

Q4_FY21

4 Quarter.

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

For the fourth quarter ending 30 June 2021

A year of delivery

We upgraded the investment incentives for R&D

We completed our Covid-19 response

**We progressed our priority projects and
transformation programmes**

**We're now ready to embed the transformation
into our core business activities**

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Contents

Overview for the year	2
Introduction	4
Our achievements over the past 12 months	5
1. Delivering investment incentives for R&D	6
Delivery of the R&D Tax Incentive	6
The wider R&D financial support and incentive system	7
Service Performance for the year (preliminary results)	8
2. We completed our Covid-19 response	10
3. We've progressed our priority projects and our transformation programmes	12
Redeveloping the Gracefield Innovation Quarter (GIQ)	12
Research Development Solutions (RDS)	15
Empowering New Zealand innovators	16
Strengthening the R&D ecosystem	16
Service Performance for the year (preliminary results)	19
4. We're now ready to embed the transformation into our core business activities	24
Our Digital Transformation programme	24
Our Tātai Whetū programme	25
Our Homesafe programme	27
Service Performance for the year (preliminary results)	27
5. Organisational Performance	30
Financial Performance	30
Enterprise Risks	31
Appendix 1: Detailed Grants Forecast and Financials	34
Appendix 2: Appropriation Reporting	35
Appendix 3: Detailed Financial Results	37
Appendix 4: Measurement Standards Laboratory - Detailed Reporting	40
Appendix 5: Gracefield Innovation Quarter Programme - Detailed Reporting	43

Overview for the year

This Quarterly Report provides a preliminary view of our performance for the 2020/21 financial year, including progress against Government priorities and key work programmes as agreed with our Minister and set out in Callaghan Innovation's Statement of Performance Expectations for 2020/21.

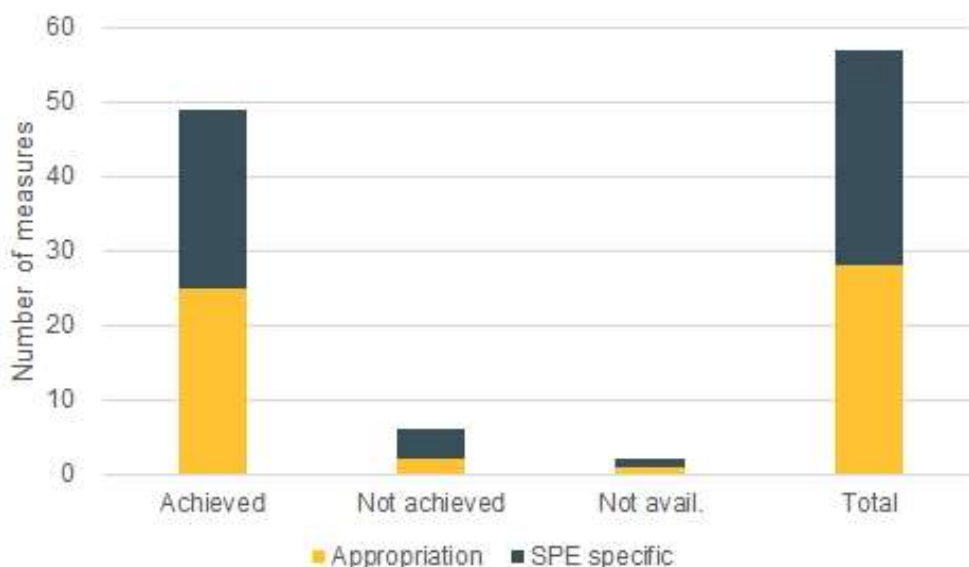
Callaghan Innovation has delivered innovation services to more customers this year than ever before, and all within existing funding and resourcing constraints. The growth in the number of customers who access multiple products and services from us is testament to the value of our services and the growing depth of our relationship with our customers.

We delivered the majority of our work programmes on time and within budget

Within this context, we have been able to continue to progress our key work programmes and priorities, which includes:

- Delivering the RDTI initiative and working with MBIE and Inland Revenue to address the review findings to ensure it works for R&D businesses and is able to achieve its policy objectives
- Completed our Covid-19 response
- We've achieved all of our milestones for our key transformation programmes, with the exception of the GIQ programme where we missed four out of the planned six milestones for the year. Much of this was due to external factors outside our control such as supply chain issues and decisions to resequence some of the work for efficiency reasons.

Preliminary results show 49 out of 57 performance measures have been achieved in 2020/21



We did not achieve the target for two appropriation measures -

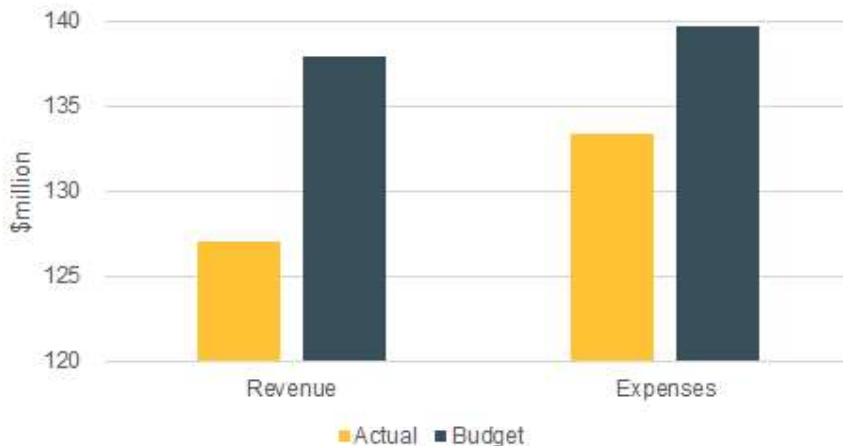
- The net promoter score for Innovation Programmes was 57 compared with our target of 60.
- 83% of surveyed customers thought that accessing our research development services improved their business productivity, which is less than our target of 85%.

In terms of the SPE specific measures, we did not achieve our target of 3,500 unique opens of our monthly Accelerate e-newsletter (achieving 2,905 for the year).

The closure of borders meant that we were unable to run international missions and therefore unable to report net promoter scores for these.

We finished the year with an operating deficit of \$5.536 million

A key driver for the operating deficit was due to the reprioritisation of \$4.2 million of the expected \$5.3m of Covid-19 relief funding for 2020/21 to out-years to cover R&D loan operating costs. This will have an impact on retained earnings.



Three new risks were identified this quarter

In addition to continuing to strengthen our risk management practices, this quarter we have continued to manage the risks identified last quarter in the health and safety and project grants area. We have identified three new risks this quarter which we are now actively managing.

Introduction

This report provides an early summary of Callaghan Innovation's achievements for the year ended 30 June 2021 against:

- The priorities the Minister for Research, Science and Innovation set out in her letter of expectations for 2020/21
- Our Strategic Plan for 2020/21
- Our Statement of Performance Expectations (SPE) for 2020/21.

The final results, inclusive of year end adjustments and feedback from our auditors, will be reported in Callaghan Innovation's Annual Report for 2020/21.

Context for our work over the past year

Over the last 12 months we've been looking much further ahead than the five-year horizon of our 2018–22 Statement of Intent. We set a **20-year strategic direction**, asking ourselves “What will better look like in 20 years?”, and asking what Callaghan Innovation would need to be and do in order to enable and support that future New Zealand.

Critically, that long-range strategy work confirmed that our current five-year strategic purpose, and the specific work we did in 2020/21, has all been heading in the right direction. The work confirmed that direction and also our current focus on **frontier ventures** – that is, high-impact businesses with global ambition and high R&D intensity, driving first-in-the-world technology and ideas innovation.

Covid has intensified the global dynamics that Callaghan Innovation has been responding to

Our work in the last year has been in the context of closed borders and struggling businesses. There has been a lot of uncertainty because of the pandemic, and we knew that it was urgent that we worked to make sure that New Zealand continued to be relevant on the global stage.

But although the pandemic has made things very different, it also confirmed that our work over 2020/21 has been on the right track. Covid-19 has **intensified** rather than suspended or reversed the trends we've been responding to over the last period.

Our achievements over the past 12 months

1. *We implemented recommendations from the RDTI review*
2. *We completed our Covid-19 response*
3. *We've made progress on our priority projects and our transformation programmes while continuing to provide core business activities to support our customers*
4. *We're now ready to embed the transformation into our core business activities and so achieve better outcomes for our customers and our people.*

1. Delivering investment incentives for R&D

by implementing recommendations from the RDTI review

Callaghan Innovation administers a number of programmes aimed at encouraging businesses and entrepreneurs to invest in research and development. Lowering barriers and reducing some of the risks associated with R&D is important for enabling Aotearoa to develop high-value, globally relevant companies.

The **R&D Tax Incentive (RDTI)** is the centrepiece of that financial incentive and support system, providing a 15 per cent tax credit on a business's eligible R&D spending. It's intended to encourage a wide range of businesses to do more R&D, which will in turn expand Aotearoa's knowledge economy.

