



Briefing

KiwiBuild: Off-site Manufacturing Invitation to Pitch - Management of Firms Proceeding to Next Stage

For: Phil Twyford, Minister of Housing and Urban Development

Date: 14 December 2018

Security level: In Confidence

Priority: High

Report number: BRF18/19120103

Purpose

1. This report informs you of the outcome of the first stage of evaluation of responses to the Off-site Manufacturing Invitation to Pitch, including which firms will proceed to the next phase.

Recommended actions

2. It is recommended that you:
 - a) **Note** that officials have completed first stage of the evaluation process for the 105 pitches received in the Off-site Manufacturing Invitation to Pitch (OSM ITP). *Noted*
 - b) **Note** that a range of proposals have been received including from established New Zealand OSM companies, established offshore OSM companies who wish to import solutions, and parties (New Zealand and offshore) who propose to establish new OSM factories in New Zealand. *Noted*
 - c) **Note** that of the 105 bids received:
 - c.1 Forty-four were successful and will be invited to progress to the next stage of evaluation and present their proposals to officials (in Feb-April 2019);
 - c.2 Forty-one, while unsuccessful showed some merit and were better suited to established KiwiBuild development channels (such as buying off the plans) or alternative Government programmes (e.g. PGF), and we will engage with these in early 2019 to assist them in advancing their proposals further;
 - c.3 Nineteen did not meet minimal evaluation requirements. *Noted*
 - d) **Note** that we will be informing applicants of the outcome of their ITP process on 21 December 2018. *Noted*
 - e) **Note** that the next stage of presentations will occur between February 2019 and May 2019, subject to the availability of applicants. *Noted*
 - f) **Agree** to provide a copy of this briefing to the Minister of Finance and Minister for Economic Development who have joint ministerial oversight of the OSM ITP process. *Agree/Disagree*



Brad Ward
Head of Office of the Chief Executive,
Ministry of Housing and Urban
Development

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Phil Twyford
Minister of Housing and Urban Development

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Background

Government's Interest in Offsite Manufacturing

3. OSM entails factory manufacturing of complete dwellings or building components. OSM potentially has many benefits over traditional builds including enhanced construction productivity, improved quality control, better health and safety outcomes, and reduced building waste. At scale, automation can provide for increased build speed, and less expensive builds per meter. Greater uptake of OSM in New Zealand has the potential to:
 - a. support KiwiBuild to achieve its volume and price targets
 - b. bring wider transformative benefits to the residential construction sector and supply chains.
4. There are some existing OSM facilities in New Zealand, although these tend to be of modest scale at the moment. In August 2018 you approved an approach for domestic and international OSM providers to engage with KiwiBuild to provide dwellings.

Summary of Evaluation Process

5. The OSM ITP process comprises two procurement phases:
 - pitch phase (just completed)
 - a presentation for respondents selected to go through to this phase (Q1 and some of Q2 2019)
 - a commercial dialogue phase for the final shortlisted firms commencing Q3 2019 which could culminate in negotiations to contract for the supply of OSM at scale.
6. There was a strong response to the ITP and 105 pitches were received from New Zealand and international entities.

Results of Evaluation

Categorisation of Pitches

7. Of the 105 bids received:
 - a. Forty-four were successful and will be invited to progress to the next stage of evaluation and present their proposals to officials (in Feb-April 2019);
 - b. Forty-one, while unsuccessful showed some merit and were better suited to established KiwiBuild development channels (such as Buying Off the Plans) or alternative Government programmes (e.g. PGF), and we will engage with these in early 2019 to assist them in advancing their proposals further;
 - c. Nineteen did not meet minimum evaluation requirements.
8. There was a good mix of established New Zealand based and international OSM providers in the 44 successful first stage proposals. Some of these bids involved expanding or building new OSM factories in New Zealand, and others proposed importing components from overseas.
9. A further forty-two bids showed some promise and merit but were not successful in the first round evaluation. Officials will invite these entities to work with us to improve their proposals or to find other ways in which they can contribute to KiwiBuild or other Government outcomes. This might entail inviting them to engage through the established Buying of the Plan Process, or through introducing them to other sector participants such as land developers, builders or to other government schemes including the Provincial Growth Fund.
10. The nineteen bids that failed evaluation showed little merit, were out of scope or did not meet the minimum standards or compliance criteria.
11. Preliminary analysis indicates thirty one of the pitches proceeding to the presentation stage incorporate existing or new manufacturing capability in New Zealand, seven in Asia, five in Australia and one in the Europe.

12. Appendix one sets out the outcomes of the first stage evaluation.

Issues identified in the responses

13. In their proposals firms were asked to identify any barriers they saw to achieving their proposal. Common themes in terms of barriers that respondents have identified include:
- a. Access to land or development appetite – while a moderate proportion of firms are able or prepared to look at turn-key solutions, as expected, the majority of firms are dedicated manufacturers and not interested or best placed to manage land supply issues
 - b. Product approval processes for innovative designs, products and construction process new to the New Zealand market
 - c. Consenting (unique issues of offsite and offshore factories and consistent treatment across TLA areas)
 - d. Customs clearance (significantly delay timelines)
 - e. Labour and skills issues – some have proposed to grow apprenticeships as part of their pitches/education element, others have just generally highlighted it as a constraint to delivery; others have identified Visa/Immigration as being a key input or requiring assurances
 - f. Multi year contracts, and in some cases, progress payments before delivery to derisk investment or attract large scale international players to participate at the scale they require
14. Very few firms highlighted capital constraints, although, that was generally contingent on the fact of large multi year Government contracts meaning investment and finance would come readily to their business.
15. Officials will need to explore more with successful respondents (particularly offshore manufacturers) how they will deal with warranties, the Overseas Investment Act requirements, and how New Zealand partners might pursue remedies across jurisdictions and through time.

Housing New Zealand Corporation

16. Housing New Zealand Corporation (HNZC) has been an observer and provided support for the stage one evaluation of the pitches KiwiBuild received. HNZC expect to participate in the presentation stage where particular firms and proposals are of interest to them. Where there is shared interest we would look to combine procurement to achieve wider goals for KiwiBuild, HNZC and sector transformation generally.

Risks

17. Some of the 19 firms not proceeding further in the OSM ITP process may provide negative publicity. Some of the 42 firms not proceeding further in the OSM ITP process but receiving additional engagement may still question the process and their status.
18. We are preparing Communications for KiwiBuild and your office to support this stage before advice goes out to respondents on the status of their application.

Next steps

19. The next step is that we write to respondents advising them of their status on or by Friday 21 December 2018.

Annexes

20. A list of firms and their status from the first stage of the process is provided as Annex One. This information is commercially sensitive, as some of the parties will have pre-existing relationships or are seeking investment for expansion.

