

### 3.03 CENTRE OF DIGITAL EXCELLENCE (CODE)

PGF Application		For: Approval	
<b>Applicant:</b>	Dunedin City Council (DCC)	<b>Pipedrive ID #</b>	Commercial Information
<b>Entity Type:</b>	Local Authority	<b>PGF Funding Sought:</b>	Commercial Information (total PGF funding request) <ul style="list-style-type: none"> <li>• \$10,000,000 (manifesto)</li> <li>• Commercial Information (additional funding request)</li> </ul>
<b>Region</b>	Otago	<b>Total Project Value:</b>	Commercial Information
<b>Tier:</b>	2 - Sectors	<b>Co-contribution rate:</b>	Comm% (of total project value) Comm% (of additional funding request)
<b>Sector:</b>	Digital Connectivity Skills	<b>Funding Structure:</b>	Grant

**We recommend that the IAP:**

- a) **Note** the \$10m request is part of the Labour Party Manifesto 2017 and that the PDU will put that request to RED Ministers.
- b) **Note** the additional \$<sup>Commercial</sup> request from the PGF is for Commercial Information, and has been subject to the standard PDU assessment process.
- c) **Note** the Commercial Information \$<sup>Commercial</sup> funding is subject to the applicant securing \$<sup>Commercial</sup> from other sources.
- d) **Note** PGF funded (\$<sup>Commercial Info</sup>) the business case required to support the delivery of this project.
- e) **Note** MBIE Innovation Policy team was closely involved in the development of the business case and is very supportive of this project.
- f) **Note** that given the \$10m project has a broad scope, including \$<sup>Commercial Inform</sup> per annum for several contestable funds and competitions, the PDU suggests it would seem feasible that the \$<sup>Commercial Inform</sup> per annum sought from the PGF for Commercial Information could be funded from the original \$<sup>Commercial</sup> per annum.

**Either:**

- g) **Agree** that Ministers should also approve \$<sup>Commercial</sup>, subject to the applicant securing \$<sup>Commercial</sup> from other sources, from the PGF towards the Commercial Information because:
  - a. The project has some alignment with PGF objectives; and

b. There is strong regional support.

OR

h) **Agree** that the \$<sup>Commercial</sup> should be absorbed into the \$10m CODE project. PDU recommends this option.

#### Proposal:

- The Labour Party Manifesto 2017 (manifesto) includes a commitment to invest \$10 million over 10 years to establish a Centre of Digital Excellence in Dunedin. Its vision is a \$1 billion games development industry in New Zealand.
- The manifesto also recognises that Dunedin is well-positioned to contribute to this vision through building on the city's emerging gaming and digital businesses, thriving start-up ecosystem, strong Māori partnerships, global linkages, and internationally-recognised academic centres.
- There are two parts to this proposal.
- Part 1 (manifesto commitment of \$10m) will focus on how to develop the human capital required to grow the gaming industry. This will include:
  - o developing digital skills,
  - o growing digital capability,
  - o supporting innovation through contestable funds, and
  - o attracting digital businesses to Dunedin.
- Part 2 will focus on the development of **Commercial Information**. The PGF funding request for Part 2 is \$<sup>Commercial</sup> with co-contribution (not confirmed yet) of \$<sup>Commercial</sup> from **Commercial Information**. Part 2 is not a manifesto commitment and would leverage Part 1 for successful delivery.

#### Assessment against the PGF criteria:

##### Eligibility Criteria

This application is eligible for PGF funding.

##### Labour Party Manifesto 2017 – A Commitment to CODE

As part of its election manifesto, the Labour Party committed to establish a Centre of Digital Excellence (CODE) in Dunedin to build on existing local, national and international gaming, digital business and academic strengths. The Labour Party's vision was for CODE, over 10 years, to contribute to a computer gaming sector generating \$1 billion of output through the following proposed activities:

- setting up a new Chair of Computer Gaming at Otago University;
- accelerating existing digital start-ups with an incubator space that includes a motion-capture studio, access to publishing software and mentorship programmes; and
- establishing a funding pool administered by private industry aimed at attracting young talent to the industry with post-school digital pathways and scholarships.

##### Business Case Summary

- A single stage light business case was developed to outline how Dunedin city will deliver on this project.
- The digital economy is the fastest growing segment of the global economy. Interactive media in particular – including video games, educational games, mobile apps, augmented reality and interactive storytelling – is at the forefront of transforming New Zealand's digital economy. In the last six years, the gaming industry grew on average by 39 per cent annually.

