

2.10 New Zealand Structural Insulated Panels Ltd – Machinery

Evaluation, Cover Sheet and Decision Form

Project:	New Zealand Structural Insulated Panels Ltd – Machinery	FOR:	Approval
Applicant:	New Zealand Structural Insulated Panels Ltd	Pipedrive ID:	<small>Commercial Information</small>
Application type:	PGF	(A) Total Project Value:	\$ <small>Commercial Informa</small>
Funding type:	Grant	(B) PGF Funding Sought:	\$110,000
Entity Type:	Company	(C) PGF Funding Recommended:	Up to \$110,000
Region:	Otago	(D) Applicant Contribution:	\$ <small>Commercial Informa</small> <small>Commercial In</small>
Tier:	2 - Sectors	(D/A) Co-contribution Rate:	<small>Comm</small> %
Sector:	Manufacturing / Engineering		
Application summary:	<p>NZ Structural Insulated Panels (NZSIP) manufactures and delivers structural insulated panels for use primarily in the construction of residential housing. The structural insulated panels are effectively a 'building envelope' that is light, highly insulated and easy to construct. The cost to purchase the structural insulated panels are similar to materials required for conventional wood framing construction but are much cheaper to construct due to reduced labour and waste costs.</p> <p>The applicant is seeking financial support to purchase two pieces of equipment to help increase productivity and meet the current demands on its business. Specifically it will allow it to manufacture six metre long panels for large houses and small commercial buildings. The pieces of equipment required are:</p> <ol style="list-style-type: none"> 1. A 6m Hydraulic Press 2. An upgrade to the applicant's existing foaming machine 		

It is recommended that SROs:

Agree to approve up to \$110,000 for a grant from the PGF towards the purchase of two specific pieces of engineering equipment because:

- The equipment will enable the applicant to reduce the cost of producing panels as well as reducing the amount of time production is ceased whilst equipment is maintained. 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 PDU on its outcomes
- The applicant providing a written statement that assures that the new equipment will not adversely affect other firms
- 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 two pieces of equipment to help accelerate productivity and allow it to meet the demands of its customers. The two pieces of equipment the applicant require are:

Item	Cost (excluding GST)
6m Hydraulic Press	\$ ^{Commercial Informa}
Upgrade of Existing Foaming Machine	\$ ^{Commercial Inform}
Total	\$ ^{Commercial Informa} (of which PDU recommends funding ^{Comm} % - \$110,000)

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 and Otago 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:

6m Hydraulic Press

This machinery will allow NZSIP to scale up its production whilst reducing the cost per panel produced. The hydraulic press will also mean larger panels can be produced, further diversifying its product range and creating an opportunity to offer more commercial building solutions. The applicant expects the new machinery to double productivity levels as manual components of the process become automated.

Upgrade of Existing Foaming Machine

An upgrade of NZSIP's current foaming machine will assist in the doubling of productivity. The applicant currently only has one foaming machine which requires regular maintenance due to the nature of the manufacturing, meaning that production stops whilst maintenance is undertaken. The upgrade to the foaming machine will both increase productivity as well as improve NZSIP's resilience as production is less likely to be required to halt.

Co-Funding Table

Co-Funder	Pledged/Confirmed/Cash/In-Kind	Amount
NZ Structural Insulated Panels Ltd	Commercial	\$ Commercial Information
Total		\$ Commercial Information

Competitors

The applicant notes that there a number of competitors in the pre-fabrication modular housing space, however all of NZSIP's competitors use an imported product. NZSIP's insulated panels have significant differences in regards to performance as well as the installation process.