The RDTI has replaced the Growth Grant scheme (which expired 31 March 2021). The RDTI does not have a cap on the number of businesses who can access it and allows a business to **claim up to \$120 million in R&D expenditure**, compared to the \$25 million allowed under the Growth Grant scheme.

In 2020/21 Callaghan Innovation worked with IRD and MBIE to increase the uptake of the scheme. We also worked with these partners to ensure that the RDTI is fit for purpose and achieves what it's intended to.

The R&D Tax Incentive supports businesses doing ground-breaking R&D in areas such as AI, blockchain, genetics, mechanical and structural engineering, and agri-tech.

Delivery of the R&D Tax Incentive

Getting the RDTI right is critical. During 2020/21 we focused on policy work and operational changes needed to improve the RDTI, specifically the recommendations that have come from the RDTI review. Based on the review findings, we reviewed all the applications we had declined, to see how accurately and consistently we had been assessing them against the legislation and the guidelines.

As a result of that review, improvements were made to the eligibility criteria to **broaden the range of R&D** that could be approved under the scheme.

The review also told us more about the **customer experience** when businesses apply for and receive the RDTI, and how to improve that experience. As a result, we have significantly enhanced our support for businesses right from when we first interact with them, with the employment of dedicated RDTI customer engagement specialists and the upskilling of our Primary Relationship Managers to help R&D-performing businesses become familiar with the RDTI.

Ensuring that customers transition smoothly from Growth Grants to the R&D Tax Incentive

A major focus for our RDTI team in 2020/21 was encouraging our customers to move from Growth Grants to the RDTI, and also ensuring they could do so **as smoothly as possible**, without disrupting their R&D work.

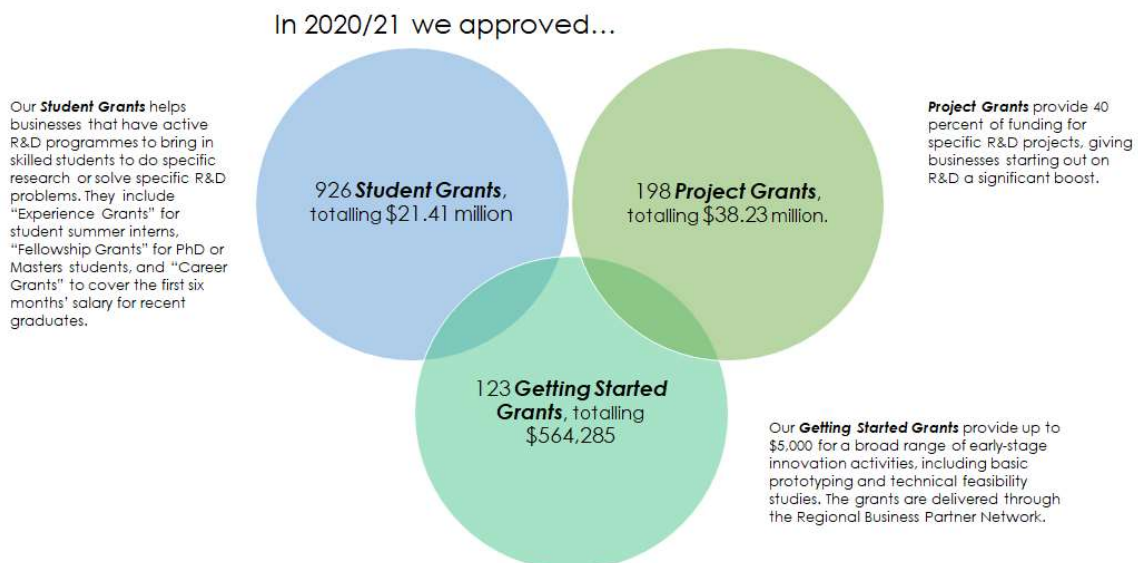
We contacted Growth Grant customers individually through a calling campaign, and we ran a number of workshops, presentations and webinars.

We also worked with MBIE on the **transition support payment (TSP)** to encourage these customers to shift to the RDTI scheme. The TSP is a time-limited initiative that is designed to support former Growth Grant recipients as the RDTI continues to be further refined to support more R&D-performing businesses. The TSP will support former Growth Grant recipients in the form of a payment to supplement their RDTI claim entitlement. For businesses that need it, this will bring the total amount of R&D support to a similar level to what they would be eligible for under the Growth Grant. The TSP will open to applications from eligible businesses in the first quarter of 2021/2022.

The wider R&D financial support and incentive system

The R&D Tax Incentive is central to our support to R&D performers.

We also provide innovators and entrepreneurs with a comprehensive set of financial support mechanisms, including various R&D grants, that can take them all the way from initial research through to commercialisation of their idea. Businesses are also able to access the **R&D Loss Tax Credit**, which is administered by Inland Revenue, for the same expenditure as the R&D Tax Incentive.



The Student Grants scheme has helped more than 1,600 students and recent graduates find placements in industry in the last four years.

Service Performance for the year (preliminary results)

Demand for Callaghan Innovation's Project Grants and Student Grants continued strongly during 2020/21.

Performance Measure	2019/20 Result	2020/21 Performance Standard	Q3 2020/21 Result	2020/21 Preliminary Result
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%	85%	86%
Targeted business research and development appropriation				
Number of active Project Grants this financial year*	576	570	595	610
Net Promoter Score from Project Grants recipients	+74	+70	+76	+82
Percentage of Project Grant recipients who perceived that the grant- funded project:				
<ul style="list-style-type: none"> • Had an overall positive impact on their business 	93%	95%	98%	97%
<ul style="list-style-type: none"> • Increased knowledge acquisition 	91%	85%	94%	94%
<ul style="list-style-type: none"> • Improved business productivity 	89%	85%	85%	83%
Net Promoter Score from Experience Grants recipients	+93	+70	+90	+91
Callaghan Innovation - Operations appropriation				
Number of new Project and Student grant applications received during the financial year	968	700	1,383	1,357
Percentage of Project and Student grant applications who have received a decision within 30 working days of receipt of the completed application	89%	90%	92%	92%

*This measures the number of businesses with an active project grant, the description for this measure will be updated in the 2021/22 Statement of Performance Expectations to make this clear.

Focus for Q1, 2021/22:

- Supporting the set-up and administering of the Research & Development Tax Credit Transition Support Payment
- Putting in place new Project Grant settings to manage the remaining appropriation, which expires June 2022
- Opening the 2021 round of Student Experience grants (summer internships for businesses).

2. We completed our Covid-19 response

The Covid-19 pandemic threatened to significantly reduce or slow down R&D activities across many New Zealand businesses. To address this risk Callaghan Innovation delivered a range of initiatives aimed at allowing R&D to continue despite the pandemic:

- **R&D Loan Scheme** - This support scheme helped businesses that were doing R&D continue with it during Covid-19 rather than having to divert funds tagged for R&D to other business costs. The scheme allowed qualifying businesses to borrow up to \$400,000 at low interest rates for a term of up to 10 years.
- **Booster Voucher Scheme** - To enable businesses to access advice and support from business consultants across eight sectors. Built at pace using Agile principles this received a final NPS of 81.
- **Start-up System Enablers** - This initiative focused on the incubators and investors who support early-stage ventures in New Zealand to develop and grow. Our support bridged the shortfall in sponsorship that these organisations faced during the pandemic, helping them carry on with their great work.
- **RTS Co-funded Services** - We reduced the cost to our customers of our Research and Technical Services (now "Research Development Solutions" – RDS) through a co-funding arrangement. We offered the scheme until the end of June 2021 targeting selected small to medium businesses across eight sectors who had been unable to continue their R&D because of Covid-19, subsidising 50 percent of the cost of the services.

"Financial support during these tough times is critical to help us keep momentum for our R&D projects"

– a Callaghan Innovation customer on the impact of Covid-19

"The RDS COVID Support Service allowed us to pursue a new product R&D project. We would otherwise have deferred this initiative in favour of focusing resources on our core technology. RDS' capability and equipment accelerated the development of a complementary branch of our technology that will add value and increase the attractiveness of our offering to customers"

– Callaghan Innovation customer on RTS Co-funded Services

In 2020/21 we wrapped up our COVID-19 recovery strategy and response successfully, completing it as a project in the third quarter.

Where appropriate we incorporated those activities, and the lessons we learnt from delivering them, into the core business activities support that we provide for our customers.

Our Covid-19 response in 2020/21

Full allocation of the **\$149 million** R&D loan scheme fund to more than **450 businesses**, with **82%** of existing Callaghan Innovation customers receiving **a decision within 4 weeks** of their application being received.

Supporting MBIE and businesses to allocate **\$26.1 million** of the Covid-19 Innovation Acceleration fund to **55 innovation projects**

503 booster vouchers issued, equating to **\$2 million** in innovation economic activity, and involving **187 provider businesses**. The uptake from Māori businesses was **14%** (exceeding our target of 5%).

