



## COVER BRIEFING

### Southland Otago Regional Engineering Collective – Provincial Growth Fund Support for Engineering Companies – Tranche Three Projects

#### Purpose

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The purpose of this cover briefing is to provide context for the nine individual Southland and Otago Engineering/Manufacturing related proposals on the Senior Regional Official (SRO) 31 October 2019 meeting agenda.

#### Background

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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.

Annex Three includes the cover briefing that was sent to SROs as part of the first tranche of engineering projects from Otago and provides more detailed information on the wider Engineering/Manufacturing package.

#### Enablers for the Engineering/Manufacturing sector

The PGF funded Southland Otago Regional Engineering Collective (SOREC) to undertake a study to consider how an Engineering hub might grow the capacity and capability of the Engineering/Manufacturing industry. SOREC asked for \$<sup>Commercial Information</sup> for this coordination role across three years and SROs approved this role on 29 August 2019.

Key objectives for the coordinator as an avenue for building the capability and capacity include:

- increasing collaboration to successfully compete for new work;
- assisting in the adoption of new technologies/methodologies; and
- increasing the calibre and number of regional apprentices and other related roles.

#### Small Engineering companies – new plant

The PDU met with all firms seeking funding for equipment as part of tranche three of this package (see Table 1 for a list of projects).

The approach taken was to discuss the nature of business of each firm, its current staff numbers, its growth objectives, the barriers to growth and opportunities for the PGF to assist with a <sup>Commercial Info</sup> contribution toward equipment.

Two of the proposed tranche three projects differ from the projects approved under tranche one and two, as these two projects are undertaken by firms operating in the manufacturing sector (<sup>Comme</sup>). The PDU was introduced to these firms through the SOREC work and other related stakeholders as they aligned closely to the observations outlined



in the **Commercial Information** (further detail in Annex Three) and the SOREC objectives above. Both projects also clearly align with the objectives of the PGF detailed in the coversheets.

SROs have approved **mm** projects in tranche one and two (see Annex One).

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Table 1: Tranche three of proposed engineering projects

Project	Total Project Cost	PGF Request	PGF Recommendation	Sustainable Jobs Created	What they do
JK's Engineering – Machinery	\$ <small>Commercial Information</small>	\$500,000	Up to \$500,000	<small>Com</small>	Active in industrial maintenance, heavy fabrication and structural steel i.e. workshop expansions and earthquake strengthening in Invercargill CBD. Conduct upgrades, shutdowns, maintenance for local companies in the meat, dairy, timber industries.
Central Custom Engineering Ltd	\$ <small>Commercial Inform</small>	\$156,000	Up to \$156,000	<small>Com</small>	Have specialist sheet metal equipment for making boxes, flashings and conveyors i.e. industrial quality trailers, alloy dog boxes and truck decks. As well as repairs and maintenance.
EB Engineering – Engineering Equipment	\$ <small>Commercial Inform</small>	\$100,000	Up to \$100,000	<small>Com</small>	Designed, developed and built solutions for customers in the agriculture and horticulture industries, for instance cherry grading machines.
NZ Structural Insulated Panels - Machinery	\$ <small>Commercial Inform</small>	\$92,500	Up to \$92,500	<small>Com</small>	Cromwell based manufacturer of Structural Insulated Panels (SIP) used predominantly in residential housing construction.
Apex Engineering	\$ <small>Commercial Inform</small>	\$147,000	Up to \$147,000	<small>Com</small>	Oamaru based engineering company specialising in structural and sheet metal as well as providing machine and mechanical engineering services including workshops, dairy sheds, farm equipment repairs, and truck body parts.
Bluff Engineering	\$ <small>Commercial Inform</small>	\$90,000	Up to \$90,000	<small>Comme</small>	Marine Engineers, Welding specialists, Fabricators and general suppliers to the Maritime Industry. BEW's workload ranges from international shipping and related services to farming, transport, construction, and local government.
Yunca Group	\$ <small>Commercial Inform</small>	\$250,000	Up to \$250,000	<small>Com</small>	Its traditional core activity has been the manufacturing of domestic home heating appliances. Yunca and Auckland UniServices Ltd established a joint venture following research funded by a MBIE Endeavour grant to commercialise heat exchangers that can be fitted to aluminium smelters providing greater control in regard to energy.
Nulook Windows and Doors	\$ <small>Commercial Inform</small>	\$140,000	Up to \$140,000	<small>Com</small>	Southland licensee of Nulook franchise, focus on window and door manufacture and installation for commercial customers; however do cover some residential work predominantly in the Southland region.
Zenitec Holdings Limited	\$ <small>Commercial Inform</small>	\$130,000	Up to \$130,000	<small>Comme</small>	Manufacturing specialty textile-based products i.e. Chainsaw Protective Clothing.
<b>Total</b>	\$ <small>Commercial Information</small>	\$ <small>Commercial Information</small>	\$ <small>Commercial Information</small>	<small>Com</small>	



## Funding model

Financial analysis was undertaken by the PDU Investment Team and results of the analysis are summarised in Annex Two. This analysis shows that while many of the companies are doing well, some face barriers to growing their business.