- The NZ Gaming Development Association reports that the total video games industry is now worth over \$500 million to New Zealand each year and its members export \$140 million annually. Notably, 93 per cent of revenue from New Zealand-made games comes from export markets.
- There are a growing number of successful high-tech businesses and start-ups in Dunedin, including gaming development companies – notably <sup>Commercial Information</sup> and <sup>Commercial Information</sup>.
- The video games industry, supported and grown through CODE, will be a catalyst for a stronger digital economy because it:
  - Will identify the most promising pathways to attract talent – particularly Māori, women and youth - to motivate them to tackle both “STEM” (science, technology, engineering and maths) subjects, and art and design, at secondary and tertiary level;
  - Sells directly into a significant global marketplace (e.g. app stores and other online platforms) that has many diverse segments and is growing strongly (once a game is successful its profits are scalable);
  - Supports the development of new technology products and firms in Dunedin (Augmented Reality, for example, has great potential in sectors such as manufacturing, healthcare, education and tourism); and
  - Provides a game development business ecosystem of supporting skills such as marketing and data analysis to ensure the likelihood of success.
- While CODE will primarily be focused on supporting and growing the video games industry, it will develop a complementary focus on <sup>Commercial Information</sup>. <sup>Commercial Information</sup>  
 and to establish a key point of difference for CODE.
- The proposal suggests this investment would accelerate the growth of gaming industry in New Zealand which would lead to more skilled jobs and higher export revenues.

### PDU Analysis

- The application presents CODE Part 1 and 2 as two interdependent but separate parts. It appears to make the assumption the \$10m manifesto commitment cannot be adapted and that any ‘additional’ activity needs to be funded separately. Given the positive feedback the <sup>Commercial Information</sup> proposal was receiving, the PDU suggested it be incorporated into the main proposal. The PDU also noted if it was not incorporated into Part 1, that co-funding would be required and to the applicant’s credit, possible co-funding has been found.
- Given that the \$10m Part 1 project still has a reasonably broad scope, including \$<sup>Commercial Informa</sup> per annum for several contestable funds and competitions, it would seem feasible that the \$<sup>Commercial Informa</sup> per annum sought from the PGF for <sup>Commercial Information</sup> could be funded from the original \$<sup>Commercial</sup> per annum.
- As such the PDU recommends \$<sup>Commercial</sup> be provided, in the form of a grant, over 10 years to cover both the original intention by the Labour Party for CODE and the <sup>Commercial Information</sup> opportunity that has been identified through the development of the Business Case.

PGF Criteria	Assessment Commentary	Rating (0✓ to 5✓)
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#### Link with fund and government outcomes

Creates permanent jobs	Over a ten-year period the applicant suggests CODE would result in: <ul style="list-style-type: none"> <li>• 30-50 new small video game studios, each employing on average <sup>Comme</sup> employees; and</li> <li>• 3-5 large video game studios, each employing on average <sup>Comm</sup> employees.</li> </ul>	✓✓✓
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	We suggest these numbers appear optimistic, but given the 10 year time frame may be achievable.	
Delivers benefit to the community	• N/A	
Increased utilisation and returns of Maori asset base	• N/A	
Enhanced sustainability of natural assets	• N/A	
Mitigation of climate change effects	• N/A	
<b>Additionality</b>		
Adding value by building on what is already there	<ul style="list-style-type: none"> <li>• CODE will leverage Dunedin's strength as a centre of knowledge, innovation and expertise in the digital economy.</li> <li>• This project will also build on the Dunedin Hospital project by focusing on games for health segment.</li> </ul>	✓✓✓
Acts as a catalyst for productivity potential in the region	<ul style="list-style-type: none"> <li>• There are currently 41 gaming studios in New Zealand and this is a high growth industry in New Zealand and around the world. This project would expedite the growth of number of studios that would be developing video games for different international markets.</li> </ul>	✓✓✓
<b>Connected to regional stakeholders and frameworks</b>		
Alignment with regional priorities	<ul style="list-style-type: none"> <li>• Strongly aligns with the Otago Regional Development (ORED) framework themes – innovation and productivity.</li> <li>• Strongly aligns with the Dunedin Economic Development Strategy 2012-23.</li> </ul>	✓✓✓
Support from local governance groups (inc. Councils, Iwi/Hapu)	<ul style="list-style-type: none"> <li>• Strong support from the Dunedin City Council, Southern DHB, University of Otago, Ngai Tahu and NZ Game Developers Association.</li> </ul>	✓✓✓
<b>Governance, risk management and project execution</b>		
Robust project management and governance systems	<ul style="list-style-type: none"> <li>• Project delivery and governance details are provided.</li> </ul>	✓✓✓
Risk management approach	<ul style="list-style-type: none"> <li>• A risk register is provided.</li> </ul>	✓✓✓
Future ownership / operational management	<ul style="list-style-type: none"> <li>• No fixed asset will be generated from this investment.</li> <li>• Dunedin City Council will manage the project.</li> </ul>	✓✓✓

