

2.8 JK's Engineering – Machinery

Evaluation, Cover Sheet and Decision Form

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|-----------------------------|---|-------------------------------------|---|
| Project: | JK's Engineering – Machinery | | FOR: Approval |
| Applicant: | JK's 2018 Ltd trading as JK's Engineering | | PDU ID: <input type="text"/> <small>Commercial Information</small> |
| Application type: | PGF | (A) Total Project Value: | \$ <input type="text"/> <small>Commercial Information</small> |
| Funding type: | Grant | (B) PGF Funding Sought: | \$500,000 |
| Entity Type: | Company | (C) PGF Funding Recommended: | Up to \$500,000 |
| Region: | Southland | (D) Applicant Contribution: | \$ <input type="text"/> <small>Commercial Information</small> |
| Tier: | 2 - Sectors | (D/A) Co-contribution Rate: | <input type="text"/> % <small>Commercial</small> |
| Sector: | Manufacturing/ Engineering | | |
| Application summary: | <p>JK (2018) Limited (trading as JK's Engineering) is an Invercargill based engineering company that specialises in industrial maintenance, heavy fabrication and structural steel. Current projects include workshop expansions and earthquake strengthening for local businesses. The applicant currently does not export internationally, however it does work in other regions with some of the companies it partners with (<input type="text"/> <small>Commercial Information</small>)</p> <p>The applicant seeks the financial support for a piece of equipment, and its installation, to help increase productivity and meet the current demands on its business. The piece of equipment required is:</p> <ol style="list-style-type: none"> 1. Computerised Numerical Control (CNC) Beamline Machine | | |

It is recommended that SROs:

Agree to approve up to \$500,000 for a grant from the PGF towards the purchase and installation of a specific piece of engineering equipment because:

- The new equipment will lead to productivity efficiencies through reduced lead times and free up existing staff to contribute to more high-value work. This aligns with the PGF objectives in regard to uplift in productivity, enhanced economic opportunities, more highly-skilled jobs (Com FTE) and resilient communities
- it aligns with the Southland and Otago Regional Engineering Collective objectives to build the capability and capacity of Southland and Otago manufacturing and engineering firms

Subject to:

- The applicant maintaining alignment to the Southland and Otago Regional Engineering Collective (SOREC) objectives evidenced by the continued reporting to the Ministry on its outcomes
- Satisfactory financial analysis.

Note this funding request is part of the agreed PGF allocation for the Southland and Otago Regional Engineering Collective, in which Comm projects have already been approved by SROs for grant funding.

Section A: Triage – Assessment against PGF eligibility criteria**Is the project:**

| | |
|--|----|
| ➤ an illegal activity? | No |
| ➤ located in the three main metropolitan areas? | No |
| ➤ seeking investment in large scale infrastructure of social assets? | No |
| ➤ three waters | No |

Application description

The applicant seeks financial support for equipment to help accelerate productivity by automating manual processes. The equipment the applicant requires is:

| Item | Cost (excluding GST) |
|--------------|--|
| CNC Beamline | \$ <small>Commercial Information</small> |
| Installation | \$ <small>Commercial Information</small> |
| Total | \$ <small>Commercial Information</small> (of which PDU recommends funding <small>Commercial</small> % - \$500,000) |

PGF funding will enable the applicant to increase its productivity and meet customer demands in a timelier manner. The equipment sought not only contributes to the growth of the applicant, but the Southland engineering sector as a whole as well as those industries the applicant supports, services, and maintains.

Detail of the equipment and the benefits to the company are as follows:

1. CNC Beamline – Commercial Information

The CNC Beamline machine can accurately drill and cut all types of structural steel from universal beams to channels, angles and box section. The machine also marks where other components are to be welded and prints a part number on the completed item.

A maximum of two tonnes of steel can be processed per hour from one low skilled operator. This will allow JK's Engineering to better utilise existing staff or allocate new staff to more productive and higher skilled work. By comparison, without the beamline the processing of steel could take six skilled employees up to eight hours to complete.

Co-Funding Table

| Co-Funder | Pledged/Confirmed/Cash/In-Kind | Amount |
|------------------|--------------------------------|--|
| JK's Engineering | <small>Commercial</small> | \$ <small>Commercial Information</small> |
| Total | | \$ <small>Commercial Information</small> |

Southland and Otago Regional Engineering Collective

The engineering and manufacturing sector has been identified by the RED Ministers as a key sector for PGF

investment. Linked to this is the identification that Otago and Southland are two regions which possess a high number of firms in this sector.

Through previous funding provided by the PGF, an analysis was undertaken by ^{Commercial Information} to identify the 'pain points' currently being faced by engineering and manufacturing firms in Otago and Southland. From this, a document outlining the steps to addressing the perceived issues was developed titled the 'Southland and Otago Regional Engineering Collective'. The applicant was approached as part of the analysis, and now has the opportunity with the support of the PGF to address its current challenges, specifically around its ability to meet demand, and provide good employment options for low to high skilled employees and apprentices.

