board to understand potential unmet demand and how to best respond to the opportunity that is emerging. To address immediate pressures for R&D grants we will be seeking approval, as part of the March 2021 baseline update, to transfer \$25 million from the Research and Development Growth Grants appropriation to the Targeted Business Research and Development Funding appropriation.

Introduction

This report provides a summary of progress made in the December quarter against:

- Priorities identified by the Minister for Research, Science and Innovation as set out in the Minister's letter of expectations for 2020/21
- Callaghan Innovation's Strategic Plan for 2020/21
- Callaghan Innovations Statement of Service Expectations (SPE) for 2020/21.

Figure 1: Callaghan Innovation FY 2020/21 Strategic Plan



Our update for the quarter is organised into eight sections:

1. **Supporting businesses to recover from COVID-19** - This section covers initiatives and actions that have been implemented in response to COVID-19 such as the short-term repayable R&D loan scheme.
2. **Continuing to invest in growing the R&D pipeline** - This section covers the R&D grants and the work to improve the R&D Tax Incentive operating model.
3. **Strengthening the innovation ecosystem** - This section covers key initiatives (identified in our strategy) aimed at growing the capability of high value/high growth sectors.
4. **Building critical foundations** - This section details progress towards becoming an exemplar innovation agency.

5. **Empowering innovators** - This section covers the support and services that Callaghan Innovation provides clients to help them to develop and commercialise their research.
6. **Organisational performance** - This section provides a summary of Callaghan Innovation's operational performance.
7. **Enterprise risks** - This section identifies key risks that are being managed by Callaghan Innovation.
8. **Appendices** - This section contains additional information about key projects such as the Gracefield Innovation Quarter Programme and detailed financial statements.

Supporting businesses to recover from COVID-19

Callaghan Innovation is playing a key part in the Government's economic response to COVID-19. This section provides an update on COVID-19 initiatives that Callaghan is either leading or has a significant implementation role in.

Short-term R&D Loan scheme

Reduced or slowed expenditure on R&D programmes was identified as a particular risk facing New Zealand's economic recovery, because businesses with reduced incomes are more likely to divert tagged R&D funding to address urgent or short term needs.

In response to this risk, Callaghan Innovation was tasked with implementing a short-term R&D loan scheme to enable R&D performing businesses impacted by the COVID-19 pandemic to maintain R&D activity in the 2020/21 financial year. It was intended to supplement or replace private sources of funds that are temporarily reduced or unavailable because of the impact of COVID-19.

Progress made this quarter

The application and approval phase of the R&D loan is well underway, with 91.7% (\$136.67m) of the \$149 million paid as at 31 December 2020. Based on this, we are expecting the scheme to be closed by 31 March 2021. The performance measure and target for the loan process had been designed based on the expectation that the majority of applications would go through a fast track assessment (i.e. Callaghan Innovation customers with recent Project and Growth Grants). The wording for the measure will be updated (as part of the Supplementary Estimates process) to make it clear that the measure relates to fast track applicants.

The proportion of fast vs full application customers (i.e. new customers who require support to complete the application process) was higher than expected. As at 31 December, 85% of fast track customers received a decision within four weeks of lodging their application. If we include full application customers the result reduces to 63% of applicants receiving a decision within four weeks of their application being received.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Callaghan Innovation - Operations appropriation					
Percentage of applicants that have been provided with a decision within 4 weeks of their application being received	N/A	80%	To be measured in Q2	85%	

Highlights for the quarter include:

- In line with the agreed assurance programme an independent review of the application assessment and approval process was completed, and resulted in no

significant issues being identified.

- The Assurance Framework was developed this quarter and will be applied next quarter. This Framework will enable monitoring of ongoing compliance of loan recipients against the requirements set out in the Ministerial Direction.
- The transition of the R&D Loan scheme to core operations is 90% complete, with the majority of required processes and resources in place.
- We have continued to collect data on any unmet demand for R&D support to feed into policy development about further COVID-19 R&D support measures.

Focus for Q3:

- Complete the approval and payment of remaining loan funds, anticipating the close of the scheme prior to 31 March 2021.
- Application of the Assurance Framework is initiated across all loan recipients.
- Completion of the transition to core operations.
- Continuation of data collection through the Customer Pulse Survey and the Expression of Interest form.

Successful delivery of other COVID-19 initiatives

In addition to the short-term R&D loan scheme, Callaghan Innovation has continued implementing three other initiatives aimed at supporting businesses to invest in R&D activity despite COVID-19 disruptions.

Booster Voucher Scheme and Startup system enablers

This quarter we completed the delivery of the Booster Voucher Scheme and Startup system enablers fund. The booster vouchers were issued to businesses across eight sectors and equated to an estimated \$2m worth of business activity to support stabilisation and growth for R&D performing customers. The successful uptake of the booster vouchers has resulted in an additional 186 providers being onboarded to the Callaghan Innovation partner network to service demand.

The objective of the Startup system enablers fund was to provide support for incubators and investors whose sponsorship had been affected by COVID-19. This fund has enabled them to continue supporting development and growth of early stage ventures in New Zealand. As at 31 December 2020, the fund has been fully allocated.

Customer feedback for both initiatives has been very positive. The University of Waikato recommended further rounds of vouchers because *"they provide a valuable chance to get new high-innovation R&D activities off the ground that would otherwise not be explored."*

RTS Co-funded Services

As part of our response effort, a co-funded services arrangement was established with MBIE to support customers who had been unable to further their programme of work with Callaghan Innovation due to COVID-19.

The team targeted 94 customers across eight sectors to identify their requirements and progress access to the necessary services. Thirteen companies received co-funded services in the December quarter.

During the early stages of this activity it was realised that the process to progress customers through to contract would take longer than expected due to additional effort required to re-scope projects for the new market landscape. We therefore sought, and were granted, an extension to provide co-funded services from 30 September 2020 to 30 June 2021.

The clarification that the fund can be used in conjunction with R&D grants, has assisted in ensuring accessibility for businesses in need.

Focus for Q3:

- **Booster Voucher Scheme:** Completing final administrative activities and commencing the closure process, including assessment of benefits and lessons learned.
- **Startup system enablers:** Continue to work with the incubators and investors to monitor ongoing requirements.
- **RTS Co-funded Services:** Continue to work with customers to ensure they are accessing the services they need.

Continuing to invest in growing the R&D Pipeline

Callaghan Innovation administers a number of incentive programmes aimed at encouraging businesses and entrepreneurs to invest in R&D. Supporting innovation by lowering barriers and reducing some of the risks associated with R&D activity is important in enabling New Zealand to grow high value, globally relevant companies.

This section provides an update on the work to improve the R&D Tax Incentive operating model and the R&D grants schemes administered by Callaghan Innovation.

Improving the R&D Tax Incentive Operating Model

The R&D Tax Incentive (RDTI) is the Government's flagship R&D programme. It is designed to encourage a wide range of businesses to undertake more R&D, which will in turn grow New Zealand's knowledge economy.

Progress made this quarter

This quarter we have continued to work with IRD and MBIE to improve the RDTI and increase its uptake. This included focusing on the 'declines' review to assess the accuracy and

consistency of Callaghan Innovation's assessment of RDTI applications against the guidelines and legislation. The review found that Callaghan Innovation was correctly applying the guidelines and legislation. It also provided an opportunity to learn more about the customer experience and how to improve this, including better support for businesses at the beginning of the engagement process by having customer engagement specialists and our Primary Relationship Managers supporting customers through the process. We have also focused on increasing customer awareness, knowledge and engagement with RDTI this quarter.

Customer education and engagement

The first tranche of Growth Grant contracts ended on 31 December 2020 and supporting the smooth transition of those that are eligible R&D performers onto the RDTI has been a major focus for the RDTI team.

Key achievements in the quarter include:

- Relationship managers engaging with 200 (of the 329) Growth Grant customers prior to Christmas. Customers were provided with information about transitioning to the RDTI, and feedback was captured regarding their current stage of consideration of the RDTI.
- The signing of an information sharing MOU with IRD which will enable relationship managers to be more proactive in supporting customers through the RDTI process by notifying them when an application has been made. We are working with IRD to see how we can get additional access to better support customers.
- Delivering the first of two planned RDTI webinars for Growth Grant customers on 3 December - attracting 110 participants.
- To support the RDTI transition for software businesses, the RDTI core team engaged in a series of discussions with NZ Tech and digital businesses including Vend, Vista, Xero, Avertana, Raygun and Orion Healthcare.
- An RDTI presentation for 13 Wellington-based Southern Software as a Service (SaaS) companies in December 2020 and an RDTI workshop (attended by 30 participants) was delivered at our Southern SaaS event on 16 November 2020.
- Increased utilisation of the RDTI Hub with the total number of Hub subscribers reaching 1,152 or 77% of the way toward achieving our target of 1,500 RDTI Hub subscribers by the end of FY20/21. Over the Q2 period, there were 9,618 user sessions recorded on the RDTI Hub and 1,133 downloads of the How-To guides. Engagement with the RDTI Hub content remains high with a 14% engagement rate recorded for the quarter - exceeding our target of 10.3% .