47 businesses had accessed the RTS co-funded services support to enable **over \$1 million** in R&D projects. Covid-19: An accelerator and a “door opener”, rather than a hurdle

New opportunities to build customer relationships

For our still quite young organisation, the pandemic has also acted as something of a door-opener, giving us a chance to connect with our customers and to demonstrate to them the importance of innovation in the modern world and demonstrate what Callaghan Innovation can do to help them innovate and commercialise their ideas.

“Covid provided a door opener for us to build relationships with customers and give them the confidence to do more and bigger things”

– Callaghan Innovation staff member

3. We've progressed our priority projects and our transformation programmes

while continuing to provide core business support for our customers

We've made good progress implementing the priority projects set for us by our Minister for 2020/21, while also progressing our transformation programmes.

As well as implementing the R&D Tax Incentive alongside IRD and MBIE, a second priority set for us by the Minister was to complete or nearly complete the emergency works for our **Gracefield Innovation Quarter redevelopment**, and to make good progress on the remaining Tactical Estates Continuity works to prepare for the future focused GIQ redevelopment.

The third priority set by our Minister was to implement our new **Research Development Solutions strategy**, including developing a new operating and funding model that provides better value for money within the current funding.

As well as progressing those priorities, Callaghan Innovation has continued to provide **our core business support services** for our customers throughout 2020/21. Throughout this post-lockdown year demand from New Zealand businesses and entrepreneurs for innovation support has been high – customer numbers exceeded our target for the year – and we've worked to manage that high demand successfully.

In 2020/21 we...

Worked with **3,043 organisations**, 668 of which were also NZTE focus customers

Received an overall net promoter score of **+70 (our target for the year was +60)**

Attracted **1,008 customers** to our events and innovation programmes (exceeding our target for the year of 1,000)

Redeveloping the Gracefield Innovation Quarter (GIQ)

The redevelopment of the GIQ in Lower Hutt, Callaghan Innovation's largest site, has been the part of our transformation work that's most visible to people. It's a complex programme of work because it's being delivered on a fully operational site supporting work for entrepreneurs and innovators.

**The \$125 million Crown investment in GIQ helps build toward creating a space
"where talent wants to live"**

Progress on the Tactical Estates Continuity Programme

The first stage of the GIQ Programme is to stabilise the GIQ site, addressing duty of care requirements, building critical foundations and remediating buildings to provide healthy, safe and fit-for-purpose workspaces for our staff, tenants and customers. This first stage is called Tactical Estates Continuity Programme (TECP).

TECP is halfway through its four year programme of work, with progress as follows:

- 89% of projects in the programme have completed the define stage.
- 56% of projects in the programme have completed the design stage.
- 22% of projects in the programmes have completed the delivery stage.

We had anticipated more projects being in the design and delivery stage in this financial year, however they have not progressed as anticipated for the following reasons:

- The preferred supplier for the Flexible Labs project entered voluntary administration in late March delaying delivery of this project and forecast spend.
- Due to Covid-19 impacts on Kiwistar's supply chain, the business case for investment in growth spaces fell apart meaning this project is no longer valid, impacting forecast spend.
- Delaying or slowing some components so that they could be delivered more efficiently as a package of work, eg. choosing to not bring forward the light-refurbishment of labs within the Processing Building for Glycosyn so that it could be combined with the roof replacement work and waiting for Health and Safety audits to integrate findings into the design phase (both meaning delay of forecast spend in design and delivery phase).
- Following a longer than anticipated procurement process and careful prioritisation to best utilise available funding has meant that the majority of the HVAC replacement work will not occur in 2021/22, impacting the delivery phase forecast spend.
- Spending more time upfront on design to reduce the delivery timeframes and risks and issues associated with construction delivery.

While there have been unexpected delays, the programme has advanced 30 urgent packages of work, often smaller and discrete pieces of work to ensure business continuity, enable other projects within the programme to be delivered and to address a number of specific health and safety concerns. Of the 30 urgent work packages 70% are complete and the remainder are in delivery with a forecasted completion date of June 2021.

In regards to specific milestones not met:

- We have demolished two structures on site, however we are unable to demolish McKay and E Block until late 2021 when the current occupants can move into new lab workspaces. This is an example of how our live operational site can impact project delivery.
- The Flexible Offices project will be ready to commence delivery late this year.
- The Hazardous Goods facility will progress from design to delivery in early 2022.

Whilst the programme has not achieved some of the 2020/21 SPE performance milestones, overall it is expected that the programme spend will dramatically increase in calendar years 2022 and 2023 where we anticipate approximately 85% of projects will be in the deliver or delivered phase.

The Strategic Programme has completed an initial GIQ Blueprint and Masterplan. They provide a basis to shape and direct possible GIQ future development and provide inputs to the Future Pathways and Regional Property Strategy reviews being led by MBIE.

Two pilots have been identified for testing and reviewing the Masterplan and Blueprint.

- **Biotech Hub pilot** is a cross-sector initiative aimed at strengthening and growing the biotech sector. The Biotech Hub at GIQ will foster collaboration to tackle some of the world's most significant challenges of the twenty-first century - healing, feeding and fueling our globe. This pilot was identified through Callaghan Innovation's engagement with stakeholders from the Biotech sector on a potential future state. The current feasibility stage will confirm the value proposition to the sector.
- **The Central Corridor pilot** will determine the costs and benefits for opening up the central corridor area by removing end of life assets and providing future redevelopment opportunities such as the Biotech Hub.

The Strategic Programme had planned to develop a Strategic Services Programme Business Case this year. Instead we have pivoted to focus on undertaking a Strategic Assessment to define the key strategic choices that could shape the future redevelopment of GIQ to:

- Maximise its contribution to the RSI system.
- Contribute to Government's policy goals.
- Best support New Zealand businesses to accelerate the commercialisation of their innovations.

The strategic assessment will be undertaken in quarter one of 2021/22 in close consultation with MBIE with a decision point to proceed to an option and investment proposal.

Further detail on the GIQ Programme is included in Appendix 5.

New Building for our world-leading Measurement Standards Lab at the Gracefield Innovation Quarter

On 21 May 2021 the new MSL Building was officially opened. The building is now home to our Electrical and Temperature Standards teams.

Callaghan Innovation's Measurement Standards Laboratory and the people who staff it are **world-leading**, and it's vital that they have the facilities they need to do their work.

Our MSL has significant international standing

Our MSL staff have great standing in the world and are often called on to share their expertise and knowledge overseas, as keynote speakers at international meetings or as participants in specific international projects.

One of our MSL Principal Research Scientists was also invited by the International Bureau of Weights and Measures onto its global expert committee on digital metrology.

Our MSL services are crucial for the credibility of New Zealand exports

This top-quality expertise and facilities are crucial for the New Zealand economy – our businesses can't compete effectively overseas without this credibility, which gives international markets confidence in the quality of the goods and services New Zealand exports.

Research Development Solutions (RDS)

Our Research Development Solutions group provides a core part of the services we provide to our customers. The RDS Group helps businesses **innovate and commercialise** by supporting design, product development, and prototyping.

The group was formerly our "Research and Technical Services" (RTS) group.

The RDS Group employs more than 200 of Aotearoa's **leading scientists, engineers and technicians**, and provides both expertise and associated infrastructure. It supports a range of New Zealand businesses, from start-ups to some of New Zealand's largest companies, helping them solve tricky technical challenges.

Our scientists and engineers have provided R&D services to over 280 NZ businesses as well as numerous international clients and contributed \$16.8m in commercial revenue to the organisation.

Continuing to improve our RDS services

In 2020/21 we continued implementing our Research Development Solutions Strategy, which consisted of:

- A review of our pricing model and piloting improvements
- Investigating ways to better support industry R&D to prototype, pilot and scale innovative technological ideas
- Progressing development of a biotech concept as a lighthouse of how the future of RDS and the GIQ site could work as an integrated community
- Developing a high level roadmap we shall now use to further inform key areas to target technical and scientific expertise.

Empowering New Zealand innovators

Scale-Up NZ

Scale-Up 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, both here and offshore.

In 2020/21, the platform profiled **2,191 organisations** and received over 450 introduction requests. In addition, there were over 103,000 sessions, approximately 300,000 page views, and 900 sign ups to the year ending June 2021. The launch of a new insights page in the June quarter successfully generated increased user traffic, to circa 12,000 sessions per month, demonstrating an increase of 64% year on year.

Strengthening the R&D ecosystem

Technology Incubator

The Technology Incubator programme helps accelerate and de-risk the commercialisation of “**deep-tech**” **ideas** through to commercial ventures. It aims to increase the number of start-ups based on “deep” technologies – that is, technologies based on scientific discovery or significant engineering innovation, such as AI, robotics, blockchain, advanced materials, and quantum computing.

The programme allows deep-tech start-ups to access up to **\$1 million in funding**, consisting of a \$750,000 repayable grant from Callaghan Innovation and \$250,000 in private investment. Callaghan Innovation’s role is to review and approve Repayable Grant funding for start-ups that have been identified by our Tech Incubator Partners.

Callaghan Innovation launched a refreshed and more ambitious version of this programme, with four Technology Incubation Partners focusing on sectors that are strategically important to New Zealand.