In discussions with these companies the majority of them noted that this equipment would not be prioritised in the near future and would likely take around 2-3 years to fund in full. PGF funding would unlock immediate benefits for these companies and the acceleration in production would have significant flow-on effects to the local community and would bring in a significant number of employment opportunities.

## Recommendations

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The PDU recommend SROs:

1. **Note** that 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.
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 nine proposals that the PDU is recommending be approved by SROs.

## Annexes

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Annex One: Tranche One and Two of Approved Engineering Projects

Annex Two: Financial Analysis for Tranche Three Projects

Annex Three: Cover Briefing for Tranche One Projects from the 29 August 2019 SRO Meeting



## Annex One: Tranche One and Two Approved Engineering Projects

Project	Total Project Cost	PGF Request	PGF Approved	Sustainable Jobs Created
Installation of Horizontal Floor Borer	\$ Commercial Information	\$325,000	\$325,000	Com
SOREC – Regional Leader	\$ Commercial Information	\$495,000	\$495,000	Com
Commercial Information - withdrawn project	\$ Commercial Information	\$ Commercial Information	\$ Commercial Information	Com
SITE WELD – Engineering Machinery	\$ Commercial Information	\$350,000	\$350,000	Com
BISON – Container Systems	\$ Commercial Information	\$110,000	\$110,000	Com
UNITED MACHINISTS Accelerate Scalability Project	\$ Commercial Information	\$ Commercial Information	\$520,000	Com
RED1 FABRICATION – Engineering Equipment	\$ Commercial Information	\$93,000	\$93,000	Com
PETRIDISH – Makerspace Project	\$ Commercial Information	\$ Commercial Information	\$240,000	Com
FI Innovations – 3D Innovation	\$ Commercial Information	\$370,000	\$370,000	Com
Stabicraft – Engineering Equipment	\$ Commercial Information	\$225,000	\$225,000	Comme
Sheetmetal Craft – Engineering Equipment	\$ Commercial Information	\$132,500	\$132,500	Com
EIS – Electrical Engineering Equipment for Fibre Optics	\$ Commercial Information	\$ Commercial Information	\$55,000	Com
Southern Steel Windows – Engineering Equipment	\$ Commercial Information	\$ Commercial Information	\$250,000	Com
<b>Total</b>	\$ Commercial Information	\$ Commercial Information	\$ Commercial Information	Comme



## Annex Two: Financial Analysis for Tranche Three Projects

Applicant	Total Assets	Current ratio	Net profit/(loss)	Net debt to equity ratio	Net debt to EBITDA	Return on Assets	Summary
JK's Engineering – Machinery  (via parent company Shotover Engineering)	\$ <small>Commercial Information</small>	<small>Commerci</small>	\$ <small>Commercial Inform</small>	<small>Commerci</small>	<small>Commerci</small>	<small>Commercial</small> %	<p>The financial analysis of Shotover Engineering (parent company of JK's Engineering) shows that the applicant is profitable with a net profit margin of <small>Com</small>% for the 2019 year. <small>Commercial Information</small></p> <p>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. <small>Commercial Information</small></p>
Central Custom Engineering Ltd	\$ <small>Commercial Inform</small>	<small>Commerci</small>	\$ <small>Commercial Inform</small>	<small>Commerci</small>	<small>Commerci</small>	<small>Commercial</small> %	<small>Commercial Information</small>
EB Engineering – Engineering Equipment	\$ <small>Commercial Information</small>	<small>Commerci</small>	(\$ <small>Commercial Inform</small> )	<small>Commerci</small>	<small>Commercial Inf</small>	<small>Commercial</small> %	<p>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. <small>Commercial Information</small></p>



							Commercial Information
NZ Structural Insulated Panels	Commercial Inform	Com erci	(\$ Commercial Informa	Commercial	Commercial	Commercial Inf %	<p>Commercial Information</p> <p>The investment will also enable the applicant to grow its business, meet current and future demand, employ more people and improve its financial position in general. On balance, the potential benefit of the relatively modest PGF investment (\$ Commercial Informa to the applicant's business along with the applicant's financial performance so far in 2020 Commercial Information</p>
Apex Engineering	\$ Commercial Information	Commerc	\$ Commercial Inform	Commercial Info	Commerci	Commercial %	<p>The financial analysis of Apex Engineering Limited shows a company that is Commercial Information</p> <p>Commercial Information</p>
Bluff Engineering	\$ Commercial Information	Co merc	\$ Commercial Inform	Commerci	Co erci	Commercial %	<p>Financial analysis shows the applicant is in an Commercial Information</p> <p>Commercial Information</p> <p>amount of funding will enable Bluff Engineering and Welding Co Ltd to operate long term through efficiencies gained. The added benefit of the applicant's willingness to make the new equipment available to competitor Commercial Infor</p>