RDTI capability and governance

The capability of the RDTI core team is growing with the recruitment of two R&D specialists with capability in the fields of mechanical engineering, mechatronics, high-tech manufacturing and bio-tech and a dedicated engagement specialist for RDTI.

This quarter we signed the tripartite MOU with MBIE and IRD, setting clear expectations regarding the governance structure, roles and responsibilities for the RDTI. We supported MBIE to implement the findings from the PwC review, including initiating a review of declined RDTI applications. This is on track for completion in February 2021.

Focus for Q3:

Customer education and engagement

- Execute the engagement plan for the remaining 143 Growth Grant customers with contracts ending on 31 March 2021.
- Delivery of the second RDTI webinar for Growth Grant customers on 4 February (for which we currently have 140 registrations) and a public RDTI webinar on 24 February. Other promotional events and webinars to be organised depending on demand.
- Continue to develop new RDTI Hub content including delivery of a new How-To Guide for Significant Performers, new detailed Year 2 claim process information, R&D activity eligibility examples, and an expanded FAQs section.
- Engagement with the remaining Callaghan Innovation managed customer base that are non-Growth Grant customers (approximately 2,600 at time of writing).
- Engage with Q3 priority Industry Stakeholder Groups including Angel Association, Institute of Directors, NZ Rise, ITP, Research Association of NZ, NZ Manufacturing Association; follow up Q2 engagements with NZ Tech (subject to stakeholder engagement manager availability).
- Develop RDTI toolkit resources to support interactions between frontline staff (relationship managers and RBPs) and customers. Resources include: an RDTI Assessment Matrix, Growth Grant vs RDTI comparison table, and support materials to assist in the completion of the Supplementary Return form.

Process improvements

- Complete the review of declined applications and work with MBIE and IRD to implement the findings of the review.
- Continue to provide support and input for the development and testing of the RDTI tool. Key design and testing activities are occurring in Q3.
- Initiate a review of processes to improve customer experience for RDTI applications.

Operations and recruitment

- Processing the increased volumes of applications expected as the end of the 2020/21 tax year approaches.
- Further recruitment for R&D specialists and engagement specialist roles.
- Support the release of phase 1 eLearning modules to upskill Callaghan Innovation staff on the RDTI.

Project and Student Grants

Overall performance for the Project and Student Grants is tracking well and either achieving or on track to achieve the target for the year.

Strong demand has continued for Project and Student Grants and will need to be carefully managed to remain within appropriation limits. The Board has agreed to maintain the current settings for the grant appropriation, to ensure continued support for customers through the COVID-19 recovery period. This will be closely monitored to assess if changes to operational settings are required to manage demand.

In line with the approach agreed with the Minister in late 2020, The forecast surplus in the Growth Grant scheme will be used to cover excess demand. We will be seeking a fiscally neutral transfer, as part of the March 2021 baseline update, of \$25 million from the Research

and Development Growth Grants appropriation to the Targeted Business Research and Development Funding appropriation.

We will continue to work with MBIE on settings for this appropriation from July 2022 onwards, once it becomes annual.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Targeted business research and development appropriation					
Number of active Project Grants this financial year	576	570	452	463	
Net Promoter Score from Project Grants recipients	+74	+70	+80	+78	
Percentage of Project Grant recipients who perceived that the grant- funded project:					
• Had an overall positive impact on their business	93%	95%	94%	95%	
• Increased knowledge acquisition	91%	85%	89%	92%	
• Improved business productivity	89%	85%	84%	86%	
Net Promoter Score from Experience Grants recipients	+93	+70	+91	+91	
Callaghan Innovation - Operations appropriation					
Number of new Project and Student grant applications received during the financial year	968	700	1,265	1,286	
Percentage of Project and Student grant applications who have received a decision within 30 working days of receipt of the completed application	89%	90%	94%	95%	

Growth Grants

The Growth Grants scheme is closed to new applicants, and finishes in March 2021 (with claims possible up to September 2021). Work has started on defining requirements for closing the Growth Grant scheme after its end date of 31 March 2021. Final claims are due by 30 September 2021.

A \$10m transfer to the Project/Student Grants appropriation was confirmed in the 2020 October Baseline Update to address some of the high demand in the latter. We are working closely with customers to ensure claims are lodged as soon as possible to ensure we have clarity on the remaining surplus available.

The performance measure for Growth Grants has been exceeded, with 85% of businesses who received a Growth Grant maintaining or increasing their R&D expenditure over the grant period (compared with the target of 70%).

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Business Research and Development appropriation					
Percentage of businesses receiving a Growth Grant that maintain or increase eligible R&D expenditure over the grant period	89%	70%	87%	85%	

Building critical foundations

Callaghan Innovation has embarked on a transformation journey to become an exemplar innovation agency. The transformation work programme will modernise the way Callaghan Innovation operates and increase the capability of its technology, systems, processes and buildings and facilities so that it can more effectively support the customers and broader innovation ecosystem.

This section provides an update on the progress on the draft 20 year strategy, and key transformation initiatives such as the implementation of the Research Development Solutions strategy (previously named Research Technical Services Strategy) and the redevelopment of the Gracefield Innovation Quarter (GIQ).

Strategy update

On November 26 2020, we took our draft 20 year view “Helping New Zealand build back better” to the Board. In that report we discuss 2040 scenarios for Aotearoa and Callaghan Innovation's future role. We look at the roles that position us for the future, and implications for our services and positioning. We have formed this initial view and insight with our organisation, ecosystem partners, and key clients. The report was well received by our Board. We are now developing our organisational strategy for Board/Ministerial approval in March / April.

Based on extensive insight and research (future horizons, economic and international innovation agency good practice), we formed scenarios and three potential future roles for Callaghan, its servicing and positioning:

1. Greater focus on frontier ventures
2. Mission-led approaches partnering across Government and business and
3. Ways to support system optimisation.

To transform to these long term states requires shifts in policy, funding and more system maturity.

We have already outlined in our 'Briefing to the Minister' actions informed by this long term view such as our Vision for Gracefield Innovation Quarter - to make it a vibrant, supportive and connected innovation community. We noted our invitation to the rest of government is for other agencies to come along on our innovation journey towards becoming an exemplar innovation agency.

From here we will use our long term 20 year view to inform Callaghan Innovation's organisational strategy, 2020/22 plan and budget, Statement of Intent and Statement of Performance Expectations. These will be provided to the Board and Minister for approval in April/June 2021.

Focus for Q3:

- Draft final reporting to the Board on our 20 year view, organisation plan and budget.

Implementation of the Research Development Solutions (RDS) Strategy (previously named Research and Technical Services Strategy)

Our RDS group helps businesses to innovate and commercialise through support for design, product development, prototyping and R&D. The RDS strategy targets high impact innovators and aims to increase the group's impact by:

- Completing the review of our pricing model and pilot improvements.
- Investigating ways to better support industry R&D to prototype, pilot and scale innovative technological ideas.
- Developing a pilot in the biotech hub space as a lighthouse concept of how the future of RDS and the GIQ site could work as an integrated community.

Progress made this quarter

We have continued to track well against our service delivery performance measures this quarter but making slower progress on developing the new commercial model for frontier firms.

This quarter we conducted an extensive analysis of pricing options that would drive/enable a higher uptake of RDS services by frontier firms. Co-funding was identified as the best fit-for-purpose pricing model to reduce barriers for Frontier Firm engagement. The Callaghan Innovation Board approved a pilot program to test co-funded RDS services with Frontier Firms for a fixed time period.

We are currently conducting this pilot under the COVID-19 Project until the end of June 2021 at which stage impact and lessons will be assessed and recommendations for the 2021/22 financial year will be developed. More information about the pilot is located in the 'Supporting businesses to recover from COVID-19' section of this report.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Callaghan Innovation - Operations appropriation					
Number of customers with a Research and Technical Service project this financial year	256	216-264	245	282	
Net Promoter Score from Research and Technical Services	+47	+40	+57	+60	
2020/21 SPE - RTS Strategy					
Deliver and implement a new commercial operating model that supports high-impact 'frontier firms' and established R&D players, while sustaining revenues	N/A	Achieved	Delayed	Achieved	

Implementing the Gracefield Innovation Quarter Programme

The Gracefield Innovation Quarter (GIQ) Programme is focused on developing a thriving innovation community that supports the innovators who will reshape our economy, society and the environment. The first stage of investment is for a four year programme of work to build the foundations for future development.