The programme ended the year with a well balanced portfolio from private and public sources, covering artificial intelligence to space technology to life saving pharmaceuticals with over **\$31 million** in co-investment from \$7.5 million in repayable grants.

HealthTech Activator – Clearing the path for Kiwi HealthTech

The HealthTech Activator (HTA) is a coordinated ecosystem-wide support mechanism for early-stage founders and companies in New Zealand's health sector. It makes it easier for healthtech companies to find and access the support they need to turn their health innovations into successful businesses. HTA contributes to key commercialisation support measures identified in the 2017-2027 Health Research Strategy (NZHRS).

92 new companies have been triaged and assessed through the HTA since its establishment in September 2020. Other achievements since September 2020 include:

- 510 companies in HealthTech and adjacent categories subscribed to the HTA, which includes 352 views/sessions and 25 new subscriptions since Healthtech Week 2021.
- 5 capability building workshops were delivered in both Auckland and Christchurch.
- 13 companies have either completed or have active research projects in play via our engagement with Global Data.
- HTA companies have accessed six with Gerson Lehrman Group (GLG) insight sessions following our contract signing with GLG for insight advice. All have reported that the insights they received have been invaluable to their innovation and commercialisation progress.
- Continued refinement of early stage Market Validation and Capital Education and valuation workshops. Two of these sessions have been filmed so that these can be accessed digitally by customers in the future.
- In-depth Market Validation prototype launched with five companies - facilitated by Creative HQ, the programme pulls together our support toolbox including Global Data and GLG together with NZTE engagement via their health coalitions lead. A showcase and retrospective completed the programme and is being used to refine the programme before being re-offered in February 2022.
- The development of a strategy for Regulatory Preparedness and Reimbursement offerings for the next financial year.
- Working with MOH (project lead) and MBIE to develop a Clinical Trial pathway for early stage businesses as part of Health System reforms.
- Working with the Australia New Zealand Leadership Forum Health Group to agree a cooperative content-sharing plan with the Australian Federal Programme for Medtech and Pharmaceutical.

HealthTech Week 2021

HTA and the Callaghan Innovation HealthTech Sector team delivered significant support for HealthTech Week 2021 and produced a sector update report <https://hta.callaghaninnovation.govt.nz/news/activating-nz-healthtech-clearing-the-path-to-commercialisation>

A short video highlighting the work of the HTA and the impact it is having in the sector was used during HealthTech week and may be viewed at https://www.youtube.com/watch?v=NQEc4XY0q_o&t=7s

Head of Health Technology, Andrew Clews was interviewed on RNZ's "Nine to Noon" show with Kathryn Ryan on July 9th and discussed the challenges and opportunities in HealthTech and Callaghan Innovation's role in supporting this sunrise sector. Listen at https://www.rnz.co.nz/audio/player?audio_id=2018803272

Other clusters

Other significant clusters where Callaghan Innovation is focusing its efforts include:

- **The Māori economy** - In 2020/21 we worked to increase and improve the support that Callaghan Innovation provides the Māori economy. Examples of Māori organisations that we are working with include:
 - \$20k R&D co-funding for Wakatū Incorporation - Developing Phase 1 of their R&D Commercialisation Strategy
 - \$20k R&D co-funding for Te Whānau a Apanui - Digital Twin Environmental Pest Management Collaboration
- **Industry 4.0 Demonstration Network** - Established in 2020/21, the network reached over a thousand customers in its first year and programmes, such as Smart Factory visits, were able to successfully pivot to digital and virtual delivery in response to Covid.
- **Food Innovation Network** - NZFIN is a government funded, food innovation-to-commercialisation service which bridges the gap between a new product idea and a multimillion-dollar factory. Start-ups can bring a vision to life, while large established companies can undergo R&D, trial new products or test specialised manufacturing machinery before purchase.
- **Bioresource Processing Alliance (BPA)** - Of the 128 new products or processes developed for BPA industry partners to date, three recently completed projects have further progressed for commercialisation. FY21 Q3 saw the launch of a new product in Avocado Powder.

NZ Food Innovation Network

Five sophisticated food and beverage production facilities across the country provide a unique level of expertise and access to a diverse range of equipment for the F&B industry. Each hub has a specialist focus, and a business might work exclusively with one, or might start with intensive R&D in one hub then move to another for proof of concept and scale-up.

Across the network NZFIN has worked with **211 clients** delivering **620** completed projects (in the 12-months ending 30 June 2021). Demand is increasing steadily with several of the hubs working at close to full capacity.

Service Performance for the year (preliminary results)

Customer numbers and NPS - Over the 2020/21 financial year, Callaghan Innovation has seen a significant increase in the number of businesses accessing its services. Despite this increase in numbers, we have been able to maintain our service quality with our net promoter scores exceeding our targets in most cases.

The Covid-19 restrictions have led to cancellation of the majority of our international missions and have impacted on events and programmes, that are reliant on borders being open, from March 2020 onwards. This has meant that we are unable to report net promoter scores for those activities.

Accelerate Newsletter - An unscheduled outage in January 2021 meant that the January edition of our Accelerate e-newsletter was only delivered to approximately 50% of the total newsletter database. This has lowered the average open rate for the newsletter. In addition, lower than anticipated engagement with our Accelerate newsletter means we did not achieve our performance standard of 3,500 unique opens. However, we did see our highest number of monthly opens (3,147) which we can attribute to a marketing campaign, which ran in the last quarter to help increase awareness and drive newsletter subscriptions, plus our digital portfolio team de-duped a large number of our CRM customer records.

Food Innovation Network - Funding was approved in Budget 2021 to continue the FIN initiative through until 2024/25.

Māori Economy - The work to define our role as a Treaty partner crosses over two financial years and is being delivered as part of Tātai Whetū programme. We have achieved the milestones set for this work for the 2020/21 financial year.

Performance Measure	2019/20 Result	2020/21 Performance Standard	Q3 2020/21 Result	2020/21 Preliminary Result
Callaghan Innovation - Operations appropriation -				
Total number of organisations working with Callaghan Innovation on services this Financial Year	2,866	2,600	2,964	3,043
Net Promoter Score of all surveyed customers	+74	+60	+74	+70
Total number of organisations working with Callaghan Innovation and NZTE as a F700 customer ²	386	300	632	668
Number of customers who worked with Callaghan Innovation in the following services: Events; International Missions; Innovation Skills (formerly 'Programmes')	1,101	1,000	581	1,008
Net Promoter Scores for the following Callaghan Innovation Services:				
- Events	+48	+30	+43	+47
- International Missions	+69	+60	N/A	N/A
- Programmes	+74	+60	+72	+57
Callaghan Innovation - Operations appropriation - RTS				
Number of customers with a Research and Technical Service project this financial year	256	216-264	282	285
Net Promoter Score from Research and Technical Services	+47	+40	+60	+58
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	Achieved	Achieved
Callaghan Innovation - Operations appropriation - R&D short term loans				
Percentage of existing Callaghan Innovation customers provided with a decision within four weeks of their application being received	N/A	80%	84%	82%
2020/21 SPE				
Total unique opens of Callaghan Innovation's monthly Accelerate e-newsletter	N/A	3,500	1,949	2,905

Performance Measure	2019/20 Result	2020/21 Performance Standard	Q3 2020/21 Result	2020/21 Preliminary Result
2020/21 SPE - Scale-Up NZ				
Organisations profiled on Scale-Up NZ	N/A	2,000	2,330	2,191
Introduction requests	N/A	450	421	452
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
2020/21 SPE - Māori Economy				
Number of Iwi & Trusts served	N/A	5	16	16
Defining our role as Treaty partner	N/A	Achieved	On-track	Achieved
2020/21 SPE - Bioresource Processing Alliance (BPA)				
Number of industry partners involved in research projects	N/A	Baseline to be established	36	Baseline of 39
Number of new products or processes developed for industry partners	N/A	Baseline to be established	109	Baseline of 128
2020/21 SPE - NZ Product Accelerator (NZPA)				
Number of industry partners involved in research projects	N/A	Baseline to be established	40	Baseline of 65
Number of new products or processes developed for industry partners	N/A	Baseline to be established	37	Baseline of 56
2020/21 SPE - NZ Food Innovation Network				
Continued operation of the New Zealand Food Innovation Network and support MBIE with the programme review	N/A	Achieved	On-track	Achieved
Repayable Grants appropriation¹				
Number of customers that received a service from either an incubator or accelerator	204	170	198	296
Net Promoter Score from Startup customers	+71	+60	+69	+62
2020/21 SPE - Tech Incubator Programme				
First ventures for funding from the Tech Incubator Programme	N/A	Achieved	Achieved	Achieved