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 Commercial Information 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 Commercial Information people working for them in Otago. Funding would enable Commercial Information new sustainable jobs to be created. | Commercial Information |
|--------------------------|--|------------------------|

	Of the ^{Com} jobs created, ^{Com} is at the highly-skilled level and ^{Com} is at the low-skilled level. An additional ^{Com} jobs would be created in order to install the equipment.	
➤ deliver community benefits?	Indirectly, the creation of new sustainable roles will have flow on effects to the local community. The applicant notes that the price points for its products upon the realisation of improved productivity. This will make NZSIP's product more appealing to developers of affordable housing.	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 lowering of emissions?	Not evident.	Commercial Information
Additionality		
Would the project:		
➤ add value by building on what is already there, without duplicating effort?	Manufacturing is a strong sector in Otago 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	Commercial Information

	apprentices.	
➤ have the support of local governance groups (councils, iwi and hapu)?	Dunedin City Council are supportive of the engineering package and are heavily involved with Engineering Dunedin Inc. The applicant also notes that it has discussed its project with Central Otago District Council officials who support the project due to it aligning with outcomes such as 'a thriving economy that is attractive to both businesses and residents alike'. No formal evidence of this support has been provided.	Commercial Information
Governance, risk and project execution		
Does the application show:		
➤ robust project management and governance systems?	The equipment will fit into the applicant's existing work activity and is being procured from suppliers that NZSIP has previous experience dealing with. Risks have been identified and mitigated appropriately.	Commercial Information
➤ plans for future ownership and operational management?	The applicant will own the assets being funded.	Commercial Information
➤ how the project will be delivered and managed?	Suppliers and key internal personnel have been identified.	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. We will also seek a written statement from the applicant where this confirmation wasn't explicit in the application.	Commercial [Redacted]
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 Information [Redacted]
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.	NZSIP has existing equipment that will be utilised to mitigate this risk and means production will not be required to stop. Detail regarding timeframes for the delivery of the equipment will be sought from the supplier.	Commercial [Redacted]
Demand	Current contracts with main partners are lost.	The applicant notes they have no main supplier that the business is dependent on. Lowering the price point for NZSIP's products should also increase demand.	Commercial [Redacted]

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>Commercial Information</p> <p>On balance, the PDU considers the applicant to be a suitable recipient of PGF funding as it will enable the firm to grow, better meet current and future demand and employ more people.</p> <p>For further information please refer to Annex One of this coversheet. <small>Withheld - Commercial Information</small></p>	<p>Commercial Information</p>
<p>➤ How does the scale of the project compare to their overall business?</p>	<p>The applicant has purchased equipment from the identified supplier in the past. The supplier was selected based on positive dealings previously.</p>	<p>Commercial Information</p>
<p>➤ Why is Crown funding being sought rather than commercially-available funding?</p>	<p>Government funding will enable the applicant to make the investment in new equipment sooner. As a relatively young business (incorporated in 2016), the investment will contribute significantly to bettering NZSIP's financial position whilst also enabling for the business to produce a more diverse range of products at lower prices for the NZ construction industry.</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 (\$110,000) the PDU recommends that a grant (with ^{Comm} % co-contribution) would be the most appropriate funding model for this Engineering/Manufacturing package. <small>Commercial Information</small></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. High delivery costs are a deterrent to a number of North Island customers, so lowering pricing points will assist NZSIP to better access this market.</p>	<p>Commercial Information</p>
<p>➤ Has the applicant provided evidence</p>	<p>The applicant has identified a supplier from which the machinery will be sourced.</p>	<p>Commercial Information</p>

that their supply chain is secure?		
Summary of funding and financial analysis:	Free and frank opinions	Commercial Information

Funding arrangements

Suggest a grant of up to \$110,000 from the PGF towards the purchase of two specific pieces of manufacturing equipment.

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 Inform
2	6m Hydraulic Press installed	Commercial Information	\$ Commercial Inform
3	6m Hydraulic Press operational	Commercial Information	\$ Commercial In/
4	Foaming Machine installed	Commercial Information	\$ Commercial Inform
5	Foaming Machine operational	Commercial Information	\$ Commercial In/
6	Quarterly report 1 of 4 submitted	Commercial Information	\$ Com
7	Quarterly report 2 of 4 submitted	Commercial Information	\$ Com
8	Quarterly report 3 of 4 submitted	Commercial Information	\$ Com
9	Quarterly report 4 of 4 submitted	Commercial Information	\$ Com
10	Final Report submitted	Commercial Information	\$ Com
Total			\$ Commercial Informat

Consultation from partner agencies undertaken or implications

MFAT note that "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:

MN, Investment Analyst, PDU Investment Team
 PS, Investment Director, PDU Investment Team