Progress made this quarter

This quarter we have continued to make good progress on the GIQ programme of work and (with the exception of the demolition of four onsite structures) we are on track to achieve the programme milestones for the 2020/21 financial year.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
2020/21 SPE - GIQ Programme					
GIQ Strategic Services Programme Business Case complete	N/A	Achieved	On track	On track	
Sitewide Masterplan complete	N/A	Achieved	On track	On track	
Biotech Hub Indicative Business Case complete	N/A	Achieved	On track	On track	
Demolition of four structures onsite	N/A	Achieved	Delayed	Delayed	
Construction of a hazardous goods facility commenced	N/A	Achieved	On track	Delayed	
Construction of flexible office accommodation commenced	N/A	Achieved	On track	Delayed	

Detailed reporting about the GIQ programme and its activities for the December quarter are located in the appendix. Some highlights from the quarter are summarised below:

- Completed demolition of B Block Bunkers over the Christmas period. This marks the start of the demolition project that will be completed by 2022.
- Approval of the Detailed Business Case for the Heating, Ventilation, and Air Conditioning replacement (HVAC) project and Indicative Business Cases for Tranche 3 projects (Hazardous Goods and Site Wide Infrastructure) and Tranche 4 projects (Flexible Offices and Flexible Laboratories).
- Continued construction of the GlycoSyn re-roofing project, a new laboratory for MSL's Time and Radio Frequency Teams, and the refurbishment of the Microfabrication Cleanroom facility.
- Started to implement Gateway Review recommendations, including a reorganisation of the GIQ Programme team to ensure it meets the evolving demands of the Programme moving forward.
- Undertook extensive internal and external engagement on the initial ideas and concepts for the GIQ Sitewide Masterplan.

Focus for Q3:

- Commence delivery of the HVAC Maintenance and Replacement project that will stabilise existing staff and tenant accommodations and improve safety and resilience across the site. This work is expected to take six months to complete with an expected completion date of August 2021.
- Engage external consultants and contractors to commence design work on a number of projects. This includes the Hazardous Goods project, Site Wide Infrastructure project, Flexible Offices project, and the Flexible Laboratory project. The design work will inform a Detailed Business Case for each project.
- Work closely with the Biotechnology Hub Working Group to continue discussions with stakeholders and progress work to draft an Indicative Business Case by mid-2021.
- Commence engagement with strategic stakeholders as part of work to develop a Strategic Programme Business Case.

Digital Transformation Programme (including Hiwa-i-te-rangi - Enhancing the Grants Experience (systems and process))

The digital programme transitions old IT infrastructure into modern cloud based services that will ready us to create and enable digital experiences that strengthen collaboration, accessibility and innovation across our ecosystem. It will reduce the need for future large scale upgrades and will position Callaghan Innovation to take advantage of technology capabilities like automation and machine learning in the future. The programme also includes the Hiwa-i-te-rangi - Enhancing the Grants Experience (systems and process) project.

Progress made this quarter

We are tracking well against the programme milestones for the year. This quarter we were able to appoint a vendor (AC3) for the Data Integration Platform project. In terms of the Network Optimisation project we are near completion for the internet service provider, Gracefield Diversity (cabling) and WiFi work streams. We have made good progress on other parts of the programme and are on track with procurement, supply chain and HSE.

Last quarter we selected a vendor for the new replacement grants platform and have been working hard with both the vendor and the Research and Development Tax Incentive (RDTI) core team to develop an RDTI assessment and recommendation platform which, when implemented, will result in a more streamlined assessment process and improved reporting. A minimum viable product is expected to be delivered by March 2021, in time to support the team for the expected year end assessment peak in March – September 2021.

Once the RDTI platform has been implemented, the Hiwa-i-te-rangi Project team will continue development of the Grants specific functionality within the platform. A more detailed update on progress of the Grants platform will be provided in the Q3 report.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
2020/21 SPE - Digital Transformation Programme					
Data Integration Platform: Implement new data integration and architecture platform	N/A	Achieved	Achieved	Achieved	
Network Optimisation: Upgrades to the Digital Network, including system updates, enhanced security, removal of single points of failure, and removal of unnecessary complexity and costs	N/A	Achieved	Achieved	Achieved	
Hiwa-i-te-rangi: Deliver new grants platform	N/A	Achieved	On track	On track	

Other highlights from the quarter include:

- **G-Suite Meeting rooms:** 80% of the meeting room hardware installation was completed this quarter.
- **EDI (SharePoint) replacement:** Project initiation completed. RFP successfully completed. Vendor selected for the electronic document and records management system, vendor selection underway for intranet.
- **Iho Matihiko (Website consolidation):** Completion of Technical Discovery stage and creation and approval of business case for Technical Development and Launch of Platforms.
- **Cloud Adoption Strategy:** We have embarked on a journey addressing a cloud adoption framework and strategy that will set us up for an easy transition to business as

usual as we deliver new products and services. The Programme is working to finalise a schedule of work to reflect the changes in scope based on the initial findings reported at the end of FY20.

- **Security Tools Upgrade Project:** The purpose of this project is to establish core information and cyber security tools to provide visibility of Callaghan Innovation's application and cloud services to enable the application, monitoring and enforcement of security policies and to equip our security specialists with the tools to efficiently respond to security vulnerabilities and events. Planning has been completed.

Focus for Q3:

- **G-Suite Meeting rooms:** Continue the fitout of G-Suite in the Christchurch Sheffield Crescent Office, Alan MacDiarmid Centre at Gracefield, and the Wellington, Asteron Building office meeting rooms and support for staff on how to use these.
- **Data Integration Platform:** The discovery and design phase for the Data Integration Platform project will span January and February with the intent to start the agile build of Integrations in March from a prioritised backlog.
- **EDI (SharePoint) replacement:** Confirm suppliers for intranet. Commence designing activities required for consolidation and implementation around business requirements.
- **Iho Matihiko:** Complete Design and Build activities and plan a Content Creation business case for Iho Matihiko. Design and procurement activities are in flight with development activities planned to start in April.
- **Network Optimisation:** Complete Stage 1 of the network optimisation project.
- **Security Tools Upgrade:** Project to kick off in January. The project will enable a range of security enhancements to provide greater real time security threats to our digital infrastructure.

Tātai Whetū Programme

The purpose of this programme is to focus on how we do things at Callaghan Innovation and deliver on our aspirations for how we want to work together to drive innovation across the ecosystem. It includes projects aimed at developing a new operating model, embedding design thinking and customer experience consistently in our services, embedding the values and characteristics of an exemplary Treaty partner, improving the way we manage change, and creating a unified approach to risk management.

Progress made this quarter

This quarter we are on track to achieve our programme milestones for the year. The 'defining our role as a Treaty partner' and 'embed new risk culture' measures are currently shown as 'off track' for the quarter, but on track for the year.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
2020/21 SPE - Tātai Whetū Programme					
Embed new Operating Model and associated processes	N/A	Achieved	On track	On Track	
Deliver Shared Vision, Values, and Identity	N/A	Achieved	On track	On Track	
Embed new Risk Culture in Callaghan Innovation	N/A	Achieved	On track	Off Track	
2020/21 SPE - Māori Economy					
Defining our role as Treaty partner	N/A	Achieved	On track	Off Track	

Highlights from the quarter include:

- Approved and commenced the detail design work for our new Operating Model.
- Continued work on the Service and Process work streams to design and deliver an improved Customer Experience.
- Initiated a project to identify a new set of organisational behaviours and identified a long list of behaviours.
- Continuing work to embed our risk framework into the organisation with a series of risk workshops held with key stakeholders.
- Launched the organisational vision to be a place where talent wants to live at the all staff Callaghan Innovation day.

Focus for Q3:

- Detailed design of six design layers of the new operating model including Governance, Performance insights and data, Technology, Process, People and Service delivery model.
- Completing the Customer Engagement Framework (supported by the Customer Engagement Process and Business Requirements) to provide customers with a digital front door and pathway to consistently engage with Callaghan Innovation and access our products and services.
- Commencing a project to focus on how Callaghan Innovation will identify and embed the values and characteristics of an exemplary treaty partner.
- Organisational wide engagement to define the critically important behaviours for us as an organisation.

HomeSafe Programme

The focus of the programme is to improve health and safety risk management throughout Callaghan Innovation and those we work with. Managing critical risks, building leadership at all levels and improving incident management are key areas of work. The programme will

also help to ensure Callaghan Innovation's ongoing compliance with its regulatory health and safety obligations and responsibilities.

Progress made this quarter

This quarter we continued to progress our HomeSafe Programme of work and continued to work with WorkSafe New Zealand to ensure continued improvement of our approach to risk management, and to ensure our obligations and responsibilities are being met. Callaghan Innovation's Board, Chief Executive, and Programme Senior Responsible Owner have been closely monitoring progress and have been engaging with WorkSafe to ensure they are across key implementation risks and issues.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
2020/21 SPE - Health and Safety					
Full implementation of PCBU framework	N/A	Achieved	On track	On track	Green
HSE Critical Risk Framework Operationalised	N/A	Achieved	Delayed	Delayed	Orange
Wellbeing strategy operationalised - engagement score for Wellness above 6.9 and Happiness above 7.4	N/A	Achieved	On track	On Track	Green

Highlights from the quarter include:

- **SafePlus Review** - Commissioned a health and safety performance assessment of Callaghan Innovation (the SafePlus review), an audit of laboratories focused on hazardous substances and heavy manufacturing equipment, and an assessment by external consultant Van Schaik Health and Safety Solutions. The recommendations from each of these are helping to inform design, planning and implementation of the programme.
- **Coordinated Incident Management System (CIMS) Framework** - Updated the CIMS Framework and approved the associated roles and responsibilities.
- **Critical Risk framework** - Developed a draft Critical Risk framework and identified the top five critical risks for the Executive Leadership Team to focus on.
- **Improved management of hazardous substances** - Developed a draft procurement process and standard operating procedure for hazardous substances. We are continuing to improve processes to manage our responsibilities as a manufacturer, importer, designer and supplier when engaging with other organisations.
- **Programme Business Case** - Developed the strategic case for the programme, on which the revised programme plan will be based.

