



Dunedin/Otago Package Overview

Purpose

The purpose of this cover note is to provide an overview of the Dunedin/Otago package that is due to be announced in September/October. This will provide context prior to Regional Economic Development Ministers' (RED Ministers) consideration of Provincial Growth Fund (PGF) applications; KiwiRail Dunedin Hillside Workshops and Commercial Information.

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. RED Ministers considered this as part of the Sector Investment Briefing [3942 18-19 refers] at the RED Ministers meeting 26 June 2019.

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 have gone through the agreed PGF decision making processes, including the two PGF applications for RED Ministers' consideration; KiwiRail Dunedin Hillside Workshops and Commercial Information.

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 an Commercial Information 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 (Commercial Information Commercial Information) for small engineering firms, further details provided in Annex One. The below package does not include Commercial Information at this stage; Commercial Information

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 – ^{Commercial} % 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} / _{Co m} 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 approved by Senior Regional Officials in Annex One 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>
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Annex One: Senior Regional Officials Meeting 29 August 2019

Eight proposals were approved by Senior Regional Official's on 29 August 2019 to form the first tranche of funding for small engineering firms (Commercial Information). This tranche will invest in enabling factors such as the coordination role and equipment needed by individual firms to increase productivity (ensuring equipment complements other firms' equipment).

Project	Applicant	Total Project Cost	PGF Request	SRO approved	Sustainable Jobs Created
FARRA ENGINEERING - Installation of Horizontal Floor Borer PGF funding will be used towards the installation of their Horizontal Floor Borer machine into their Dunedin workshop to increase its productivity and meet customer demands.	Farra Engineering Limited	\$ Commercial Information	\$ Commercial Information	\$325,000	Com
SOREC – Regional Leader PGF funding will be used towards the establishment of the SOREC and the SOREC Regional Leader role to help build the capability and capacity of Southland and Otago manufacturing and engineering firms.	Farra Engineering Limited	\$ Commercial Information	\$ Commercial Information	\$495,000	Com
Commercial information - withdrawn proposal					
SITE WELD – Engineering Machinery PGF funding will be used towards three pieces of equipment to help bring more of the process in establishing its equipment in-house.	Site Weld Industries Limited	\$ Commercial Information	\$ Commercial Information	\$350,000	Com



<p>BISON – Container Systems</p> <p>PGF funding will be used towards infrastructure related to the creation of a demonstration space to showcase its lifting and weighing shipping container product and manufacturing equipment required to increase efficiencies and production in the company.</p>	<p>Bison Group Limited</p>	<p>\$ Commercial Information</p>	<p>\$ Commercial Information</p>	<p>\$110,000</p>	<p>Com</p>
<p>UNITED MACHINISTS - Accelerate Scalability Project</p> <p>PGF funding will be used towards its capital expansion project for one piece of equipment to invest in the automated and high precision machinery capabilities needed to grow productivity and capacity.</p>	<p>United Machinists Limited</p>	<p>\$ Commercial Information</p>	<p>\$ Commercial Information</p>	<p>\$520,000</p>	<p>Com</p>
<p>RED1 FABRICATION – Engineering Equipment</p> <p>PGF funding will be used towards one piece of equipment to help bring more of the process in establishing its products in-house.</p>	<p>Red One Fabrication Limited</p>	<p>\$ Commercial Information</p>	<p>\$ Commercial Information</p>	<p>\$93,000</p>	<p>Com</p>
<p>PETRIDISH – Makerspace Project</p> <p>PGF funding will be used towards half of the costs for the purchase of specific pieces of engineering equipment for the ‘Makerspace’ and half of the Operations role salaries (1.5 FTE over 3 years) of the ‘Makerspace’.</p>	<p>Petridish Limited</p>	<p>\$ Commercial Information</p>	<p>\$ Commercial Information</p>	<p>\$240,000</p>	<p>Com</p>
<p>Total</p>		<p>\$ Commercial Information</p>	<p>\$ Commercial Information</p>	<p>\$2,427,500</p>	<p>Comm</p>

BRIEFING

Provincial Growth Fund Dunedin/Otago package proposals for review

Date:	06 September 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	0679 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing.	11 September 2019
Hon Phil Twyford Minister of Transport		11 September 2019
Hon David Parker Minister for Trade and Export Growth		11 September 2019
Hon Shane Jones Minister for Regional Economic Development		11 September 2019
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	11 September 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
David van der Zouwe	Head of Investment Management	Privacy of natural persons	✓
Paul Swallow	Investment Director, Provincial Development Unit	Privacy of natural persons	