Please note that in August and September SRO's approved ^{Comme} Southland and Otago projects as part of the engineering package and this coversheet should be read alongside the other related SOREC projects and the cover briefing.

Overseas Investment Office

- | | |
|---|----|
| ➤ Is the application being made by a non-New Zealand based legal entity? (Foreign investment laws may apply and the Overseas Investment Office consulted) | No |
|---|----|

Section B: Operational Assessment Criteria (Complete for EoIs and Applications)

(Rate and comment – 1= poor, 5 = very good - Provide the number for this project, not subsequent phases)

Fund and government outcomes

Please highlight number below

Would the project:

| | | |
|--|---|-----------------------------------|
| ➤ create permanent jobs? | The applicant currently has around ^{Comm} people working for them in Southland and ^{Comme} people working for them in Otago, ^{Comm} in total. Funding would enable ^{Co} new sustainable jobs to be created. Of the ^{Com} jobs created, ^{Co} are at the highly-skilled level, ^{Com} is at the low-skilled level and ^{Com} is at an apprenticeship level. An additional ^{Com} jobs would be created in order to install the equipment. | ^{Commercial Information} |
| ➤ deliver community benefits? | Indirectly, the creation of new sustainable roles will have flow on effects to the local community. | ^{Commercial Information} |
| ➤ increase utilisation of and returns on Maori assets? | Not evident. | ^{Commercial Information} |
| ➤ enhance the sustainability of natural assets? | Not evident. | ^{Commercial Information} |
| ➤ mitigate climate change effects, or assist with the | Not evident. | ^{Commercial Information} |

| | | |
|---|---|------------------------|
| lowering of emissions? | | |
| Additionality | | |
| Would the project: | | |
| ➤ add value by building on what is already there, without duplicating effort? | Engineering and manufacturing is a strong sector in Southland which has been constrained due to the inability for companies to meet the demands through the lack of efficient equipment. | Commercial Information |
| ➤ be a catalyst for productivity potential in the region? | With the purchase of the new equipment, the applicant will be able to increase productivity as it will have the equipment it needs to accelerate the production and output required to meet the demands of its customers. | Commercial Information |
| Connected to regional stakeholders and frameworks | | |
| Does the project: | | |
| ➤ align with regional priorities, such as frameworks, or regional plans? | The applicant aligns with the objectives of the Southland and Otago Regional Engineering Collective (SOREC). SOREC is the incubator for building the capability and capacity of the Southland and Otago manufacturing and engineering Firms. SOREC will grow the region by increasing collaboration to successfully compete for new work, adopt new technologies or methodologies, and increase the calibre and number of regional apprentices. | Commercial Information |
| ➤ have the support of local governance groups (councils, iwi and hapu)? | Southland District Council and Great South (Southland Regional Development Agency) are supportive of PGF's investment in the Southland engineering/manufacturing sector. | Commercial Information |
| Governance, risk and project execution | | |
| Does the application show: | | |
| ➤ robust project management and governance systems? | JK's Engineering was established in 2018 following the purchase of JK's and WBe Ltd by Shotover Engineering Ltd. The applicant will oversee the installation of the equipment and recruitment of the relevant staff to join the company. [Redacted] will oversee the entire project which will be managed on a day-to-day basis by [Redacted] General Manager of JK's Engineering. Risks are identified and mitigated appropriately. | Commercial Information |

| | | |
|--|--|------------------------|
| ➤ plans for future ownership and operational management? | Existing arrangements. | Commercial Information |
| ➤ how the project will be delivered and managed? | Appropriate plans and personnel are in place to deliver the project. Any variance to exchanged rate impacting the quoted price for the equipment will be at the expense of the applicant. | Commercial Information |

Section C: Risk Management Evaluation

| Does this application demonstrate consideration of the following risks? | | | Yes |
|---|--|---|-------------|
| Type of risk | Risk description | Mitigations | Risk Rating |
| Duplication | PGF funding may lead to the applicant purchasing equipment that competes directly with another engineering firm. | The PDU has sought assurance the new equipment will not adversely affect other firms, at times checking with those other firms. | Commercial |
| Resource | The ability for the company to find employees to fill the roles may delay the productivity potential of the applicant. | 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. | Commercial |
| Timing | The lead time to purchase the new equipment ends up delaying the creation of new roles and means the increase in productivity is not achieved. | JK's Engineering will utilise existing equipment to mitigate this risk as production will not be required to stop. Detail regarding timeframes for the delivery of the equipment will be sought from the supplier. | Commercial |
| Variance to exchange rate | Change to the quoted exchange rate (0.58) increases the cost to purchase the equipment. | The quoted exchange rate is in line with the average and end of year spot NZD:EUR exchange rates over the last five years. The average exchange rate for the last 5 years is 0.613667 per ofx.com. In any case the applicant will need to meet any shortfall. | Commercial |