Focus for Q3:

- **Programme Business Case -**
 - Approval of the programme business case
 - Design and implementation of the revised programme plan.
- **Improved management of hazardous substances -** Development and implementation of a plan to improve the management of hazardous substances as our number one critical risk.
- **Stronger management of health and safety risks -**
 - Development and implementation of a plan to improve health and safety leadership at all levels of the organisation
 - Building programme capability and capacity to include the areas of data and intelligence, work-related health, and the environment.
- Continued improvement of emergency management, including CIMS.
- Initial work to develop a plan for Callaghan Innovation to be carbon neutral by 2025.

Strengthening the innovation ecosystem

This section focuses on key initiatives identified in our strategy that are aimed at strengthening the innovation ecosystem. It includes initiatives that focus on enabling high value/high growth sectors to grow faster.

Tech Incubator Programme

This initiative is about the implementation of Callaghan Innovation's new and improved Tech Incubator programme. The programme provides deep tech startups with the support that they need to succeed as companies, services include commercialisation support, international and local connections, and access to investment.

Under the new programme, and through official incubators, support tech startups can access up to \$1,000,000 in funding, which consists of \$750,000 in the form of a repayable loan from Callaghan Innovation and up to \$250,000 in private investment.

Progress made this quarter

Overall we are tracking well against our performance targets. The Technology Incubator Programme went live in October 2020. Although progress in this space was slower than expected this year, due to COVID-19 lockdowns, we are pleased to see deal flow from a range of deep tech industry sectors and from Universities/CRIs as well as the private sector.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Repayable Grants appropriation*					
Number of customers that received a service from either an incubator or accelerator	204	170	196	191	
Net Promoter Score from Startup customers	+71	+60	+69	+69	
First ventures for funding from the Tech Incubator Programme	N/A	Achieved	On track	Achieved	

**Note the measures in this appropriation relate to all incubator and accelerator programmes and are not limited to Tech Incubator clients*

The Repayable Grants Approval Committee, established this quarter, were able to approve four repayable grant applications and 10 pre-incubator grants. Other highlights from the quarter include:

- Deep-tech initiatives in the industry, such as establishing a Women in Leadership Development Programme to increase the pool of STEM women in leadership roles.
- Sponsorship of the Health Supernode Challenge; Food, Fibre and Agritech Supernode Challenge, AUT Innovation Challenge.
- Support from Technology Incubators to present at the Annual Angel Association summit. This is crucial in raising the awareness of the Technology Incubator Programme, attracting quality deep-tech innovations for funding, and raising the profile of deep tech as an investable asset class in New Zealand.

Focus for Q3:

- Hold the Annual Hui to reflect on progress to date and develop a strategy for the future, as it is a 7+year Programme.
- Review the investment strategy for all four tech incubators.
- Continue to award high quality Pre-Incubation and Repayable Grants.

The HealthTech Activator – clearing the path for Kiwi healthtechs

The HealthTech Activator (HTA) is a coordinated, ecosystem-wide support mechanism for early-stage founders and companies in NZ's healthtech sector. The Activator makes it easier for healthtech companies to find and access the support they need to turn their health innovations into successful businesses. In doing so, it aims to advance, de-risk and accelerate the commercialisation of NZ's healthtech ecosystem.

Progress made this quarter

The HTA initiative is on-track to achieve its performance target of developing and delivering 75% of its programmes' services for the year.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
2020/21 SPE - HealthTech Activator					
Define programmes and services required to smooth the commercialisation journey of Healthtech companies	N/A	Development and delivery of 75% of programmes and services	Achieved	Achieved	

Highlights from the quarter include:

- Approval to recruit an HTA co-ordinator role
- Progressed ecosystem discussion together with MBIE regarding Clinical Trials portal.
- Completed Customer Journey (CX) project for CI HealthTech engagement and implemented the CX project outcomes for the Health Tech Activator.
- Negotiated access to GLG – the world's knowledge marketplace for Health Tech Activator customers.
- Contracted the license to Global Data database.
- Launched Phase 2 HTA website with detailed content and resources available.
- Content build and roll out of initial prototypes of early stage Market Validation and Capital Education.

Focus for Q3

Improved connectivity across the HealthTech sector

- Recruit HTA Co-ordinator Role
- Develop relationships with Australian medtech ecosystem
- Progress ecosystem discussion together with MBIE regarding Clinical Trials portal
- Develop ongoing marketing and communications plan to continue to promote the HTA.

More seamless access to funding and experts

- Continue trials of global data database with customers – fine tuning access and customer satisfaction with provided service
- Trials of GLG database with health tech activator clients.

Capability-building programmes and services

- Finalising the edit of the workshop on Capital planning valuations and making access available online
- Roll out the next phase of workshops in early stage market validation and capital education.
- Roll out late stage market validation offering to selected customers
- Build plan for Phase 4 modules (Regulatory; Reimbursement)
- Initial prototypes of phase 4 modules and subsequent adaptation
- Explore HTA formal launch event in April 2021 (once all prototypes are up and running).

Driving sector specific cluster growth

Callaghan Innovation's strategy identifies a number of high value growth and high value sectors where there are significant opportunities to increase the benefit for New Zealand.

Progress made this quarter

We are tracking well against the performance expectations for Industry 4.0, Bioresource Processing Alliance (BPA), NZ Product Accelerator (NZPA), NZ Food Innovation Network initiatives.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Industry 4.0 appropriation					
Number of customers who received a service during the financial year	N/A	Baseline to be established	N/A	N/A	
Net Promoter Score from customers who receive a service during the financial year	N/A	Baseline to be established	N/A	N/A	
2020/21 SPE - Industry 4.0					
Deliver a programme that includes at least 10 Industry 4.0 factory site visits per year and a dedicated mobile showcase to demonstrate Industry 4.0 technology	N/A	Achieved	On track	On track	
2020/21 SPE - Māori Economy					
Number of Iwi & Trusts served	N/A	5	1	14	
2020/21 SPE - Bioresource Processing Alliance (BPA)					
Number of industry partners involved in research projects	N/A	Baseline to be established	4	27	
Number of new products or processes developed for industry partners	N/A	Baseline to be established	15	81	
2020/21 SPE - NZ Product Accelerator (NZPA)					
Number of industry partners involved in research projects	N/A	Baseline to be established	8	30	
Number of new products or processes developed for industry partners	N/A	Baseline to be established	18	31	
2020/21 SPE - NZ Food Innovation Network					
Continued operation of the New Zealand Food Innovation Network	N/A	Achieved	On track	On track	

and support MBIE with the programme review					
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Highlights from the quarter include:

- Strong collaboration in the BPA and NZPA with all four BPA partners collaborating to develop the growing pipeline of project opportunities currently standing at 27 industry partners (one of which is involved in two separate projects) and all eight NZPA partner institutions being involved in 52 projects with 30 Partners.
- At this stage, it is generally too early for new products or processes from the BPA and NZPA to have been fully developed (i.e. ready for market) but the increase compared to last quarter is promising.
- Activity in the Industry 4.0 programme this quarter included the launch of the Industry4.govt.nz website, delivering two webinars, and selecting and commencing detailed design and build of the Mobile showcase.

Focus for Q3:

- Ongoing development of products and processes in the BPA and NZPA initiatives.
- Planned launch of the Industry 4.0 mobile showcase.
- Hosting Industry 4.0 webinars.

Empowering innovators

Empowering innovators - this section covers the support and services that Callaghan Innovation provides clients and includes the National Measurement Laboratory and Scale-Up NZ initiative.

Scale-Up NZ continuing to grow profiles and connections

Scale-Up NZ is a free online platform that makes it faster and easier for ambitious businesses to find and connect with the people, capital and other help they need to innovate and grow, here and offshore. It also creates opportunities for investors, incubators, multinationals and other collaborators to connect with innovative New Zealand businesses, helping to support and develop our ecosystem.

Progress made this quarter

We have continued to see a steady increase in the number of registered users, introduction requests and organisations profiled on Scale-Up NZ.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
2020/21 SPE - NZ Food Innovation Network					
Organisations profiled on Scale-Up NZ	N/A	2,000	2,074	2,243	
Introduction requests	N/A	450	351	395	

We have started some initial analysis of customer behaviour to help us better define and track our impact and are implementing new practices in response, including making better use of CRM tools and developing a new Google Analytics dashboard. We are working with an external vendor to introduce a new landing page for the platform which will deliver better visualisation of Scale-Up NZ data. This includes, providing a 'startups' view in line with requests from MBIE to help them track the startups ecosystem specifically (Scale-Up NZ captures all innovators, including established companies).

Focus for Q3:

- 'Growth hacking' activities to improve our understanding of customer behaviour on the platform, including introducing a new operational reporting dashboard.
- Launching our new landing page for the platform.
- Ongoing growth of the platform, including adding profiles for grants providers (new function added to the platform in Q2.)