## Video Game Industry Issues

- As of March 2018, there were <sup>Commercial</sup> full-time professional game developers working in New Zealand. Computer game development is one of New Zealand's fastest growing creative careers, with studios expecting to employ another <sup>Commercial</sup> people in the coming year.
- There are two key constraints for growth of NZ video game industry – skill shortage and funding.
  - o Skills shortages, especially in experienced senior staff, were constraining the growth of a quarter of the businesses. Many experienced developers come from offshore – <sup>Commercial</sup> % of the entire industry
  - o There are many tertiary students in Dunedin who aspire to get jobs in the computer game development industry, but don't have the right study options open to them to help get into employment. Some of these students enrol into the University of Otago's Computer Game Design summer school paper.
  - o One of the key constraints for growth of gaming industry is a lack of early-stage development funding for start-ups. There is a need to support video game development firms at all life stages.

## Financial Analysis

The financial case in the business case is based on the assumption that PGF would fund \$<sup>Commercial Inf</sup> and other investors would fund \$<sup>Commercial</sup> towards the total project cost of \$<sup>Commercial Inf</sup> over the years 2018/19 to 2028/29. There is a one off costs of \$<sup>Commercial</sup> over 2018/19 to 2021/22 to cover establishment costs.

The cash flows for the project (Part 1 and Part 2):

<i>Operating expenditure</i>	<i>\$m</i>
2018/19	Comm ercial Infor mation
2019/20	
2020/21	
2021/22	
2022/23	
2023/24	
2024/25	
2025/26	
2026/27	
2027/28	
2028/29	
<b>Total</b>	

## Funding Arrangements

### Requested

A grant of \$10m over 10 years for Part 1. A grant of \$<sup>Commercial</sup> for Part 2, subject to the applicant securing \$<sup>Commercial</sup> from other sources.

### Recommended

A grant of \$10m over 10 years for both parts.

## Due Diligence and Ownership

The PDU works with DIA to assess risk around local authorities (In this case, Dunedin City Council).

CODE's present Steering Group has an independent chair (Commercial Information) and comprises:

- Privacy of natural persons

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### Risk Assessment

The key risks to the PDU and proposed mitigations of this investment are as follows:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
<b>Investor Risk</b>	Other investors – Dunedin City Council, Southern DHB and University of Otago are unable to reach a consensus on investment terms.	<ul style="list-style-type: none"> <li>• All parties should engage early and develop an investment plan along with terms.</li> </ul>	Low
<b>Financial Risk</b>	Lifecycle costs are not managed within the funding allocated.	<ul style="list-style-type: none"> <li>• Tight monitoring of project budget.</li> <li>• Fixed price offers from third party vendors.</li> </ul>	Medium

### Consultation undertaken or implications:

The Innovation Policy team has been closely involved in the development of the CODE business case. We have had a representative, Richard Walley, on the Steering Group, and have provided feedback on earlier drafts of business case.

We support the core elements of the proposal relating to developing the gaming industry in Dunedin, but consider that there is also considerable opportunity to leverage the Dunedin hospital rebuild and the region's medical/health sector expertise through the gaming for health aspects which expand on the original proposal but have attracted third party co-funding.

Minister Woods has been informed about the application via the weekly report, and we may provide extra information via a short briefing.

<b>Supporting proposal:</b>	Yes
<b>Appendices:</b>	Yes – Business Case, application and supporting letters are as annexes
<b>Author of paper:</b>	DG, Investment Management Team