Performance Measure	2019/20 Result	2020/21 Performance Standard	Q3 2020/21 Result	2020/21 Preliminary Result
Percentage of surveyed start ups who agree that they have gained business or commercialisation skills as a result of working with the incubator/accelerator	N/A	60%	Not available at the time this report was produced	97%
Industry 4.0 appropriation				
Number of customers who received a service during the financial year	N/A	Baseline to be established	482	Baseline of 1,118
Net Promoter Score from customers who receive a service during the financial year	N/A	Baseline to be established	52	Baseline of 47.4
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	Achieved
2020/21 SPE - GIQ Programme				
Demolition of four structures onsite	N/A	Achieved	Off track	Not achieved
Construction of a hazardous goods facility commenced	N/A	Achieved	Off track	Not achieved
Construction of flexible office accommodation commenced	N/A	Achieved	On track	Not achieved
GIQ Strategic Services Programme Business Case complete	N/A	Achieved	Off track	N/A
Sitewide Masterplan complete	N/A	Achieved	On track	Achieved
Biotech Hub Indicative Business Case complete	N/A	Achieved	On track	Achieved (Stage one)
Callaghan Innovation capital appropriation				
Any physical and virtual infrastructure investment is aligned with the overall strategy	Achieved	Achieved	On-track	Achieved
Any major capital project proposal is developed in accordance with published Treasury business case guidance	Achieved	Achieved	On-track	Achieved

Performance Measure	2019/20 Result	2020/21 Performance Standard	Q3 2020/21 Result	2020/21 Preliminary Result
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	Achieved
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	Achieved

¹Note the measures in this appropriation relate to all incubator and accelerator programmes and are not limited to Tech Incubator clients

²We 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 Supplementary Estimates for 2021/22.

Focus for Q1, 2021/22:

- The Industry 4.0 Mobile Showcase is already scheduled for 24 events in the lower North Island and Canterbury for the first quarter of 2021/22, including a planned visit in August by Minister Nash. Six Network Off Site Visits (factory floor visits) has also been planned for the first quarter.
- The Industry 4.0 programme will be developing virtual Smart Factory visits to remove access barriers to physical visits so the experience can be delivered remotely. Detailed design and build of the virtual experience including shooting of 3D videos will be done in the first quarter of 2021/22 to enable delivery to customers in the second quarter.
- GIQ Programme is undertaking a strategic assessment, in consultation with MBIE, to define the key strategic choices that could shape the future redevelopment of GIQ and provide a decision point to proceed to an option and investment proposal.
- GIQ Programme will carry out a feasibility assessment of developing a Biotech Hub at GIQ to strengthen and grow the New Zealand biotech sector.
- GIQ Programme will complete the construction of a new laboratory for MSL's Time and Radio Frequency Lab to house New Zealand's Atomic Clocks.

4. We're now ready to embed the transformation into our core business activities

and so achieve better outcomes for our customers and our people

We're on track with our transformation investment and have started to realise the benefits from it – particularly our **Digital Transformation** and our **Tātai Whetū** programmes, where the new tools and insights have enabled us to engage more effectively and efficiently with our customers, as well as internally within Callaghan Innovation.

Callaghan Innovation is undergoing an extensive transformation – this work is modernising how we operate and ensures that our technology, systems and processes, and our facilities have the right capability to support innovation in Aotearoa

Our Digital Transformation programme

Over 2020/21 our Digital Transformation gained momentum and we're starting to realise the benefits. The Programme has largely been about enabling baseline technology benefits, by transitioning legacy services into cloud offerings and activating new security, connectivity, collaboration, and communication tools as a means of enabling better and safer experiences for staff, customers and collaborators. This lifts us onto a foundation that enables us to better keep pace with the extremely fast growth in science and technology as well as being better prepared for cybersecurity threats.

Results thus far:

The Hiwa-i-te-rangi project is improving the way businesses access funding by digitising the current, heavily manual processes into a more automated and intuitive experience. The new RDTI technical platform is ready to go live pending final liaison with Inland Revenue. The project has now turned its attention to the Grants application process.

New intranet - Te Waka Huia - and Document Management System (DMS). We're poised to roll out a new intranet, DMS and workflow management tools to replace the current legacy platform. This affects all staff, so we've prioritised making this a good staff experience in light of the significant changes they're currently subjected to. As a result this looks set to be very successful with good staff buy-in, which ensures we maximise the new collaborative capabilities as well as enabling compliance with the Public Records Act.

Iho Matahiko - a new agency website. This project aims to create a digital "front door" that enhances the operation of New Zealand's innovation ecosystem by empowering more innovators to access the support they require to accelerate their journey. Significant groundwork has been required for this project and it is progressing well and will lead to a whole new digital customer experience

Infrastructure improvements. We are finishing the first phase of our network optimisation. This secures our connectivity to the outside world, improves the resilience and performance of both our corporate and science networks, and enables greater flexibility to meet future demands for high speed connectivity. This, combined with investment in cloud computing, has meant our teams are able to work more effectively from any location. Over 70% of all Callaghan Innovation-initiated interactions are now online, and this is close to 90% for all internal meetings.

Security tools introduced. We've invested heavily in baseline security operations capabilities by introducing a range of security tools to protect our Digital assets from the growing number of external threats. We've enabled additional real time event management and monitoring capabilities across our Digital ecosystem, and continue to retire legacy products that are no longer fit-for-purpose or fail to meet foundation security characteristics.

This investment has been driven by a range of security maturity gaps observed in our Digital platforms, and a recognition that cybercrime is increasing and that Callaghan Innovation is a potential target.

- Introduction of Google Meet has resulted in **over 70%** of all Callaghan Innovation-initiated interactions occurring online, and this is **close to 90%** for all internal meetings.
- **479 alerts** generated and responded to as a result of new security tools installed during the June quarter.

Our Tātai Whetū programme

The Tātai Whetū programme is focused on carefully and deliberately redefining and evolving our vision and ways of working, so we can deliver more effectively on our mandate.

It includes developing a new operating model, embedding new ways of working and an understanding of the customer experience in our services, and embedding the values and characteristics of an exemplary Treaty partner. It also includes managing change better and creating a unified approach to managing risks.

Highlights from the past year included the Tātai Whetū programmes **vision project** developing a refreshed vision and purpose statement for Callaghan Innovation. The project involved engaging in over 50 face to face sessions with staff across the organisation and confirmed Callaghan Innovation adopting as it's own vision, our namesake Sir Paul Callaghans' vision for 'New Zealand to be a Place where Talent wants to Live'.

Related to our vision, our behaviors reflect the culture we want to have. Building on the vision project and many months of kōrero, reflection and valuable feedback from our people, our **behaviors project** created four core behaviours that are at the heart of our work.

- **Karawhiu** - We have the courage to give things a go
- **Whakatauirā** - We lead by example, and trust others to do the same
- **Pūmanawa** - We use and share our knowledge to create better outcomes for all
- **Tautoko** - We support others to be successful in their roles and lives

Te Unuhanga (our Treaty Partnership project) is focused on identifying and embedding the values and characteristics of an exemplary treaty partner at Callaghan Innovation. The project has been working with expert partners in recent months to explore what that looks like in the spaces we occupy across the innovation ecosystem. It will present recommendations for the future in Q1 of next FY.

The **He Rangi Hou Kei Tua project** led to the embedding of a new change framework to enable and support consistent change management across all of Callaghan Innovation's programmes and projects, and change throughout our business. Providing a consistent, flexible and scalable approach to managing change, He rangi hou kei tua provides a simple pathway through change, supported by tools and resources for each of the four stages of our change pathway - as well as a knowledge library and community of people to help.

Our **Smart Risk project** is focused on creating and embedding a unified approach to risk management that supports robust decision making so we can manage risks to success, continuously improve and be a lead government agency on risk management. This year the project has successfully delivered a new Risk Management Strategy and Risk Control Framework and ELMO Online Training module across Callaghan Innovation to support our people in their roles to identify, manage and escalate risks.

Through our **Customer Experience project** this year we approved our Customer Engagement Framework for adoption and future implementation in Callaghan Innovation. This framework supported by the Customer Engagement Process and Business Requirements, will provide customers with a pathway to consistently engage with Callaghan Innovation and access our products and services. The work is a key input into our future customer digital experience.

Closely linked to our customer experience is our **Operating Model project** that has been focused on building a fit-for-purpose operating model that supports the delivery of Callaghan Innovation's strategic objectives. Over this financial year, the project has delivered a high level future operating model blueprint, further supported by detailed design of each of the operating model blueprint elements.

Our Homesafe programme

The projects in this programme focus on ensuring the risks we face are effectively managed when we do our work, so that we keep ourselves and the people we work with safe and healthy. We are also responsible for our Carbon Neutral project, ensuring we meet the government requirement to measure and publicly report on emissions and to offset by 2025.

There are six projects that make up the HomeSafe programme. The following projects are well into their discovery phase:

1. Critical H&S Risks (currently mainly focused on Hazardous substances)
2. Emergency Management
3. Carbon Neutral

The projects were realigned in January 2021 based on Callaghan Innovation's critical risk profile and resource has been engaged to manage the three projects above.

In addition, the following projects will start in FY 21/22:

1. Leadership and Culture
2. Work Related Health
3. Data and Intelligence

Service Performance for the year (preliminary results)

Data Integration Platform - The Data Integration Platform is a multi-year project and set to conclude in Q1 of FY22. All milestones have been met to date and the project is on time and within budget.