Measurement Standards Laboratory

The Measurement Standards Laboratory (MSL) is New Zealand's national metrology institute, providing services that are a key enabler for technology development and the international competitiveness of New Zealand businesses. MSL is responsible for maintaining the national measurement system essential for international and domestic trade and the efficient function of electricity markets, safe aviation, high-value manufacturing and law enforcement. The 175 internationally recognised measurement standards it provides enable New Zealand exports to be accepted in more than 100 markets.

Progress made this quarter

MSL has continued to track well during Q2. Progress has been made moving the NZ Temperature Standards into our new laboratory building. Commercial calibration services to industry continue to be provided and MSL remains on track to deliver against its two key performance measures.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
National Measurement Standards appropriation					
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	Achieved	On track	On track*	
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 the end of the financial year.	Achieved	Achieved	On track*	On track*	

* There were 113 technical procedures in validation on 1 January 2021, 8 of which were validated or revalidated during the three months from 1 October 2020 to 31 December 2020. IANZ has not audited MSL during this three-month period. There are no outstanding corrective action requests from previous audits.

Detailed reporting about the Measurement Standards Laboratory is located in the appendix. Highlights from the quarter include:

- **Changes in staff** - MSL Director, Dr Fleur Francois left Callaghan Innovation in October 2020 and Cliff Hastings has been appointed interim Director from 16 November. Two senior scientists, with a combined service of 80 years, retired during Q2. A recruitment process is underway to fill the vacancies and the intention is for the recently retired staff to assist in upskilling of new staff.
- **Building projects** - Temperature standards continue to commission equipment and set up for commercial and research work in the new laboratory building. Electrical standards remain unable to occupy the new building due to challenges in achieving the required environmental control, but a proposed solution is being worked through to resolve the issue. External contractors have commenced on the new Time and Radiofrequency laboratory project.
- **International acceptance of New Zealand's measurement system** - MSL staff continue to remain active in the international measurement standards community. They have been involved in a range of international projects and attended and presented at a

variety of international technical meetings over the quarter. The MSL Director and Chief Metrologist recently attended the online Asia Pacific Metrology Programme (APMP) Directors meeting and general assembly.

- **Outreach and recognition** - Yin Hsien Fung, from the Mass and Length team was awarded an Early Career Science Award from Science New Zealand at parliament in November. MSL also collaborated with the 'House of Science' to create a Metrology resource kit called 'Measurement Matters' which will form part of a large library of STEM resources available to a network of schools throughout New Zealand and supports the House of Science vision to make every child in NZ scientifically literate.

Focus for Q3:

- **Recruitment** - addressing key person risk and future proofing New Zealand's metrology capabilities for emerging domestic needs and opportunities.
- **Building environment** - Achieving acceptable environmental control in the new MSL building for Electrical standards to commence its move out of the McKay building.
- **International reassessments** - Prepare for and complete scheduled five yearly international reassessments of New Zealand's Time and Mass standards. These international assessments will be completed via live online video links between our NZ laboratories and international technical assessors.
- **Staff readiness** - Preparing our staff for the significant changes likely in the transformation of Callaghan Innovation. Being change ready and engaged means we are able to embrace opportunities as they arise and make meaningful contributions to the success of Callaghan Innovation in delivering its purpose for the benefit of New Zealand.

Business development and research services

Callaghan Innovation is responsible for brokering and providing innovation services to businesses and delivering programmes that enhance New Zealand's innovation system. We are tracking well against set targets for the year, however a couple of the measures have been impacted by COVID-19 restrictions. These restrictions have led to cancellation of in-person events and international missions from March 2020 onwards, together with a large decrease in customers in events and international missions.

We work with NZTE to target a specific segment of clients (Focus customers, formerly known as the F700). NZTE have advised that they are looking to increase the target for this segment from 700 to 1,000-1,400 customers for the current year. We will look to reflect the impact of this change to our target and will adjust as needed in the Budget Estimates for 2021/22.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Callaghan Innovation - Operations appropriation					
Total number of organisations working with Callaghan Innovation on services this Financial Year	2,866	2,600	2,991	3,007	
Net Promoter Score of all surveyed customers	+74	+60	+79	+80	
Total number of organisations working with Callaghan Innovation and NZTE as a F700 customer	386	300	465	638	
Number of customers who worked with Callaghan Innovation in the following services: Events; International Missions; Innovation Skills (formerly 'Programmes')	1,101	1000	646	762	
Net Promoter Scores for the following Callaghan Innovation Services:					
- Events	+48	+30	+56	+51	
- International Missions	+69	+60	+72	+82	
- Programmes	+74	+60	+70	+72	
2020/21 SPE					
Total unique opens of Callaghan Innovation's monthly Accelerate e-newsletter	N/A	3,500	2,257	2,227	

Organisational Performance

This section provides a summary of Callaghan Innovation's operational performance, including how it is tracking against budget and internal measures of operational efficiency.

Performance dashboard

Callaghan Innovation's Executive Leadership Team (ELT) receives monthly performance dashboards. The performance dashboard is used by ELT to evaluate Callaghan Innovation's performance against its strategy for the year. Note the RDTI information is subject to a confidentiality agreement which will require the information to be redacted if this report is made publicly available.

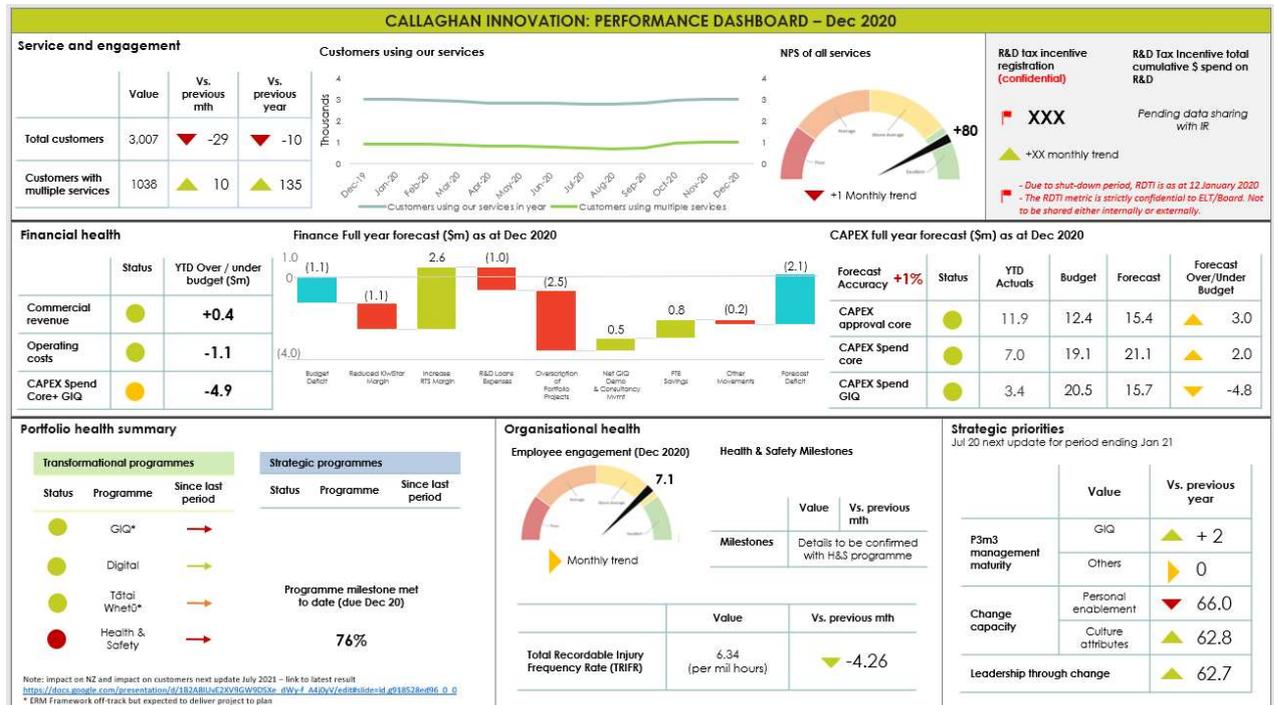
Some key insights from the dashboard include:

- The number of customers accessing Callaghan Innovation services is lower than the

same time last year and also lower than last month.

- More customers are choosing to access multiple services compared to the same time last year and compared to the prior month. Callaghan Innovation staff will continue to drive service use, especially for customers to engage with multiple services.
- Uptake in RDTI continues to grow month on month, reflecting the focus on increasing engagement.
- Our project portfolio is tracking well with three out of the four transformation programmes of work recorded as being on track and 76% of the programme milestones having been met as at 31 December.

December 2020 Performance Dashboard



The performance measures for Callaghan Innovation's capital expenditure appropriation is on track to achieve the year end targets. It's good practice approach is reflected in the financial health and portfolio health summaries of the performance dashboards.