Section D: Funding and financial analysis

Please highlight number below

Does the application show:

| | | |
|---|---|-------------------------------|
| <p>➤ How strong is the financial position of the applicant organisation?</p> | <p>Overall, the company has a strong financial position, noting significant investment in staff and new machinery has been made in recent years. For further information please refer to Annex One of this coversheet. Withheld - Commercial Information</p> | <p>Commercial Information</p> |
| <p>➤ How does the scale of the project compare to their overall business?</p> | <p>In line with current business.</p> | <p>Commercial Information</p> |
| <p>➤ Why is Crown funding being sought rather than commercially-available funding?</p> | <p>Commercial Information Support from the PGF will enable the applicant to meet demands of their clients immediately. The applicant notes that without PGF support the equipment Commercial Information.</p> | <p>Commercial Information</p> |
| <p>➤ What does the independent financial analysis/business case indicate?</p> | <p>N/A</p> | <p>Commercial Information</p> |
| <p>➤ Is the funding model requested appropriate? Is the PDU recommending a different model?</p> | <p>Due to the level of funding sought (\$ Commercial Information) the PDU recommends that a grant (with Comm % co-contribution) would be the most appropriate funding model for this Engineering/Manufacturing package. Commercial Information</p> | <p>Commercial Information</p> |
| <p>➤ Has the applicant provided evidence of market pull for this project?</p> | <p>Funding would positively impact on the applicant's ability to meet customer demand.</p> | <p>Commercial Information</p> |
| <p>➤ Has the applicant provided evidence that their supply chain is secure?</p> | <p>Quote for installation of the equipment has been provided (Commercial Information EUR). The project has been calculated at an NZD-EUR rate of 0.58, with any variation to the account of JK's Engineering.</p> | <p>Commercial Information</p> |
| <p>Summary of funding and financial analysis:</p> | <p>Free and frank opinions</p> | <p>Commercial Information</p> |

Free and frank opinions

If funding is approved for this equipment it is clear that it would impact significantly on efficiencies, job opportunities and would accelerate production to meet customer demand.

Free and frank opinions

Funding arrangements

Suggest a grant of up to \$500,000 from the PGF fund towards the purchase of a specific piece of engineering equipment. A reporting schedule will need to be discussed with the applicant.

Proposed deliverables for negotiation during contracting include:

| # | Deliverable | Due Date | Associated Payment (ex-GST) |
|--------------|---|------------------------|-----------------------------|
| 1 | Funding Agreement executed and any pre-conditions are met or waived | Commercial Information | \$ Commercial Information |
| 2 | CNC Beamline ordered and % deposit paid | Commercial Information | \$ Commercial Information |
| 3 | Site works, power supply and concrete foundation installation | Commercial Information | \$ Commercial Information |
| 4 | % payment for machine as per contract | Commercial Information | \$ Commercial Information |
| 5 | CNC Beamline installation started | Commercial Information | |
| 6 | CNC Beamline commissioned – balance paid | Commercial Information | \$ Commercial Information |
| Total | | | \$500,000 |

Consultation from partner agencies undertaken or implications

Feedback from MFAT. Provided:

- a. the funding is not contingent on export performance or the use of domestic over imported inputs; and
- b. firms receiving PGF funding sell to other NZ firms at normal commercial prices

Then MFAT has no material concerns from an international obligations perspective.

Conflicts of interest and T&Cs

Due diligence has been undertaken and nothing of note was found.

Summary statement of Peer Review undertaken

The following Peer Review has taken place in connection with this application:

All applications are discussed between the Regions Team and Investment Team during the assessment process and prior to submission to SROs / IAP.

Consultation with the relevant partner agencies has occurred allowing them to provide any relevant technical advice with any feedback included verbatim within this application form.

In the development of this form:

- i. A peer review by an Investment Director has taken place and included the following to the satisfaction of the peer reviewer:
 - a. An evaluation against the PGF criteria;
 - b. Financial analysis;
 - c. A risk assessment, highlighting any relevant or key risks;
 - d. Conflicts of interest have been noted and accepted
 and the peer reviewer concurs with the recommendation proposed.
- ii. The Head of Investment has reviewed this recommendation.
- iii. This application has been reviewed by the PDU SLT.

Peer Review has been completed

Yes

Supporting proposal:

Yes

Appendices:

Yes – Annex One and application is attached

Withheld - Commercial Information

Author of paper:

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PS, Investment Director, PDU Investment Team