Recommendations

Projects seeking approval from Regional Economic Development Ministers

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested Investment	PGF	PDU Recommendation	IAP Recommendation
1.	KiwiRail Dunedin Hillside Workshops	<p>Applicant: KiwiRail Holdings Limited</p> <p>Region: Otago</p> <p>KiwiRail Holdings Limited (KiwiRail) have requested PGF funding towards re-establishing Dunedin's Hillside Workshops as a mechanical hub and heavy-engineering facility. This facility will provide key infrastructure to service KiwiRail's current and future rolling stock to help enable a more resilient and reliable rail network.</p> <p>The present condition of Hillside, which is the South Island's only operational heavy-engineering Workshop, is noted by KiwiRail as a key vulnerability for the rail sector. KiwiRail notes that it is essential the Hillside Workshops are invested in to ensure a reliable and resilient rail network through maximised and timely servicing of rolling stock.</p> <p>The current site is impaired by aged buildings, contamination and subsidence. The PGF investment will specifically be used towards demolition of end of life/unoccupied buildings, site decontamination and asbestos mitigation, workshop upgrades for buildings (Asset 1812 and 1813), and essential interior upgrades for Asset 1812.</p> <p>The key benefits of the proposal are the number of highly-skilled engineering jobs created; the increased capacity (from Commercial Information units able to be serviced at any one time); the reduction of lead times for servicing; and facility improvements increasing the productivity of staff.</p>	<p>The PDU recommends that you approve KiwiRail Holdings Limited's Dunedin Hillside Workshops application for a \$19.97 million grant from the PGF. The Dunedin/Otago package is due to be announced in September/October and if KiwiRail Holdings Limited's Dunedin Hillside application is approved, this project will be announced as part of this package.</p> <p>The PDU has been working with the Southland Otago Regional Engineering Collective (SOREC) on how the PGF can assist the engineering 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. Senior Regional Officials have approved SOREC's PGF application for \$ Commercial Information across three years for a SOREC coordinator role. PDU considers that the role to be a critical part of the overall engineering package and will help not only the firms seeking funding for equipment but all engineering companies and workshops (including Hillside) - especially with staffing needs.</p> <p>The PDU has been working directly with KiwiRail on the proposal to upgrade the Hillside Workshops and SOREC on how the PGF can assist the sector to rebuild some of the capability and capacity it has lost in recent years. The PDU will ensure the contract documentation helps ensure the project's physical works begin on Commercial Information.</p> <p>MFAT has no concerns over this proposal from an international obligations perspective.</p> <p>Commercial Information</p>	\$ Commercial Information	\$ Commercial Information	Commercial Info	Approve	Approve

The Provincial Development Unit recommends that you:

1. **Note** that in June, RED Ministers considered that the Engineering/Manufacturing sector would be a key focus for the Provincial Growth Fund, with a particular focus on Otago and Southland [3942 18-19 refers].

Noted

KiwiRail Dunedin Hillside Workshops

2. **Note** that the Dunedin/Otago package is due to be announced in September/October and if KiwiRail Holdings Limited's Dunedin Hillside application is approved, this project will be announced as part of this package.

Noted

3. **Agree** to approve KiwiRail Holdings Limited's Dunedin Hillside Workshops application for a \$19.97 million grant from the Provincial Growth Fund.

Agree / Disagree

Commercial Information



Commercial Information

David van der Zouwe
Head of the Investment Management
Provincial Development Unit

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Hon Grant Robertson
Minister of Finance

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Hon Phil Twyford
Minister for Transport

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Hon David Parker
Minister for Trade and Export Growth

..... / /

Hon Shane Jones
Minister for Regional Economic Development

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KiwiRail Dunedin Hillside Workshops

Projects overview

Name of the project	KiwiRail Dunedin Hillside Workshops
Region	Otago
Tier and type	Tier 2: Sectors
Applicant	KiwiRail Holdings Limited
Estimated total project cost	\$ <small>Commercial Information</small>
Amount of funding sought from the PGF	\$19.97 million
Financial instrument requested	Grant
PDU recommendation	Approve

1. KiwiRail Holdings Limited (KiwiRail) has applied for PGF funding which proposes re-establishing Dunedin's Hillside Workshops as a mechanical hub and heavy-engineering facility. This facility will provide key infrastructure to service KiwiRail's current and future rolling stock and to help enable a more resilient and reliable rail network.
2. The present condition of Hillside, which is the South Island's only operational heavy-engineering Workshop, is noted by KiwiRail as a key vulnerability for the rail sector. KiwiRail notes that it is essential the Hillside Workshops are invested in to ensure a reliable and resilient rail network through maximised and timely servicing of rolling stock.
3. The current site is impaired by aged buildings, contamination and subsidence. The PGF investment will specifically be used towards demolition of end of life/unoccupied buildings, site decontamination and asbestos mitigation, workshop upgrades for buildings (Asset 1812 and 1813), and essential interior upgrades for Asset 1812.