Performance Measures	2019/20 Result	2020/21 Performance Standard	Q1 2020/21 Result	Q2 2020/21 Result	Status
Callaghan Innovation capital appropriation					
Any physical and virtual infrastructure investment is aligned with the overall strategy	Achieved	Achieved	On track	On track	On track
Any major capital project proposal is developed in	Achieved	Achieved	On track	On track	On track

accordance with published
Treasury business case guidance

Financial Performance

Key Financial Indicators to 31 December 2020¹

	Actual \$m	Budget \$m	Variance \$m
Group surplus/(deficit) after non-operating items	(1.0)	(3.3)	2.3
Revenue	61.2	62.8	(1.6)
Expenses	62.6	66.4	3.8
Interest income and non-operating items	0.5	0.4	0.1
Cash and deposits	55.3	49.6	5.7

Overall, we are tracking ahead of budget as at 31 December 2020. The positive variance for the first half of the year of \$2.3m has been driven by year to date (YTD) savings across several cost categories (some of which are expected to unwind through the second half of the year).

Revenue

Overall Crown revenue is down on budget, with the National Science Challenge (NSC) experiencing further delays in implementing several key projects post COVID-19 (\$2.7m behind the plan YTD). This trend is driving both a reduction in costs as well as lower recognised revenue. A pickup is expected towards year end, however this activity is likely to push into later years of the programme. Conversely, expenditure in the 2020/21 year on the Industry 4.0 programme has been front loaded to support the set-up phase, resulting in earlier revenue recognition (up \$0.7m YTD).

It's been a mix in commercial revenue performance with some areas performing well and others such as Kiwistar suffering the effects of COVID-19 on demand and sales opportunities.

Expenses

In addition to the savings related to NSC outlined above, cost savings have come across several categories, including:

- Travel (\$0.2m), driven by the lock down in Q1, changing behavioural patterns in travel and work and an increasing uptake of our new Google video conferencing platform.
- Slower than budgeted build up in headcount contributing to salary savings of \$0.8m, although this has been largely offset by higher than planned annual leave and controls costs.
- Lower than expected demolition costs (\$0.3m), as the planned activity pushes into the second half of the year.

¹ The Callaghan Innovation Group includes the parent (Callaghan Innovation), two operating subsidiaries ((New Zealand Food Innovation (South Island) Limited and New Zealand Food Innovation Auckland Limited), as well as one equity accounted associate ((New Zealand Food Innovation (Waikato) Limited). These reported values also include the National Science Challenge operations.

- Depreciation (\$0.7m), with completion of some key projects now pushing into the later half of the 2020/21 financial year.

Cash and deposits

Cash and term deposits are above budget, with capex spend ramping up at a slower than budgeted rate.

Enterprise Risks

This section provides an update on key risks that could significantly impact Callaghan's Innovation ability to deliver on the Government's innovation work programme.

Ongoing improvements in Enterprise Risk Management (ERM)

We have conducted an initial scan of our risk management practices and culture within Callaghan Innovation, refreshed and starting to embed the ERM framework. Our focus remains on building operational capacity and capability to ensure the organisation continues to build our maturity around making risk informed investment and business decisions.

We are continuing to build our risk profile around our regulatory risks and strategic risks. Next steps will be to facilitate a strategic risk session with our Executive Leadership team and Audit and Risk Committee (Sub committee of the Board) to confirm our strategic risks and tolerance settings. Work is currently underway to formally build our control environment to ensure it is working effectively and confirm any changes to our risk profile.

Update on risks identified in Quarter 1

Last quarter we identified two key risks, updates on these risks are set out below.

Health and safety risk management

In the December quarter, Explosive Ordnance Disposal specialists were engaged twice to remove dangerous hazardous substances on the Gracefield site. These were removed successfully with no issues.

COVID-19 Funding draw down

\$6.3m of COVID-19 relief funding for the 2020/21 financial year was approved for Callaghan Innovation in April 2020, to cover the expected impact on commercial revenue streams and other costs. This balance was not included in the original funding letter for 2020/21 and to date, a funding mechanism has not been agreed with MBIE. A transfer of \$1m of the COVID-19 funding to support the R&D loan administration cost was included in the October 2020 baseline update, leaving a balance of \$5.3m available to support ongoing COVID-19 impacts.

To continue our conversations with MBIE of accessing these funds, they have requested evidence that any COVID-19 related impacts cannot be funded from Callaghan Innovation's existing cash balance. This has been provided through Q2 and early Q3 of both our expected impact and the intended use of existing cash balances (including funding our

immediate Health and Safety remedial works). We are working with MBIE to ensure any remaining concerns are addressed.

If this funding is not provided, Callaghan Innovation will face a significant deficit in the current year (up to \$7.5m) which will severely impact our ability to fund planned investments in our transformation and immediate Health and Safety remedial programmes.

New risks in Quarter 2

Two risks are being actively managed in '*Continuing to invest in growing the R&D pipeline*' section of this report:

- **Research and development tax incentives:** We are working closely with MBIE and IRD to manage the risk of not achieving the intended policy outcomes for RDTI and potential changes to ensure these are achieved.
- **Project Grants:** Demand for project grants continues to be a risk that we are monitoring closely to ensure funding stays within appropriation limits for the year. There is the added risk that constrained funding may mean that the full potential economic impact from R&D activity from being realised.

Appendix 1: Detailed Grants Forecast and Financials

\$000's	R&D Growth Grants	Targeted Business R&D Funding (Project & Student Grants)	Repayable Grants	Total*
Appropriation period	<i>FY18 - FY22</i>	<i>FY18 - FY22</i>	<i>FY20/21</i>	
Total appropriation	768,109	201,335	24,959	
Cumulative expenditure (FY17 - FY20)	577,890	106,356	n/a	
Remaining balance available at the start of FY20/21	190,219	94,979	24,959	
FY20/21 Budget Spend	138,400	32,500	17,900	188,800
FY20/21 YTD Spend	106,258	19,659	6,246	132,163
Remaining appropriation at 31 December 2020	83,961	75,320	18,713	
Forecast Surplus (Deficit) at end of appropriation	38,065	(49,209)	5,959	

* Totals are provided where appropriate

Appendix 2: Appropriation Reporting

Callaghan Innovation receives funding from seven separate appropriations. The following table sets out the year to date results against the budgeted amounts (including both original estimates and changes through the October 2020 baseline update) and performance expectations contained within those appropriations.

Detailed performance information is located in the main body of the report alongside the specific projects and deliverables that relate to that measure.

Appropriation Name	Full year Budget \$000	YTD actual \$000	Remaining budget \$000	Performance measures
Operational funding				
Callaghan Innovation - Operations MCA	87,272	42,266	45,006	12 out of 12 performance measures are on track. Further details are located in the short-term R&D loan scheme, Implementation of the RDS strategy, Project and Student Grants and Business development and research services sections of this report.
National Measurement Standards	8,118	4,059	4,059	2 out of 2 performance measures are on track. Further details are located in the Measurement Standards Laboratory section of this report and the Measurement Standards Laboratory appendix .
Industry 4.0	2,375	1,344	1,031	The performance measures for this appropriation are unable to be measured this quarter. Further details are located in the Driving sector specific cluster growth section of this report.
Capital expenditure				
Callaghan Innovation - Capital Expenditure	3,958	-	3,958	2 out of 2 performance measures are on track. Further details are located in the

				Organisational performance section of this report.
Grants				
Repayable Grants	24,959	6,246	18,713	3 out of 3 performance measures are on track. Further details are located in the Tech incubator programme section of this report.
Research and Development Growth Grants (FY20/21 only)	136,421*	106,258	30,163	The performance measure for this appropriation is on track this quarter. Further details are located in the Growth Grants section of this report.
Targeted Business Research and Development Funding (FY20/21 only)	52,490*	19,659	32,831	6 out of 6 performance measures are on track. Further details are located in the Project and Student Grants section of this report.

* Note a \$25m fiscally neutral transfer will be sought as part of the March 2021 baseline update. The values above reflect current estimated spend in the 2020/21 financial year against the available Multi Year Appropriation. Details on the full MYA position for these appropriations is provided in Appendix 1.

Appendix 3: Detailed Financial Results

Statement of Revenue and Expense, Callaghan Innovation Group, for the period ended 31 December 2020

	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000		Full Year Budget \$000
Revenue					
Crown operating					
Crown Funding - Other	-	-	-		1,413
Callaghan Innovation Funding	22,290	21,735	555		49,769
Strategic Investment	9,262	9,261	0		18,523
Business R&D Grants administration	3,875	3,895	(20)		7,789
National Measurement Standards	4,059	4,059	-		8,118
Programme Funding	1,689	1,689	0		3,378
Food Innovation Network	2,435	2,435	0		4,870
Total Crown operating	43,610	43,074	536		93,860
Crown contestable contracts and other	6,219	8,904	(2,685)		17,809
Commercial revenue					
Domestic Commercial	4,610	3,514	1,096		7,561
Overseas Commercial	4,474	5,104	(630)		10,835
Total Commercial revenue	9,084	8,619	465		18,396
Other Income	2,252	2,169	83		3,404
Total revenue	61,164	62,765	(1,601)		133,469
Expenses					
Personnel	32,023	31,511	(512)		60,141
Services and Contracts	9,031	12,004	2,973		33,088
Other costs	16,981	17,704	723		30,994
Depreciation	4,537	5,220	683		11,035
Total expenses	62,572	66,439	3,867		135,259
Operating surplus / (deficit)	(1,408)	(3,674)	2,266		(1,790)
Interest Income	452	262	190		510
Non Operating Income	(4)	71	(75)		141
Surplus / (Loss)	(960)	(3,341)	2,382		(1,139)

In addition to the financial performance above, there was \$132.2m of both grant funding and grant expenditure during the period ended 31 December 2020, with no net impact on the observed loss.

