

Decision released from confidential session			
Recommendation from (agenda report)	Date of meeting	Recommendation to (decision-making meeting)	Date of meeting
n/a	n/a	Council	18 May 2021
Report Title and number			
Funding to Support Nelson Slipway Redevelopment and Services Expansion (R25836)			
Documents released			
Report R25836 and the decision			
Decision			
Resolved CL/2021/088			
<i>That the Council</i>			
<ol style="list-style-type: none"> <i>1. <u>Receives</u> the report Funding to support Nelson Slipway Redevelopment and Services Expansion (R25836); and</i> <i>2. <u>Approves</u> inclusion of an unbudgeted loan-funded grant up to \$700,000 in Year One of the Long Term Plan 2021-31 towards the Slipway redevelopment project, subject to the agreement of the purchase of Marine and General by Port Nelson Limited; and</i> <i>3. <u>Agrees</u> that Report (R25836), and the decision be made publicly available once negotiations are concluded.</i> 			
Fulton/Courtney			Carried

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Council

18 May 2021

REPORT R25836

Funding to support Nelson Slipway Redevelopment and Services Expansion

1. Purpose of Report

- 1.1 To approve funding of \$500,000 in the 2021-22 financial year towards the Nelson Slipway redevelopment project.

2. Summary

- 2.1 Port Nelson Ltd (PNL) is seeking \$500,000 from Council to support the slipway redevelopment approved as a "shovel ready" project through the government's Infrastructure Reference Group (IRG). PNL will upgrade the Nelson slipway infrastructure, introduce a travel lift, and purchase Marine and General Ltd. PNL advise that without co-funding from the Council and a reduction in price from Marine and General the project will not go ahead due to a lack of commercial feasibility.
- 2.2 This project will revitalise an important component of the marine engineering sector, protect existing employment and create new employment opportunities, address existing environmental concerns, and support the region's ocean economy. The upgraded slipway will allow more frequent and efficient slipping vessels at both slipways.

3. Recommendation

That the Council

1. **Receives the report Funding to support Nelson Slipway Redevelopment and Services Expansion (R25836); and**
2. **Approves inclusion of an unbudgeted \$500,000 loan-funded grant in Year One of the Long Term Plan 2021-31 towards the Slipway redevelopment project, subject to the agreement of the purchase of Marine and General by Port Nelson Limited; and**
3. **Agrees that Report (R25836), and the decision be made publicly available once negotiations are concluded.**

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4. Exclusion of the Public

4.1 This report has been placed in the public excluded part of the agenda in accordance with section 48(1)(a) and section 7 of the Local Government Official Information and Meetings Act 1987. The reason for withholding information in this report under this Act is to:

- Section 7(2)(h) To enable the local authority to carry out, without prejudice or disadvantage, commercial activities
- Section 7(2)(i) To enable the local authority to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations)

5. Background

5.1 Port Nelson Ltd (PNL) and Aimex Service Group Ltd (Aimex) made a joint submission for Provincial Growth Fund funding in mid-2020. The submission was to support the redevelopment of the Nelson Slipway (known as the 'small slipway') to include a marine travel lift, a new hardstand, new wharf, and provision of an enhanced environmental protection system.

5.2 Aimex is a privately owned marine and industrial engineering company specialising in the refit and maintenance of vessels, particularly in the fishing industry, as well as in the construction of new vessels. Marine and General is also a marine engineering company, and currently operates the Nelson slipway.

5.3 Currently, the Port area hosts two marine slipway facilities; the small Nelson slipway (currently operated by Marine and General) that can service boats up to 100 tonnes and a larger Calwell slipway (operated by PNL) that is designed to service vessels up to 2,750 tonnes.

5.4 Hugh Morrison, Chief Executive of PNL will be available at the meeting to speak to the matter and answer any questions.

Project Details

5.5 The total cost of the project is \$14 million. This consists of \$7(2) million of civil works (construction of new finger wharves and the development of a new hardstand, dredging and disposal of contaminated material from existing slipway), \$7(2) million for a travel lift, and \$7(2) million towards the purchase of Marine and General Ltd, which is currently operating the slipway.

