



2.17 COVER BRIEFING

Southland Otago Regional Engineering Collective – Provincial Growth Fund Support for Engineering Companies

Purpose

The purpose of this cover briefing is to provide an overview of the Dunedin/Otago package that is due to be announced in September/October, and provides context for the eight individual engineering related proposals on the 29 August 2019 Senior Regional Official (SRO) meeting agenda.

Background

Rationale for Package

One of the key sectors identified by the Provincial Development Unit (PDU) for Provincial Growth Fund (PGF) investment is the Engineering/Manufacturing sector, with a particular focus on Otago and Southland regions.

The RED Ministers endorsed this focus and officials were asked to develop a package that included a range of Engineering/Manufacturing investment opportunities.

These are to be announced in late September/October along with other Dunedin projects such as the Centre of Digital Excellence and possibly the Dunedin Waterfront project.

Decisions for funding need to go through the agreed PGF decision making processes, including SROs, for projects within this package seeking funding of less than \$1 million.

Approach taken by PDU for Engineering/Manufacturing proposals

The PDU has been working directly with KiwiRail on its proposal to upgrade the Hillside Workshop and with Commercial Information on a potential large scale investment. In addition, the PDU has been working with the Southland Otago Regional Engineering Collective (SOREC) on how the PGF can assist the sector to rebuild some of the capability and capacity it has lost in recent years.

Two key issues were identified - the need for capital to invest in modern and more productive equipment; and the need for more workers, both skilled and unskilled.

Following the initial engagement with SOREC and a number of firms, which included testing several different types of interventions (including loans for equipment, grants based on number of workers employed, and grants for equipment), the Head of PDU agreed to officials working with individual firms to identify specific equipment a firm required that would increase the firm's productivity while also requiring new workers.

The PDU has visited each firm put forward for funding and discussed the firm's needs and opportunities. This has resulted in a package of proposals that covers 'enablers' at one end through to 'heavy engineering' at the other end.



Overall Package

The overall package is shown in the table below; it includes two tranches of funding (up to \$^{Comme}) for small engineering firms. The first tranche of proposals are included in Table 2 and following this cover briefing. The below package no longer includes ^{Commercial Information} as the PDU are still working with them on a possible proposal.

Table 1: Overall package Dunedin/Otago

| Project | Investment |
|---|---|
| Dunedin Waterfront (\$20m) | Invest in redevelopment of Dunedin waterfront to support the revitalisation and stimulation of economic development opportunities at the waterfront. In August, RED Ministers approved a grant of up to \$19.9 million of PGF funding for the Dunedin Waterfront. |
| CODE (\$10m) | Investment to support the development of a creative digital industry for New Zealand, including niche games for the health sector. The CODE announcement has been moved to coincide with these other possible Otago announcements. Dunedin City Council is currently reviewing the final version of the contract before execution. |
| Manufacturing/Engineering Sector (\$^{Commercial}) | |
| "Enablers for Engineering/ Manufacturing sector" | |
| Southland Otago Regional Engineering Collective – Regional Leader | Coordination across Otago/Southland sector, including possible investment in apprenticeships/training – ^{Commer} % funding of \$505,000 across 3 years. |
| The Makerspace – Petridish innovation hub | Fit-out and management of open access manufacturing space in the Petridish, central Dunedin – ^{Comm} / ^{Comm} funding to a maximum of \$317,500. |
| "Small Engineering companies – new plant – Tranche 1" (^{Commercial Information}) | Invest in equipment needed by individual firms to increase productivity (but ensuring equipment complements other firms' equipment). <i>Note: that the 8 projects presented in Table 2 below form the first tranche of proposed funding.</i> |
| "Small Engineering companies – new plant – Tranche 2" (^{Commercial Information}) | Invest in equipment needed by individual firms to increase productivity (but ensuring equipment complements other firms' equipment). |



| | |
|--|---|
| <p>“Heavy Engineering” (\$19.9m)</p> <p>Kiwirail Hillside Workshops</p> | <p>Provision of new/refurbished facilities at Hillside (Kiwirail workshops) in central Dunedin to accommodate fabrication, mechanical services and network services staff.</p> <p>Demolition of some buildings, upgrade of facilities with larger fit for purpose, modern heavy lift facility to undertake refurbishment of tourism carriages and midlife repairs of locos and large rolling stock.</p> |
|--|---|

Enablers and Small Engineering Firms

Enablers for the Engineering/Manufacturing sector

The PGF funded SOREC to undertake a two-stage study to consider how an Engineering hub might grow the capacity and capability of the engineering and manufacturing industry (SRO’s approved a \$^{Commercial Inform} grant for this study in July 2018). The feasibility study also assessed the current stakeholder experience and desired growth plans, and how the industry can compete for and gain more collectively.