When the 2020/21 SPE budget was prepared, revenue and expenses for the Bioresource Processing Alliance and NZ Product Accelerator programmes were included on a gross basis (~\$4.4m in total). Following conclusion of the accounting treatment for these programmes as part of the 2019/20 annual report process, these are now netted off in actual results. To ensure financial information is presented on a comparable basis, these amounts have been netted off in the budget data above (although there is no impact on the budgeted surplus).

Statement of Financial Position, as at 31 December 2020

	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000		Full Year Budget \$000
Assets					
Current assets*	205,605	202,823	2,782		83,991
Non-current assets					
Fixed Assets	72,403	80,170	(7,767)		93,980
Investment in associates	4,472	4,737	(265)		4,808
Total assets	282,480	287,730	(5,251)		182,779
Liabilities					
Current liabilities*	(167,701)	(172,875)	5,174		(53,826)
Non-current liabilities					
Non-current employee entitlements	(218)	(318)	99		(318)
Deferred tax	(682)	(775)	93		(775)
Total liabilities	(168,602)	(173,968)	5,366		(54,919)
Net assets	113,878	113,763	115		127,860

* Includes equal and offsetting accrued grant income and grants payable of **\$141.1m**.

Statement of Equity, as at 31 December 2020

	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000		Full Year Budget \$000
Equity					
Contributed capital	97,535	97,535	-		109,503
Accumulated surplus	16,343	16,227	116		18,356
Total equity	113,878	113,763	116		127,860

Statement of Cashflows, for the period ended 31 December 2020

	YTD Actual \$000	YTD Budget \$000	YTD Variance \$000		Full Year Budget \$000
Net cash flows from:					
Operating activities	5,138	8,033	(2,895)		12,076
Investing activities	(10,781)	(16,284)	5,503		(34,277)
Financing activities	-	-	-		12,060
Net increase / (decrease)	(5,643)	(8,251)	2,608		(10,140)
Add cash at start of period	60,966	57,844	3,122		57,844
Balance at end of period	55,323	49,593	5,730		47,703

The closing cash balance includes commitments of **\$41.1m** for: capital contributions/depreciation funding not yet invested in capex; revenue in advance; subsidiary cash balances; and board defined minimum capital management requirements. The balance of the cash has been tagged to meet future replacement costs of equipment within the RDS business unit and current Health and Safety Programme.

These financial statements have been prepared exclusive of the \$149m impact of the R&D Loan Scheme reflected in the Statement of Performance Expectations for the 2020/21 financial year (these loan balances are reflected in MBIE's financial statements).

Appendix 4: Measurement Standards Laboratory - Detailed Reporting

Our highlights this quarter

MSL's outputs this quarter

- 37 calibration jobs delivered to customers
- 5 IANZ assessments of external laboratories carried out by MSL staff
- 35 Enquiries to info@measurement.govt.nz
- 1,337 downloads of resources (e.g. technical guides, software) from measurement.govt.nz

Changes in staff

MSL had three significant changes in staff in Q2:

- Previous MSL Director, Dr Fleur Francois left Callaghan Innovation in October 2020. Cliff Hastings has been appointed interim Director from 16 November 2020
- Two senior MSL scientists, with a combined service of 80 years, retired. These retirements are mitigated by MSL's recruitment of new staff during 2018- 2019. It will be further mitigated by recruitment to replace the vacancies created and through use of the recently retired staff to assist in initial upskilling of new staff.

Building projects

Temperature standards continue to commission equipment and set up for commercial and research work in the new laboratory building. Electrical standards remain unable to occupy the new building due to challenges in achieving the required environmental control. GIQ along with external partners have identified a proposed solution for this issue and are actively working towards a resolution.

A new lab needs to be completed in the Robertson building to enable the MSL Time and RF standards teams to move out of its existing facilities to enable the McKay building to be demolished. External contractors Hawkins have commenced work on the new lab.

International acceptance of New Zealand's measurement system

MSL staff attended and presented at, through virtual platforms, a variety of international technical meetings. This included:

- Asia Pacific Metrology Programme (APMP) meetings
- Europe organised meetings such as German conferences, BIML (International Organisation of Legal Metrology) Directors meeting, the CIPM (International Committee of Weights and Measures) Technical Working Group and an MBIE organised meeting with DTR(the German Aerospace Agency).

- MSL is one of 12 Labs participating in an international comparison of length artefacts (gauge blocks) as part of APMP.
- In Q2 MSL successfully completed measurements of the gauge blocks and sent the artefacts on to Sri Lanka. Due to improvements in the measurement process, MSL will be able to submit world-class measurement uncertainties which, once verified, will result in improvements in the accuracy of the service we provide to New Zealand industry.
- MSL's Kilogram 'transfer standard' was successfully sent to the BIPM in Paris for its 5-yearly comparison to the international standard.

Outreach and recognition

- Yin Hsien Fung, from the Mass and Length team was awarded an Early Career Science Award from Science New Zealand at parliament in November 2020.
- MSL collaborated with the 'House of Science' to create a Metrology resource kit called 'Measurement Matters' officially launched at Gracefield on 15 October 2020. The kit becomes part of a large library of STEM resources available to a network of schools throughout New Zealand and supports the House of Science vision to make every child in New Zealand scientifically literate. Packed full of hands-on activities to demonstrate how measurements are made and why accuracy is important. The kit is bi-lingual and provides teachers with classroom material to direct and support the learning that connects to the science curriculum.

Focus for Quarter 3

- **Recruitment** - addressing key person risk and future proofing New Zealand's metrology capabilities for emerging domestic needs and opportunities.
- **Building projects** - Achieving acceptable environmental control in the new MSL building for Electrical standards to commence its move out of the McKay building.
- **International acceptance of New Zealand's measurement system** - Prepare for and complete scheduled five yearly international reassessments of New Zealand's Time and Mass standards. These international assessments will be completed via live online video links between our New Zealand laboratories and international technical assessors.
- **Preparing our staff for significant changes** - likely in the transformation of Callaghan Innovation. Being change ready and engaged means we are able to embrace opportunities as they arise and make meaningful contributions to the success of Callaghan Innovation in delivering its purpose for the benefit of New Zealand.

Financial performance

	Actual YTD \$000	Budget YTD \$000	Variance \$000	Full Year Budget \$000
National Measurement Standards	4,059	4,059	-	8,118
Strategic Investment	67	67	-	133
Total Crown Revenue	4,126	4,126	-	8,251
Domestic Commercial	264	221	42	436
Overseas Commercial	30	23	7	67
Total Commercial Revenue	294	244	50	503
Other Income	8	8	0	15
Total Revenue	4,427	4,377	50	8,770
Expenses				
Personnel	2,412	2,398	13	4,691
Services and Contracts	33	126	(93)	275
Other Costs	277	302	(25)	604
Depreciation	390	468	(78)	1,089
Total Expenses	3,111	3,294	(183)	6,658
Contribution Margin	1,315	1,083	232	2,112
Indirect Expenses	1,535	1,440	95	2,811
EBIT	(220)	(358)	138	(699)

Use of MSL capital appropriation

At quarter two MSL has spent 22% of its capital appropriation (\$410K of \$1,858K). Approvals for remaining capital spending are forecast to increase significantly during Q3 and Q4.

Appendix 5: Gracefield Innovation Quarter Programme - Detailed Reporting

Our highlights for this quarter

Programme organisation

- Commenced the implementation of Gateway Review recommendations. This included a reorganisation of the GIQ Programme team to ensure it meets the evolving demands of the Programme moving forward.
- Appointed GIQ Tactical Estates Programme Manager Hayden Whelan to the Programme Director role. He is responsible for the overall Programme delivery.

Delivering the GIQ Programme

- Completed the demolition of B Block Bunkers over the Christmas period. This marks the start of the demolition project that will be completed by 2022.
- Continued construction of the GlycoSyn re-roofing project, a new laboratory for MSL's Time and Radio Frequency Teams, and the refurbishment of the Microfabrication Cleanroom facility.
- Completed construction of 'Office 2' in Auckland, and commenced installation of furniture and digital requirements.
- Commenced the development of Asset Management Plans and appropriate levels of service for our most critical assets, including; specialist equipment for AddLab Services and specialist facilities for the Glycosyn Facility building.
- Commenced audits of laboratories as part of the 'Define' stage of the Laboratory Upgrades project. This information will inform the Indicative Business Case expected to be completed by March 2021.
- Approved the Indicative Business Cases for Tranche 3 projects (Hazardous Goods, and Site Wide Infrastructure) and Tranche 4 projects (Flexible Offices and Flexible Laboratories). These projects are now in the 'Design' stage.
- Approved the Detailed Business Case for the HVAC replacement project and we have gone out to the market to appoint a contractor. Work is expected to commence in early 2021.