5.6 The project would enable the removal of small to medium vessels up to 350-400 tonne from using the Calwell slipway, providing greater capacity to service larger vessels that may have had long wait periods or go to other ports for maintenance work. Travel lifts enable quicker turnaround for customers compared to the antiquated slipway system currently

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available. Currently vessel movements are limited to just before high tides, which means only one to two vessels can be lifted out or put back in the water each day.

- 5.7 The project requires PNL to purchase Marine and General Limited, and then on-sell the marine engineering assets, excluding Nelson Slipway Limited (which is currently a subsidiary of Marine and General) to Aimex. A Heads of Agreement between PNL and Aimex outlining how the two parties will work together on the project has been agreed in principle.

Funding

- 5.8 The Infrastructure Reference Group (IRG) publicly announced \$9.8 million of support for the \$14 million project in late 2020 as part of the government's shovel ready projects. 7(2)(b)(ii)
- 5.9 In May 2021 the IRG agreed to provide \$7(2) million in grant and equity towards the project, and a \$7(2) million loan to Port Nelson. Port Nelson will contribute \$7(2) million of equity, and Aimex will contribute \$7(2) million towards buying the engineering assets of Marine and General (details provided in the table at 5.11).
- 5.10 PNL is requesting \$500,000 in grant support from Council to enable the project to go ahead. If supported by Council, this would be loan funded. This funding was not included in the LTP consultation due to the timing of the request. 7(2)(b)(ii)
- Negotiations are currently underway with Marine and General to agree on a conditional contract. If a price reduction cannot be agreed, or co-funding from Council is not agreed, PNL will cease to progress the project.

5.11

USE OF FUNDS	FUNDING SOURCES
Civil Works \$7(2)	7(2)(b)(ii)
Travel lift \$7(2)	7(2)(b)(ii)
Total \$7(2)	7(2)(b)(ii)
	7(2)(b)(ii)
	7(2)(b)(ii)
Land Purchase 7(2)(b)(ii)	7(2)(b)(ii)
	7(2)(b)(ii)
TOTAL - \$14.0M	TOTAL - \$14.0M

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6. Discussion

Importance of the marine engineering sector to Nelson

- 6.1 The ocean's economy, including aquaculture and fisheries, is a key economic driver for the Nelson Tasman region under Project Kōkiri. Investment in infrastructure, such as the slipway, will enable the region to respond to future economic growth opportunities in these sectors. The slipway is considered a key piece of infrastructure for industry performance.
- 6.2 Around 200 people are currently employed in the marine engineering cluster, largely skilled tradespeople. Over 3,600 people are employed in the wider marine cluster that includes the fishing industry, with Nelson hosting the largest fishing port in Australasia.

Supporting a marine engineering hub in Nelson

- 6.3 The improved efficiency and service performance from the project would provide a boost to the marine engineering sector which is the main user of the slipways. Current slipway access is not fit for purpose for small to medium size vessels, and this results in inefficient and slow provision of services. A 2019 report (*Facilities in Tasman and Nelson for Biosecurity Risk Reduction in Recreational Vessels*) found that there is unmet demand for recreational vessels across the slipping facilities in Nelson, particularly related to the number of hardstands available. The report notes that there is no significant unmet demand for commercial vessels as these are well serviced through the Calwell slipway.
- 6.4 Nelson's current inability to efficiently service vessels under 400 tonnes is resulting in business lost to other parts of New Zealand, or overseas. Upgraded infrastructure and a travel lift of appropriate capacity would attract a greater number and range of vessels for maintenance and repair, as well as an increase in the construction of new vessels. This creates the potential for increased jobs in the marine engineering sector.

Environmental benefits

- 6.5 Improved speed and simplicity of slipping would encourage vessels that are currently not undertaking antifouling measures to slip more often. Vessels not being slipped and cleaned as often as they should results in poor hull hygiene and biofouling of the marine environment.
- 6.6 A travel lift allows better management of run-off from boats than the slipway does as the boats can be on hardstand areas that capture and treat wastewater. Contamination of land and waterways around slipway facilities has been a historical challenge for similar facilities across New Zealand.
- 6.7 Infrastructure investments as part of the project will provide necessary systems and safeguard such as modern in-built filtration systems to

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prevent further contamination and address biosecurity requirements. The project will also excavate and dispose of contaminated marine dredging material currently located in the basin adjacent to the Calwell slipway. As the infrastructure upgrades are within the Coastal Marine Area, it is possible that resource consent will be needed.