Background

4. One of the key sectors identified by the PDU for Provincial Growth Fund (PGF) investment is the Engineering/Manufacturing sector. Otago and Southland were identified as two regions which possess a high number of firms in this sector. In June 2019, RED Ministers considered that the Engineering/Manufacturing sector would become a focus for the PGF, Sector Investment Briefing [3942 18-19 refers].
5. The PDU has been working with the Southland Otago Regional Engineering Collective (SOREC) on how the PGF can assist the engineering 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. Senior Regional Officials have approved SOREC's PGF application for \$^{Commercial Information} across three years for a SOREC coordinator role. PDU considers that role to be a critical part of the overall engineering package and will help not only the firms seeking funding for equipment but all engineering companies and workshops (including Hillside) - especially with staffing needs.

PDU recommendation

6. The PDU recommends that you approve KiwiRail Holdings Limited's Dunedin Hillside Workshops application for a \$19.97 million grant from the PGF.
7. The PDU has been working directly with KiwiRail and SOREC on the proposal to upgrade the Hillside Workshops on how the PGF can assist the sector to rebuild some of the capability and capacity it has lost in recent years.

Benefits

8. The key benefits of the proposal are the number of highly-skilled engineering jobs created; the increased capacity (from ^{Commercial Informa} units able to be serviced at any one time); the reduction of lead times for servicing; and facility improvements increasing the productivity of staff.
9. The forecast revenue increase from the upgraded facility is an extra \$^{Commercial Information}. This will be achieved by undertaking the following new work:
 - ^{Comme}% increase in wagon bogie refurbishment (currently undertaken in Lower Hutt)
 - Increase of weekly locomotive maintenance work from ^{Commercial Info} units
 - Reinstatement of paint booth (currently undertaken in Lower Hutt)
 - Increased wagon maintenance and conversion project work
10. In addition, KiwiRail has implemented a sustainable outcomes framework to formalise social, economic, community and environmental outcomes. In accordance with the framework the project procurement will look at each supplier's commitment to:
 - a) Trainee development – with a focus on Māori, disadvantaged youth and long-term unemployed for apprentices and trades training
 - b) Employment of cadets, graduates and apprentices
 - c) Local supply
 - d) Sustainable environmental outcomes – carbon reduction, recycling, EV/hybrid vehicles, carbon offsetting.
11. KiwiRail notes that within ^{Commercial Information} of project completion the site workforce will increase from ^{Comme} to around ^{Comme} employees. This will likely be a mixture of skilled labour including welding, fabrication, fitting, machine operators, electrical testing and diagnostics, shunting and vehicle refinishes. It will also include apprentices.

Key milestones

12. The table below covers the proposed high-level key milestones:

Project Activity:	Responsible:	Date:
Procurement, design and consenting	KiwiRail	^{Commercial Information}
Demolition of building / Site decontamination	KiwiRail	^{Commercial Information}
Workshop upgrade	KiwiRail	^{Commercial Information}

Funding arrangements


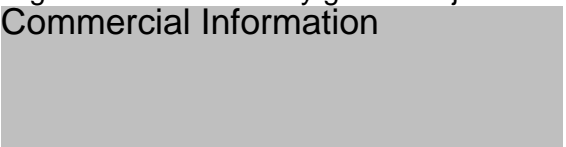
Commercial Information

PDU assessment of the project

14. This section provides an overview of PDU’s assessment against the PGF eligibility and assessment criteria.

Assessment against PGF criteria

Criteria	Rating (1✓ to 5✓)	Comment
<i>Link with fund and government outcomes</i>		
Creates permanent jobs	✓✓✓✓	Hillside Workshops currently employs 23 staff. PGF support will enable the Hillside Workshops to hire around [redacted] more permanent staff, mostly in highly-skilled roles. This will increase to [redacted] staff over [redacted]. <small>Commercial Information</small>
Delivers benefit to the community	✓✓✓	Indirectly, the creation of [redacted] new sustainable roles will have flow on effects to the local economy. Upgrades to the site will likely deliver an area where industrial business can co-locate around a ‘hub’ of aligned products and services in the engineering, mechanical, construction and manufacturing sectors. This unlocks the potential for collaboration and shared capacity.
Increased utilisation and returns of Māori asset base	✓✓	Local iwi, Ngāi Tahu, has expressed an interest in partnering with KiwiRail to develop the potentially freed-up site at Cumberland Street.
Enhanced sustainability of natural assets		Not evident
Mitigation of climate change	✓✓✓	The project promotes the continued use of rail which supports New Zealand in