Developing the Strategic Programme

- Undertook extensive engagement on the initial ideas and concepts for the GIQ Masterplan. Feedback was sought from our people, tenants, the local community,

government departments and key stakeholders. We also developed a website as well as an exhibition on site and a number of in person and online drop in sessions.

- Formed a Working Group for the Biotechnology Hub initiative, that consists of representatives from Callaghan Innovation, GlycoSyn, Ferrier Research Institute (Victoria University of Wellington), Wellington Univentures, and KiwiNet. This group is working with the GIQ Programme team to enable wider stakeholder engagement, support the project and contribute to the development of the indicative business case.
- Commenced planning to prepare a Strategic Programme Business Case (SPBC) to submit to Government. The SPBC will seek to deliver a thriving deep tech innovation community that supports the innovators who will reshape our economy, society and the environment, and help New Zealand to build back better in a post Covid-19 world. The PBC will directly support the Government's goals for research, science and innovation.
- Engaged a number of external consultants to support the development of the SPBC, including MartinJenkins, CreativeHQ, Polis Consulting Group, and SIDA NZ.
- Continued strategic partnership conversations with Victoria University of Wellington who are a key partner for Callaghan Innovation and the future of the Gracefield site.

Our focus for next quarter

Programme organisation

- Continue to implement recommendations from the Gateway Review. This includes reviewing the membership of the programme's governance boards.
- Commence recruitment for new positions in the GIQ Programme structure, including Programme Development Manager, Programme Shared Services Manager, and Investment Analyst.

Delivering the GIQ Programme

- Begin the implementation of Strategic Asset Management work programme, including: completion of Facility Asset Management Plans, establishing a AM Data Standard and Strategy, "roll out" of Specialist Equipment Asset Management Templates, development of site wide CI Asset Management Plan. Finally we will begin development of a plan for transitioning to a new Asset Management / Facilities Management Operating Model.
- Once visa approval is received from Immigration New Zealand, critical workers from Australia will come to New Zealand to complete the installation of screened rooms in the new MSL Building. Once finished this will mark the completion of the fit-out of the building and enable it to be operational for MSL.
- Continue with asbestos removal and demolition work, including commencing the demolition of an internal section of A Block. Planning will continue for the remaining buildings (E Block, Hector Building, McKay Building) to be demolished.

- Continue construction of the new laboratory for MSL's Time and Radio Frequency teams. Construction is expected to be completed in June 2021.
- Commence remediation works, as part of the Roofs and Exterior project, on buildings throughout the site (AMC roof, DSP2 roof, A Block roof, G block cladding and Robertson cladding).
- Complete audits of laboratories as part of the Define Stage of the Laboratory Upgrades project, and complete the Indicative Business Case by March 2021.
- Appoint a contractor for the HVAC maintenance and replacement project, and work is expected to commence in February 2021.
- Commence a procurement process and appoint external consultants to support design work of the hazardous goods project. This work will inform a Detailed Business Case expected to be completed in mid to late 2021.
- Appoint consultants for the Site-Wide Infrastructure project, with design work expected to commence in January 2021. This work will inform a Detailed Business Case expected to be completed by November 2021.
- Engage external consultants to support design work of the flexible offices project. This work will inform a Detailed Business Case expected to be completed in late 2021.
- Continue design work for the Flexible Laboratory project and complete the development of a Detailed Business Case by March 2021.
- Continue construction on the GlycoSyn Roof Replacement. Construction is expected to be completed by April 2021.
- Undertake 'Define' work on the GlycoSyn Labs and Offices project, with the expectation to complete an Indicative Business Case by April 2021.
- Continue construction of the refurbishment of the Microfabrication Cleanroom facility. Construction is expected to be completed in March 2021.
- Complete the fit out of 'Office 2' and continue construction of 'Office 4', the new laboratories and meeting spaces at the Textile Centre in Auckland. This project is expected to be completed in April 2021.

Developing the Strategic Programme

- Following the consultation of initial ideas and concepts on the GIQ Masterplan in late 2020, the external design consultants will consider all views and develop the next iteration of the draft Masterplan for approval in mid-2021.
- The Biotechnology Hub Working Group will continue discussions with stakeholders and progress work to draft an Indicative Business Case by mid-2021.

- Work will also commence to prepare the Strategic Programme Business Case (SPBC), with external consultants. To inform the SPBC we will undertake engagement with external stakeholders who are potential strategic partners for the site, alongside Callaghan Innovation. A number of workshops are planned for this quarter with these stakeholders, including a Shared Visioning Workshop.
- Progress conversations with Victoria University of Wellington and other strategic partners, with a view to developing a Memorandum of Understanding.

Financial Performance

- The Tactical Estates Continuity Programme's capital expenditure during Q2 was \$1.5 million; which was slightly lower than the previous quarter (\$1.9 million). The programme's life-to-date expenditure at 31 December 2020 was \$19 million.
- Expenditure for the full 2020/21 financial year is forecast to be approximately \$17 million, which represents a significant acceleration in programme expenditure from the previous financial year (\$7.9m).
- The following table outlines capital expenditure to 31 December 2020:

GIQ Capital expenditure	Actual (life-to-date) 31 Dec 2020 (\$000)	Forecast (total cost)* (\$000)	Budget Approved** (\$000)	Variance to Budget (▼ = under) (\$000)	Funding (per PBC)*** (\$000)
Tactical Estates Continuity Programme Tranches:					
T1 - Emergency Response Works	13,060	14,959	15,638	▼ 679	12,157
T2 - Deferred Maintenance	1,297	5,932	5,997	▼ 65	11,300
T3 - Hazardous Goods & Site Infrastructure	255	4,819	4,819	-	34,942
T4 - Flexible Workspaces	114	2,500	2,500	-	19,768
T5 - Business Growth Workspaces	4,273	5,817	5,629	▲ 188	23,580
Total Tactical Estates Continuity Programme	18,999	34,027	34,583	▼ 556	101,747

* Forecasts are included for projects that have budget approved - the forecast reflects the estimated spend against the approved budget.

** Budget Approved refers to the internal budget that has been approved for projects within the tranches.

*** Funding per PBC is the funding requirement as outlined in the GIQ Programme Business Case.

- Tranche 1 Emergency Response Works expenditure was \$0.4 million during Q2; driven by construction of the new Time Lab in the Robertson Building, and the completion of a fit-out within G Block to accommodate MBIE Trading Standards.
- Tranche 2 Deferred Maintenance expenditure during Q1 was \$0.3 million. Procurement of a supplier to undertake the replacement of a large number of HVAC systems across the site is nearing completion; this will result in a significant lift in expenditure during Q3 as onsite works commence.
- Tranches 3 and 4 projects completed their 'define' stages during Q2, with expenditure of \$0.2 million. Expenditure will pick up during Q3 as external design teams are procured and begin work.

- Tranche 5 Business Growth Workspaces expenditure was \$0.6 million during Q2. This was driven by construction work on the new Microfabrication Cleanroom, however expenditure during the quarter was offset by the reclassification (from capital to operating) of early stage design costs for the Tranche 5.1 KiwiStar, Protoshop & MSL project. The decision to not proceed with the project was made in light of the adverse impact of the COVID-19 pandemic on KiwiStar's financial situation and growth prospects. To ensure the intended outcomes and benefits of the investment in the GIQ development are still delivered, the intention is to redeploy the funding associated with the project to advance projects within the wider programme.
- The programme is also supported by funding for operating expenditure, which is outlined in the table below:

Operating expenditure	Actual (Yr-to-date) 31 Dec 2020 (\$000)	Forecast (Full Yr) 2020/21 (\$000)	Budget Approved 2020/21 (\$000)	Variance to Budget (▼ = under) (\$000)	Funding 2020/21 (PBC) (\$000)
GIQ Programme Office Costs	2,066	4,262	4,322	▼ 60	3,000
Demolition & Asbestos Removal*	136	605	2,743	▼ 2,138	797
Depreciation on GIQ Assets	423	1,093	1,437	▼ 344	3,470
Operating Expenditure	2,625	5,960	8,502	▼ 2,542	7,267

* The budget incorporates funding of \$1.413 million carried forward from 2019/20 for Hector and McKay demolition/asbestos removal; this has been requested to be transferred forward again, into 2021/22.

- GIQ Programme Office costs include programme management, Gateway Reviews, personnel and overhead expenses associated with delivering the Tactical Estates Continuity Programme, and work on the GIQ Strategic Services Programme (SSP).
- Demolition and Asbestos Removal costs include the demolition of McKay & Hector Buildings, E Block, and B Block Bunkers, and the prior removal of asbestos from these buildings. Expenditure is forecast to be lower than budget, as the tendered cost of the work came in less than expected. In addition, due to the Time Lab completion being later than anticipated, the cost of the McKay Building demolition is now likely to shift out into 2021/22. As part of the re-baseline of the GIQ programme, we have worked with MBIE to transfer funding from 2020/21 into 2021/22, to enable the McKay demolition to proceed.
- The budget for depreciation covers the costs arising from the investment in GIQ assets.