Network optimisation - This is a multi-year project replacing old network infrastructure with new fibre infrastructure across the multiple Callaghan Innovation sites. The project is scheduled to conclude in December 2021 and is on time and budget. The team is working on migrating Christchurch, Asteron and Gracefield to the new Network. Work is also planned to refresh the Science network and provide additional segregation as a means of reducing the risk profile of this environment. Additional optimisation opportunities are being scoped for on-going delivery into FY22.

Hiwa-i-te-rangi - The new RDTI platform was delivered in May 2021, and the team are working through some final due diligence steps with Inland Revenue prior to enabling the business to Go Live. Due to RDTI platform build activity taking priority, the Grants platform delivery has been re-forecast to March 2022. The Build phase of this is now underway.

PCBU and HSE Critical Risk Frameworks - The need for dedicated proactive resources for these two projects was reviewed and a decision to reprioritise the resources was made. The projects were subsequently transferred to the HomeSafe Programme.

Performance Measure	2019/20 Result	2020/21 Performance Standard	Q3 2020/21 Result	2020/21 Preliminary Result
2020/21 SPE - Digital Transformation Programme				
Data Integration Platform: Implement new data integration platform and critical Integrations to support new Grants and Website platforms.	N/A	Achieved	On Track	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	On Track	Achieved*
Hiwa-i-te-rangi: Deliver a new Grants platform.	N/A	Achieved	On Track	Achieved*
2020/21 SPE - Tātai Whetū Programme				
Embed new Operating Model and associated processes	N/A	Achieved	On-Track	Achieved
Deliver Shared Vision, Values, and Identity	N/A	Achieved	On Track	Achieved
Embed new Risk Culture in Callaghan Innovation	N/A	Achieved	Off-Track	Achieved
2020/21 SPE - Health and Safety				
Full implementation of PCBU framework	N/A	Achieved	Delayed	Achieved
HSE Critical Risk Framework Operationalised	N/A	Achieved	Delayed	Achieved
Wellbeing strategy operationalised - engagement score for Wellness above 6.9 and Happiness above 7.4	N/A	Achieved	On-track	Achieved

**This is a multi-year programme of work. All milestones have been met to date and the project is on time and within budget.*

Focus for Q1, 2021/22:

- **Data Integration Platform** - Completing the implementation of a common data integration platform and integration with key Callaghan Innovation corporate systems
- **Network Optimisation** - Completing the Fibre installation at the GraceField site
- **Hiwa-i-te-rangi** - Completion of initial design and build phase of underlying grant platform, processes and mechanisms to ensure the product is ready for Grant Product design and release
- **Operating Model Phase 3: New Ways of Working** - Completing a discovery stage that informs the planning, design and implementation stages of introducing 'New Ways of Working' into the organisation and in turn bringing the new operating model to life.
- **Treaty Partner (Te Unuhanga)** - Planning for the future embedding of the values and characteristics of an exemplary Treaty Partner into the organisation.
- **Smart Risk Project** - Communicating the new Risk Management Strategy to the organisation and delivering further training of the Risk Management tool across Callaghan Innovation. Conduct a Risk Maturity Assessment of the organisation.

5. Organisational Performance

Financial Performance

Key Financial Indicators to 30 June 2021¹

	Actual \$m	Budget \$m	Variance \$m
Group surplus/(deficit) after non-operating items	(5.536)	(1.139)	(4.397)
Revenue	127.030	137.894	(10.864)
Expenses	133.363	139.684	(6.321)
Interest income and non-operating items	0.798	0.651	0.147
Cash and deposits	53.949	47.674	6.275

The full year deficit is significantly higher than budget, driven by the removal of the majority of COVID relief funding.

Revenue

- The National Science Challenge has continued to build its investment pipeline this year, however payments for specific projects remain behind the planned timing for the current year. This is driving lower than planned revenue, which is recognised as costs are incurred, although it is expected to catch up in future years of the programme (\$4.5m). Given the alignment between costs and revenue, there is no margin impact resulting from this revenue shortfall.
- MBIE has confirmed that only \$1.1m of the expected \$5.3m of COVID-19 relief funding would be available this year, with the balance transferred to out-years and re-prioritised to cover R&D loan operating costs. This has created a \$4.2m funding shortfall and will have significant impacts on retained earnings and our ability to fund transformation investment from FY2022 onwards.
- Demolition funding of \$1.4m was transferred to FY2022 (through the 2020 October baseline update), to align with the expected timing of the activity.
- Commercial revenue has been broadly in line with budget, however this reflects two distinct stories. While there has been stronger than expected revenue growth in NZ, as the COVID-19 recovery translates into demand for R&D support across our customer base, there have been challenges in international markets, where demand has slowed and challenges with international supply chains have impacted project delivery (particularly for the Kivistar).

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 hosted by Callaghan Innovation.

Expenses

- In line with the revenue trends described above, there are lower than planned contract delivery costs in the National Science Challenge (\$4.5m) and the GIQ demolition programme (\$2.0m).
- While overall FTE levels are below budget and generating savings, these are being used to fund investment in our transformation programmes (primarily through the short term use of contractors and fixed term staff to address specific skill sets required in the short to medium term). The largest investments are in our Digital, HomeSafe and Tātai Whetū programmes. Both the planned and additional personnel investment in our programmes is also generating shortfalls against budgeted Other Costs, where some of the initial programme cost was budgeted.
- There have been continued savings on travel and we continue to leverage our investment in G-Suite to remotely collaborate more effectively.
- The Kiwistar business was revalued at year end as a result of where we are at in the sale process, resulting in an unbudgeted impairment charge of \$1.4m in June 2021.

Cash and deposits

- Slower than planned capital investment following COVID-19 impacts and the complexity of the demolition process on the GIQ site has meant capital spend is lower than planned. Several new projects have been approved so far this year, however, and spending is expected to ramp up towards the end of 2021.
- There has also been continued growth in revenue in advance, as the Bioresource Processing Alliance and National Science Challenge continue to build up a pipeline of investment opportunities that will only start to translate into increased spending in FY2022.

Enterprise Risks

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

Improvements in Enterprise Risk Management (ERM)

Over the last 18 months, we have been working on creating and embedding a unified approach to risk management that supports robust decision making, so we can manage risks to success. So far, we have refreshed our risk management framework and policy, developed a risk management strategy, conducted a risk culture review and established a project to build the risk capability within the organisation.

Over the last quarter we continue to build and improve our approach to risk management, pivoting to understand the importance of proactive risk management and responses. We are now pivoting to the way we capture and manage risk, including the way we report risk information. We have an initiative underway to streamline our risk management processes and practices through integration and synchronization. This enhances the visibility of Callaghan Innovation's current aggregated risk position and risk profile to make more effective agile

decisions, where people are empowered to make risk informed decisions through collaboration, data and defined governance.

We have redefined and consolidated the 25 strategic risks to make it more meaningful and manageable for the organisation and continue to work through identifying critical controls to measure and test the extent of the risk.

Update on risks identified in the Quarter 3 report

Health and safety risk management

A review of events (incidents, near misses, and identified hazards) for the last quarter have been analysed. We have identified that contractor management issues are affecting work activities and contributing to significant near miss events. Work is continuing with our critical risks and reviewing the controls we place to prevent and mitigate events.

Leadership in health and safety progressed, with the Board, ELT and Group Managers now having set targets for active engagement with staff on critical risks which was a recommended action from the Chief Executive of WorkSafe New Zealand in a recent Institute of Directors article².

Project Grants

In June, the Board approved several changes to the eligibility criteria for project grants to constrain demand. These changes further limit the level of historic R&D activity customers can carry out before becoming ineligible for a project grant, and come into effect in July.

Based on current forecasts these changes should ensure we can approve grant applications through to the end of the appropriation in June 2022, however grant activity and projections will continue to be closely monitored.

New risks identified this quarter

Security Risks

In response to the Waikato DHB ransomware incident we have strengthened several operational security measures which will improve our ability to prevent, detect and respond to ransomware. We have made significant progress in improving our management of security risks through:

- establishing a Chief Security Officer role with ELT oversight;
- endorsing an enterprise security framework;
- briefing the Board on cybersecurity; establishing physical and cybersecurity standards and managing a programme of ongoing converged security activities covering cyber, physical and personal security. As cyber crime evolves rapidly, it is envisaged that security will become an area for ongoing investment in order to ensure the safety of Callaghan Innovation and customer data and IP from an ever volume of cyber threats.

² <https://www.iod.org.nz/news/boardroom/boardroom-autumn-2021/focus-closely/#>

Research and development tax incentives

In May through to July, we have been working with Inland Revenue on an active issue where they have expressed concern about our use of G-Suite as a document storage and management solution for Sensitive Revenue Information relating to applications for the RDTI.

We continue to work closely with Inland Revenue to understand the impacts on RDTI operations and the go-live for the Hiwa-i-te-rangi (Pega) project and to define a path forward.