Criteria	Rating (1✓ to 5✓)	Comment
		<p>meeting its climate change goals. KiwiRail note that every tonne of freight carried by rail has 66 per cent fewer carbon emissions than heavy road freight.</p> <p>Sustainability and carbon neutrality will be a key component in the design and construction of the new facility. The initial development of the facility was in 1875. The evolution of technology will mean that the operational carbon footprint will be significantly reduced.</p>
<i>Additionality</i>		
Adding value by building on what is already there	✓✓✓	Engineering and manufacturing is a strong sector in Dunedin which has been constrained due to the inability for companies to meet demand through the lack of efficient equipment or aging facilities.
Acts as a catalyst for productivity potential in the region	✓✓✓	With the upgrade of the Hillside site KiwiRail will be able to increase productivity and meet current demands to support rail network resilience and reliability.
<i>Connected to regional stakeholders and framework</i>		
Alignment with regional priorities	✓✓✓	<p>The project aligns well to the objectives of the Otago Regional Economic Development Framework, specifically the objective to increase productivity of the region.</p> <p>Over the last 10 years Dunedin has experienced an estimated 910 engineering and manufacturing industry job losses. This upgrade will bring in around  permanent jobs.</p>
Support from local governance groups	✓✓✓	<p>KiwiRail has engaged with Dunedin City Council to ensure alignment with wider regional and community growth objectives.</p> <p>Commercial Information</p> 

Criteria	Rating (1✓ to 5✓)	Comment
		<p>Commercial Information [REDACTED]</p> <p>If this partnership was to go ahead then the construction phase of the project and the ongoing operations would present a number of employment opportunities.</p>
<i>Governance, risk management and project execution</i>		
Robust project management and governance systems	✓✓✓✓	<p>KiwiRail has experience in delivering major projects throughout New Zealand (from \$1.26 billion metro upgrade projects and an annual capital replacement project of \$50 million).</p> <p>KiwiRail notes that it has specialist expertise in Crown land and infrastructure advisory services, delivering technical advice in property consultancy, strategic planning, project management, and resource management. KiwiRail also has specialist procurement personnel.</p> <p>The Project Team will be formed out of KiwiRail's 'Property and Capital Projects' teams. KiwiRail has a formal Project Management Office for delivery of major CAPEX projects.</p> <p>KiwiRail has in place a governance structure consisting of a Steering Group, Project Control Group, Mechanical Facilities Governance Board and KiwiRail Board.</p>
Risk management approach	✓✓✓	Risks around asbestos, procurement, time constraints, escalation costs, resource consents are identified with mitigations.
Future ownership / operational management		Existing arrangements.

Agency comments

Ministry of Foreign Affairs and Trade

15. MFAT has no concerns over this proposal from an international obligations perspective.

Ministry of Transport

Commercial Information



20. MOT has advised that in terms of the commercial and management cases, it seems MOT could have confidence in KiwiRail's ability to procure and deliver the project.

Commercial Information

Risk assessment

22. The following risks have been identified:

Type of risk	Risk description	Mitigations	Risk Rating L/M/H
Budget	That the cost estimate is inaccurate and the applicant may seek further funding, or be unable to complete the project in the agreed manner.	Agreed project plan and any overruns need to be funded by KiwiRail.	Low-Medium
Resource	The ability for the company to find employees to fill the roles may delay the productivity potential of the application.	While still in its infancy, SOREC will aim to work with engineering firms to understand the current employee shortages, and then work with tertiary educators, employment agencies, and social development agencies to fill the employment gaps. This will be critical as	High

		there is the potential for a project of this scale to take up majority of the roles that other engineering firms are seeking to fill within the region.	
Timeline	Delay in commencement of project.	Agreed project plan with mitigations in place around clear timelines and release of funds dependent on meeting project plan deadlines.	Medium

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