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	Commercial Information	Commercial	Commercial Inform	Commercial	Commercial	Commercial %	Commercial Information
Yunca Group	\$ Commercial Information	Commercial	\$ Commercial Inform	Commercial	Commercial	Commercial %	<p>Commercial Information ensuring the PGF investment benefits the Southland engineering sector more widely.</p> <p>Overall, financial analysis shows that the applicant would benefit significantly from the receipt of PGF support. Commercial Information</p>
Nulook Windows and Doors	Commercial Inform	Commercial	\$ Commercial Info	Commercial	Co erd	Commercial %	<p>Commercial Information</p>
Zenitec Holdings Limited	\$ Commercial Information	Commercial	\$ Commercial Inform	Commercial	Commercial	Commercial %	<p>Commercial Information</p> <p>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. Commercial Information</p>

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## **Annex Three: Cover Briefing for Tranche One Projects from the 29 August 2019 SRO Meeting**

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### **2.17 Cover Briefing**

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

##### **Purpose**

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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**

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###### **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 Commercial Information

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 \$ [redacted] across both tranches) 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 [redacted] Commercial Information as the PDU are still working with them on a possible proposal.

Table 1: Overall package Dunedin/Otago

Project	Investment
[redacted] Commercial Information	[redacted] Commercial Information
<b>CODE (\$10m)</b>	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.
<b>Manufacturing/Engineering Sector (\$ [redacted] Commercial)</b>	
<b>"Enablers for Engineering/ Manufacturing sector"</b>	
Southland Otago Regional Engineering Collective – Regional Leader	Coordination across Otago/Southland sector, including possible investment in apprenticeships/training – [redacted] Commercial % funding of \$ [redacted] Commercial Information
The Makerspace – Petridish innovation hub	Fit-out and management of open access manufacturing space in the Petridish, central Dunedin – [redacted] Commercial Int funding to a maximum of \$ [redacted] Commercial Informatio
<b>"Small Engineering companies – new plant – Tranche 1"</b>	Invest in equipment needed by individual firms to increase productivity (but ensuring equipment complements other firms'



<b>(up to \$<sup>Commerc</sup> across both tranches)</b>	equipment). <i>Note: that the <sup>Com</sup> projects presented in Table 2 below form the first tranche of proposed funding.</i>
<b>“Small Engineering companies – new plant – Tranche 2” (up to \$<sup>Commerc</sup> across both tranches)</b>	Invest in equipment needed by individual firms to increase productivity (but ensuring equipment complements other firms’ equipment).
<b>“Heavy Engineering” (\$19.9m)</b>  Kiwirail Hillside Workshops	Provision of new/refurbished facilities at Hills de (Kiwirail workshops) in central Dunedin to accommodate fabrication, mechanical services and network services staff  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.

## 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 \$<sup>Commercial Informat</sup> 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 <sup>Commercial Information</sup> approach focused on a coordinator type role. SOREC has asked for \$<sup>Commercial Informat</sup> for this role across <sup>Commercial Information</sup>. The details of the role are in the cover sheet but for the PDU that role 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 <sup>Commercial Info</sup> contribution toward equipment.

The PDU started with a view to fund equipment up to \$ <sup>Commercial Information</sup> (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 \$ <sup>Commercial Information</sup> to \$ <sup>Commercial I</sup> and are recommending these be funded at up to <sup>Comm</sup>%. 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	\$ <sup>Commercial Informat</sup>	\$325,000	<b>\$325,000</b>	<sup>C'm</sup>
SOREC – Regional Leader	\$ <sup>Commercial Informat</sup>	\$495,000	<b>\$495,000</b>	<sup>C'm</sup>
Commercial Information - withdrawn project	\$ <sup>Commercial Informat</sup>	\$ <sup>Commercial Informat</sup>	\$ <sup>Commercial Informat</sup>	<sup>C'm</sup>
SITE WELD – Engineering Machinery	\$ <sup>Commercial Informat</sup>	\$350,000	<b>\$350,000</b>	<sup>Com</sup>
BISON – Container Systems	\$ <sup>Commercial Informat</sup>	\$110,000	<b>\$110,000</b>	<sup>Com</sup>
UNITED MACHINISTS Accelerate Scalability Project	\$ <sup>Commercial Information</sup>	\$ <sup>Commercial Informat</sup>	<b>\$520,000</b>	<sup>Com</sup>
RED1 FABRICATION – Engineering Equipment	\$ <sup>Commercial Informat</sup>	\$93,000	<b>\$93,000</b>	<sup>Com</sup>
PETRIDISH – Makerspace Project	\$ <sup>Commercial Informat</sup>	\$ <sup>Commercial Informat</sup>	<b>\$240,000</b>	<sup>Com</sup>
<b>Total</b>	\$ <sup>Commercial Information</sup>	\$ <sup>Commercial Information</sup>	\$ <sup>Commercial Information</sup>	<sup>C'mme</sup>

Through previous funding provided by the PGF, an analysis was undertaken by <sup>Commercial Informat</sup> 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. <sup>Commercial Information</sup>



[Redacted] Commercial Information [Redacted]. 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 ([Redacted] Commercial Information [Redacted]). Results of the analysis are summarised in Annex One, [Redacted] Commercial Information [Redacted].

[Redacted] This helps confirm that this sector needs support and highlights why a grant is the appropriate mechanism.

## Recommendations

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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.