GIQ Programme supplier risk

In March we were notified that the preferred supplier for the Flexible Laboratory project had entered voluntary administration. An objective assessment of viable options identified a preferred option to continue to trade with the identified supplier, whilst in voluntary administration.

Callaghan Innovation was successful in obtaining the majority of contractual protections sought through contract negotiations. We are continuing to monitor the sales process of the supplier and understand a number of offers to purchase the business have been presented for consideration.

Appendix 1: Detailed Grants Forecast and Financials

\$000's	R&D Growth Grants	Targeted Business R&D Funding (Project & Student Grants)	Repayable Grants	Total*
<i>Appropriation period</i>	<i>FY18 - FY22</i>	<i>FY18 - FY22</i>	<i>FY20/21</i>	
Total appropriation	743,109	226,335	18,809	
Cumulative expenditure (FY17 - FY20)	578,047	106,406	n/a	
Remaining balance available at the start of FY20/21	165,062	119,929	18,809	
FY20/21 Budget Spend	138,400	32,500	17,900	188,800
FY20/21 Actual Spend	137,851	41,583	13,695	193,129
Remaining appropriation at 30 June 2021	27,211	78,346	5,114	
Forecast Surplus/(Deficit) at end of appropriation	21,368	(13,639)	n/a	

* 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 and March 2021 baseline updates) 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	Full year actual \$000	Variance \$000	Performance measures
Operational funding				
Callaghan Innovation - Operations MCA	84,635	84,886	251	11 out of 12 performance measures are on track. Two measures won't be achieved because of border closures. Further details are located in the ' We upgraded the investment incentives for R&D ' and ' We've made good progress on our priority projects and our transformation programmes ' sections of this report.
National Measurement Standards	8,118	8,118	-	2 out of 2 performance measures are on track. Further details are located in the ' We've made good progress on our priority projects and our transformation programmes ' section of this report, and the Measurement Standards Laboratory appendix .
Industry 4.0	2,375	2,034	(341)	2 out of 2 performance measures are on track. Further details are located in the ' We've made good progress on our priority projects and our transformation programmes ' 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 ' We've made good progress on our priority projects and our transformation programmes ' section of this report.

Appropriation Name	Full year Budget * \$000	Full year actual \$000	Variance \$000	Performance measures
Grants				
Repayable Grants	18,809	13,695	(5,114)	1 out of 2 performance measures are on-track. Further details are located in the ' We've made good progress on our priority projects and our transformation programmes ' section of this report.
Business Research and Development Growth Grants (FY20/21 only)*	154,712	137,851	(16,861)	The performance measure for this appropriation has been achieved. Further details are located in the ' We upgraded the investment incentives for R&D ' section of this report.
Targeted Business Research and Development Funding (FY20/21 only)*	82,106	41,583	(40,523)	5 out of 6 performance measures are on track. Further details are located in the ' We upgraded the investment incentives for R&D ' section of this report.

* The values provided above reflect the latest supplementary estimates finalised through the March Baseline Update.

Appendix 3: Detailed Financial Results

Statement of Revenue and Expense, Callaghan Innovation Group, for the period ended 30 June 2021

	Actual	Budget	Variance
	\$k	\$k	\$k
Revenue			
<i>Crown operating</i>			
Crown Funding - Other	526	1,413	(887)
Callaghan Innovation Funding	46,154	54,194	(8,040)
Strategic Investment	18,523	18,523	-
Business R&D Grants administration	8,014	7,789	225
National Measurement Standards	8,118	8,118	-
Programme Funding	5,348	3,378	1,970
Food Innovation Network	4,870	4,870	-
Total Crown operating	91,554	98,285	(6,732)
Crown contestable contracts and other	13,324	17,809	(4,484)
<i>Commercial revenue</i>			
Domestic Commercial	8,718	7,561	1,157
Overseas Commercial	8,149	10,835	(2,687)
Total Commercial revenue	16,866	18,396	(1,530)
Other Income	5,286	3,404	1,882
Total revenue	127,030	137,894	(10,864)
Expenses			
Personnel	64,805	60,141	(4,664)
Services and Contracts	18,804	37,513	18,709
Other costs	38,852	30,994	(7,858)
Depreciation	10,902	11,035	133
Total expenses	133,363	139,684	6,321
Operating surplus / (deficit)	(6,334)	(1,790)	(4,543)
Interest Income	844	510	334
Tax (expense)/credit	128	-	128
Non Operating Income	(174)	141	(315)
Surplus / (Loss)	(5,536)	(1,139)	(4,397)

* When the 2020/21 SPE budget (shown above) 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 the 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. This difference does not impact the budgeted or actual deficit.

In addition to the financial performance above, there was \$193.129m of both grant funding and grant expenditure during the period ended 30 June 2021, with no net impact on the observed deficit.

Statement of Financial Position, as at 30 June 2021

	Actual	Budget	Variance
	\$k	\$k	\$k
Assets			
Current assets*	155,971	83,962	72,009
Non-current assets			
Fixed Assets	79,655	93,965	(14,310)
Investment in associates	4,303	4,808	(505)
Total assets	239,929	182,735	57,194
Liabilities			
Current liabilities*	(126,091)	(53,782)	(72,309)
Non-current liabilities			
Non-current employee entitlements	(126)	(318)	191
Deferred tax	(564)	(775)	212
Total liabilities	(126,781)	(54,875)	(71,906)
Net assets	113,147	127,860	(14,713)
Equity			
Contributed capital	101,493	109,503	(8,010)
Accumulated surplus (incl. hedge reserves)	11,654	18,357	(6,703)
Total equity	113,147	127,860	(14,713)

* Includes equal and offsetting accrued grant income and grants payable of \$92.719m.

Statement of Cashflows, for the period ended 30 June 2021

	Actual	Budget	Variance
	\$k	\$k	\$k
Net cash flows from:			
Operating activities	13,425	12,032	1,393
Investing activities	(24,400)	(34,262)	9,862
Financing activities	3,958	12,060	(8,102)
Net increase / (decrease)	(7,017)	(10,170)	3,153
Add cash at start of period	60,966	57,844	3,122
Balance at end of period	53,949	47,674	6,275

The closing cash balance includes commitments of **\$43.4m** for:

- capital contributions/depreciation funding not yet invested in capex; revenue in advance
- subsidiary cash balances
- operational funding received for the GIQ programme which will be needed for future costs, and
- board defined minimum capital management requirements.

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 for Financial Year

- 147 calibration jobs delivered to customers
- 31 IANZ assessments of external laboratories carried out by MSL staff
- 190 Enquiries to info@measurement.govt.nz
- 3 proficiency test delivered
- 5,848 downloads of resources (e.g. technical guides, software) from measurement.govt.nz
- There were 108 technical procedures in validation on 1 July 2021, 2 of which were validated or revalidated during the three months from 1 April 2021 to 30 June 2021.
- IANZ has not audited MSL during this three- month period. There are no outstanding corrective action requests from previous audits.

Staffing

MSL has received approval to recruit new staff to cover vacancies created due to retirements, resignation and redeployment of staff to other areas of Callaghan Innovation.

In Q4 we have onboarded 4 new technical staff and seconded a new manager into MSL as a growth opportunity from staff within Callaghan Innovation .

Building projects

The new MSL building was 'officially' opened on World Metrology Day (20 May 2021). A celebration to mark this occasion was held involving Callaghan Innovation stakeholders, local dignitaries and local Iwi.

Temperature standards have moved into the new MSL laboratory building and have commenced commercial calibration. Electrical standards remain unable to occupy the new building due to challenges in achieving the required environmental control, a proposed solution is being worked through to resolve the issue. Work is expected to commence on implementation of this solution in Q1 FY22

Good progress has been made on the new Time Standards laboratory. Based on current estimated completion dates MSL plans to be in a position to commence moving our time standard into the new laboratory facility in early September 2021.

International Acceptance of New Zealand's Measurement System

In the past quarter MSL has successfully completed five yearly IANZ technical reassessments for our Mass and Time Standards. These assessments involved being audited by international

experts from fellow National Metrology Institutes to confirm MSL's accreditation status and provide confidence in the service and capabilities delivered by MSL. Due to travel restrictions these international assessments were completed with innovative use of mobile cameras and google meets platform to conduct 'virtual' lab tours to successfully demonstrate MSL's competence in each of these areas.

Focus for Quarter 1, 2021/22

- **Recruitment** - continuing the induction and training of newly hired staff.
- **Building environment** - Achieving acceptable environmental control in the new MSL building for Electrical standards to commence its move out of the McKay building. Commence planning to begin move of NZ Time Standard from McKay building to the newly completed Time & Frequency laboratory.
- **Strategic/Annual Planning** - Commence development of a new five yearly strategic plan. This will include development of MSL's next annual operating plan and a review and update of the MSL five yearly strategic science project document.
- **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

Financial performance

Overall MSL Revenue track well against Revenue target for FY2021. Personnel savings identified due to vacancies and fixed term roles have been reviewed, some positions have been deferred or removed. Delay in moving into new MSL building and delay in key capex projects due to COVID deferring depreciation recognised in FY21.