Following the study SOREC sought \$^{Commercial Informa} for establishing an office with several staff, premises etc to help the sector. The PDU has encouraged a revised approach focused on ^{Commercial Information}. SOREC has asked for \$^{Commercial Information} across three years. The details ^{Commercial Information} are in the cover sheet but for the PDU ^{Commercial Informa} is a critical part of the overall package and will help not only the firms seeking funding for equipment but all other firms in the sector - especially with staffing needs.

Whilst seeking firms to engage with, the PDU also came across the Petridish - a collaborative working space occupying an entire building in Dunedin. Several start-ups based at Petridish are already manufacturing items and are using some of the firms seeking funding for equipment.

Petridish has plans to establish a ‘Makerspace’ for its tenants and anyone else to book and use to manufacture parts or pieces of equipment. The challenge for start-ups is to access some of the larger firms to manufacture parts with the opportunity to test via trial and error is usually not available. Therefore a space like this has the potential to play a key role in the wider sector.

Small Engineering companies – new plant

The PDU met with all the firms seeking funding for equipment as part of Tranche 1 and has begun meeting with other firms that might be part of Tranche 2. The approach taken was to discuss the firm, its current staff numbers, its growth objectives, the barriers to growth and opportunities for the PGF to assist with a ^{Comm/Comm} contribution toward equipment.

The PDU started with a view to fund equipment up to \$^{Commercial Information} but it became quickly apparent that most equipment needed would cost far less and that most firms could not easily find the capital to contribute toward equipment of that scale. Therefore the PDU has ended up with a range of investments - from \$^{Commercial Information} and are recommending these be funded at up to ^{Comm}%. The PDU has provided the estimated increase in the number of employees (see table 2 below) which was a key component when seeking opportunities for investment.



Table 2: Estimated increase in the number of employees

| Project | Total Project Cost | PGF Request | PGF Recommended | Sustainable Jobs Created |
|--|-----------------------|-----------------------|-----------------------|--------------------------|
| Installation of Horizontal Floor Borer | \$ Commercial Inform | \$ Commercial Informa | \$325,000 | Com |
| SOREC – Regional Leader | \$ Commercial Inform | \$ Commercial Informa | \$495,000 | Com |
| Commercial Information | \$ Commercial Inform | \$ Commercial Informa | \$ Commercial Inform | Com |
| SITE WELD – Engineering Machinery | \$ Commercial Inform | \$ Commercial Informa | \$350,000 | Com |
| BISON – Container Systems | \$ Commercial Inform | \$ Commercial Informa | \$110,000 | Com |
| UNITED MACHINISTS Accelerate Scalability Project | \$ Commercial Informa | \$ Commercial Informa | \$520,000 | Com |
| RED1 FABRICATION – Engineering Equipment | \$ Commercial Inform | \$ Commercial Info | \$93,000 | Com |
| PETRIDISH – Makerspace Project | \$ Commercial Inform | \$ Commercial Informa | \$240,000 | Com |
| Total | \$ Commercial Informa | \$ Commercial Informa | \$ Commercial Informa | Comin |

Through previous funding provided by the PGF, an analysis was undertaken by ^{Commercial Inform} to identify the pain points currently being faced by engineering and manufacturing firms in Otago and Southland. Current challenges highlighted by the review pointed at inability to meet demand, issues raising capital and inability to provide good employment options for low-skilled employees and apprentices.

Outright purchase of engineering equipment is a significant initial outlay for a growing company and often has to be strategically phased. Many of these companies have already drawn on shareholder equity, shareholder loans, commercial funding and bank loans. Government funding will allow these businesses to accelerate their growth through increased productivity as they will have the equipment they need to accelerate the production and output required to meet the demands of customers.

Financial analysis was undertaken by the PDU Investment Team for all applicants (except for ^{Commerc} ^{Commerc}). Results of the analysis are summarised in ^{Commercial Information} this analysis shows that many of the companies face barriers to growing their business. The analysis demonstrates that while they are stable long term firms, they are not making large profits, nor do they have particularly strong balance sheets to fund equipment themselves. This helps confirm that this sector needs support and highlights why a grant is the appropriate mechanism.



Recommendations

The PDU recommend SROs:

1. **Note** that a Dunedin/Otago package is due to be announced in September/October and that the Dunedin Engineering firm proposals and enabling proposals to be considered by SROs form part of this package.
2. **Note** that the PDU has visited each firm put forward for funding and discussed the firm's needs and opportunities. This has resulted in a package of proposals that covers 'enablers' at one end through to 'heavy engineering' at the other end.
3. **Note** that there are eight proposals that the PDU is recommending be approved by SROs and one proposal from Kiwirail that will be going to RED Ministers that forms part of the overall Manufacturing and Engineering package.

Commercial Information

Commercial Information

PROACTIVELY RELEASED