	Full Year Actual \$000	Full Year Budget \$000	Variance \$000
National Measurement Standards	8,118	8,118	0
Strategic Investment	133	133	0
Total Crown Revenue	8,251	8,251	0
Domestic Commercial	465	436	29
Overseas Commercial	54	67	(13)
Total Commercial Revenue	519	503	15
Other Income	18	15	3
Total Revenue	8,788	8,770	18
Expenses			
Personnel	4,120	4,486	365
Services and Contracts	84	275	191

	Actual YTD \$000	Budget YTD \$000	Variance \$000
Other Costs	1,174	809	(365)
Depreciation	847	1,088	241
Total Expenses	6,226	6,657	431
Contribution Margin	2,562	2,113	450

Use of MSL capital appropriation

As at 30 June 2021, MSL has spent 100% of its capital appropriation (\$1,858K). The focus now shifts to implementation of the FY22 capital appropriation spending plan.

Appendix 5: Gracefield Innovation Quarter Programme - Detailed Reporting

Our highlights for this quarter

Tactical Estates Continuity Programme

- In May we had the Official opening of the new MSL Building for Electrical Standards and Temperature Standards. Focus is on transitioning operations to be fully functional.
- The Auckland Shift and Co-location projects have reached practical completion and transiting into BAU management.
- The Microfabrication Cleanroom facility has been redeveloped to meet current classification. With practical completion achieved, the project is now in a four month transition and move stage.
- Initiated the refurbishment and replacement of Heating, Ventilation and Air-condition (HVAC) units to stabilise working conditions and plan for the replacement and disposal of R22 Refrigerant.
- Demolition of the Hector Building and an internal section of the fire damaged A Block.
- Refurbishment of the Coordinate Measurement Machine room to improve environmental conditions and house two new machines to carry out dimensional accurate and traceable measurement for MSL national contracts.
- Repaired and replaced sections of roofs across GIQ to support business continuity.
- Twenty of the twenty five urgent work packages that are resolving Health & Safety requirements at GIQ have been completed. The final five urgent work packages are scheduled to be completed in the next quarter.
- The TECP dashboards below demonstrate the current status of the tranche core work packages (projects) through a delivery framework lifecycle. It is important to advise that GIQ spend will dramatically increase in calendar year 2022 and 2023 with approximately 85% of project costs being incurred in the 'deliver' stage. An updated dashboard will be provided on a quarterly basis to show 'shift' in the TECP tranche core work packages. Further explanation can be provided on request.



Future-focused Strategic Programme

- The Design Team has completed the initial stage of work on the GIQ Masterplan. The high level and principles-based approach taken in the Masterplan establishes a foundation that can guide ongoing site infrastructure works, while also establishing a framework that can be developed and implemented as a layered and iterative process. This is an aspirational pathway for significant site transition over a 20-year period. The Masterplan sets a 'stake in the ground' that interprets and reflects GIQ briefing and stakeholder engagement to date, and provides a foundation to prompt broader engagement, iteration and refinement.
- Board agreed to pause the development of a Strategic Programme Business Case. Instead elected to carry out a Strategic Assessment to define the key strategic choices that could shape the future redevelopment of GIQ, to maximise its contribution to the RSI ecosystem, contribute to Government's policy goals and support New Zealand businesses to accelerate the commercialisation of their innovations. This strategic assessment will be undertaken in close consultation with MBIE with a decision point to proceed to option development.

Our focus for Q1, 2021/22

Tactical Estates Continuity Programme

- Complete the construction of the new laboratory for MSL's Time and Radio Frequency Lab to house New Zealand's Atomic Clocks. Construction completion is scheduled for July 2021, then a six month transition period will be required to support operations to be functional.
- Progressing the design stage to plan for the delivery of four significant TECP projects: Flexible Labs, Flexible Offices, Site Infrastructure, and Hazards Goods and Chemical Storage. These projects will progressive shift from the 'design' stage to 'deliver' (construction) stage from late 2021 through to early 2022.
- Continue with planning for the asbestos removal and demolition of the E Block and McKay Building. This work will be ramped up once the remaining occupants can relocate to the new MSL's Time and Radio Frequency Lab and Flexible Labs.
- Design and 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) is underway.
- Continuing installation of replacement HVAC systems and remediation of existing systems across the GIQ site.
- Continue the implementation of a Strategic Asset Management system to capture all asset information and direct the future management of assets.

Future-focused Strategic Programme focus for next quarter

- Carry out a Strategic Assessment to define the key strategic choices that can be considered to shape the future of GIQ.
- The Strategic Programme is progressing two pilot initiatives to test and review the masterplan design:
 - The Biotech Hub initiative: a cross-sector collaboration to confirm the value proposition of a national Biotech Hub at GIQ to support the strengthening and growing of the biotechnology sector with a key focus on commercialisation of science. In this quarter the initiative will develop high level concept design with associated costs to support a cost benefit analysis.
 - The Central Corridor initiative: focused on 'opening up' the Central Corridor that runs through the middle of the GIQ site to make way for new structures and facilities and establishing a defined area for 'active uses' to drive community innovation and connection. The initiative is determining the costs and benefits for opening up the central corridor and the sequencing of this possible work aligned to other redevelopment opportunities such as the Biotech Hub.

Finance Performance

- The Tactical Estates Continuity Programme's capital expenditure during Q4 was \$4.0 million, which was a lift from the previous quarter's \$2.4 million.
- Programme expenditure for the full 2020/21 financial year was \$9.7 million, which is an increase on the previous year (\$7.9 million).
- The programme's life-to-date capital expenditure at 30 June 2021 was \$25.4 million.

The following table outlines capital expenditure to 30 June 2021:

GIQ Capital expenditure	Actual (life-to-date) 30 Jun 2021 (\$000)	Forecast (total cost)* (\$000)	Budget Approved** (\$000)	Variance to Budget (▼ = under) (\$000)	Funding (per PBC)*** (\$000)
Tactical Estates Continuity Programme (GIQ Programme Business Case)					
Tactical Estates Continuity Programme Tranches:					
T1 - Emergency Response Works	14,827	15,798	16,638	▼ 840	12,157
T2 - Deferred Maintenance	2,727	6,605	6,957	▼ 352	11,300
T3 - Hazardous Goods & Site Infrastructure	848	4,817	4,819	▼ 02	34,942
T4 - Flexible Workspaces	1,162	10,405	10,405	-	19,768
T5 - Business Growth Workspaces	5,803	6,217	6,119	▲ 98	23,580
Total Tactical Estates Continuity Programme	25,367	43,842	44,938	▼ 1,096	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 \$1.2 million during the June quarter. This was driven by construction of the new Time Laboratory in the Robertson Building, which is nearing completion.
- Tranche 2 Deferred Maintenance expenditure during Q4 was \$1.0 million. This was driven by the completion of fit-out works within G Block to accommodate Trinity Bioactives, in addition to several smaller projects to address health and safety risks across the site.
- Tranche 3 Hazardous Goods & Site Infrastructure projects both continued with their design stages. With external design teams appointed, expenditure has now picked up with \$0.4 million incurred during the June quarter.
- Tranche 4 Flexible Workspaces expenditure of \$0.9 million in the June quarter was driven by design work for both the Flexible Office Spaces and Flexible Laboratory Spaces projects.
- Tranche 5 Business Growth Workspaces expenditure was \$0.5 million during the June quarter. This continued to be driven by construction work on the new Microfabrication Cleanroom and the Coordinate Measurement Machine room. In addition, expenditure during the quarter was also underpinned by the GlycoSyn Roof Replacement on the Processing Building, which was completed during the quarter.

The programme is also supported by funding for operating expenditure, which is outlined in the table below:

Operating expenditure	Actual (Yr-to-date) 30 Jun 2021 (\$000)	Budget Approved 2020/21 (\$000)	Variance to Budget (▼ = under) (\$000)	Funding 2020/21 (PBC) (\$000)
GIQ Programme Office Costs	4,355	4,322	▲ 33	3,000
Demolition & Asbestos Removal*	735	2,743	▼ 2,008	797
Depreciation on GIQ Assets	786	1,437	▼ 651	3,470
Operating Expenditure	5,876	8,502	▼ 2,626	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 transferred forward again, into 2021/22.

- GIQ Programme Office costs include programme management, Gateway Reviews, personnel and overhead expenses associated with delivering the Tactical and Future Strategic focussed programmes.
- Demolition and Asbestos Removal costs during the June quarter were \$0.6 million. This was driven by the demolition of the Hector Building, an internal section of A Block (fire damaged section), asbestos removal across the site, and enablement works to facilitate the future demolition of E Block. Expenditure for the year was 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, and the MSL Time and Frequency team having to remain in the McKay Building, the cost of the McKay Building demolition will now fall in 2021/22. As part of the re-baseline of the GIQ programme, we have worked with MBIE to transfer funding of \$1.413 million 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. Depreciation costs will progressively increase as capital projects are completed.