Greater certainty in service provision

- 6.8 The outlook for the current small slipway is uncertain without the support of this project, as necessary maintenance has not been undertaken and the existing owner is not planning on making investment to modernise the facilities. If the small slipway goes out of operation, this will put more pressure on the Calwell slipway as a bottleneck for engineering services, and result in lost revenue potential for a range of businesses.
- 6.9 The IRG funding provides an opportunity not only for the necessary infrastructure investment, but also the change of ownership to provide certainty regarding future investment in slipping services for small to medium size vessels. Both operations will be managed by PNL providing enhanced services to users and cost efficiencies.
- 6.10 Previously the slipway was operated by a private company which has limited the ability to provide "public good" services such as ensuring access for a broad range of businesses and investing in facility upgrades. PNL intends to operate the two slipway operations at no more than breakeven economic profit for a minimum of eight years in recognition of the public investment in the upgrade. All parties would have equal access to both facilities at the same level of pricing and the operation of the slipways would be transparent to the engineering sector.

Requirement for Nelson City Council funding

- 6.11 This project had not progressed prior to IRG funding due to negotiations with Marine and General regarding the purchase price. The financial viability of investing in a slipway upgrade is not feasible without public sector investment. PNL reports that slipways as stand-alone operations, including the Calwell slipway, often run at a loss. This is due to the constraint on pricing for slipping services as local engineering companies compete for business with operations in other regions and countries, as well as the high cost of the investment in infrastructure. PNL provides these services as part of its overall service operations and because of the wider benefits of its existence to the sector.
- 6.12 Slipway services are a necessary part of the marine services in any Port area and provide a benefit primarily to the boat users, fishing companies and marine engineering companies who use them. The value will be returned to a multitude of companies utilising the service that have not had to invest in the cost of the upgrade. In many cases elsewhere either local or central government funding has been provided to subsidise the slipping operation for the public good outcomes (such as the Tauranga Port slipway which was funded by local government).

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- 6.13 PNL originally approved the project based on a return that provided contingency for carrying out the project relative to the risks. Since that time a restructure of the IRG funding has increased the debt proportion of the funding. With no funded contingency PNL has advised it cannot support continuing with the project. Additional public funding is required to support the project and resulting regional community benefits to enhance the attractiveness of the investment for PNL.
- 6.14 Risks that PNL faces when investing in the slipway upgrade include carrying the risk of any cost overruns in 7(2)(b)(ii) capital works, the risk that increased revenue won't eventuate as marketing by the engineering companies fails to attract additional ships, and the cost associated with project management, Health & Safety, security and environment improvements at the new facility.

7. Options

- 7.1 Two options are presented to Council for consideration. Option One is the officer's recommendation.

Option 1: Approve funding of \$500,000 towards the Nelson slipway redevelopment and services expansion project, subject to the purchase of Marine and General by Port Nelson Limited.	
Advantages	<ul style="list-style-type: none">Increases the likelihood that the upgrade will go aheadSupports development of infrastructure services critical to the growth and competitiveness of a high value sector in Nelson (marine engineering and associated services)Enables upgrades necessary for improved environmental outcomes currently caused by contamination and lack of anti-fouling occurringComplements Nelson's proposed upgrades of the Marina
Risks and Disadvantages	<ul style="list-style-type: none">Funding not available for other purposes
Option 2: Do not approve funding of \$500,000 towards the Nelson slipway redevelopment and services expansion project	

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Advantages	<ul style="list-style-type: none">• Funding available for other purposes
Risks and Disadvantages	<ul style="list-style-type: none">• The slipway redevelopment project will not go ahead.

8. Next Steps

- 8.1 If approved, officers will notify the Port Nelson Board of Council's support.

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Attachments

Nil

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Important considerations for decision making	
1. Fit with Purpose of Local Government	The proposal in this report supports the economic and social wellbeing of Nelson by acting to support the local economy.
2. Consistency with Community Outcomes and Council Policy	The Community Outcome that is supported by this report is: "Our region is supported by an innovative and sustainable economy"
3. Risk	There is a risk that the funding approved is not sufficient to secure approval by Port Nelson to go ahead with the project.
4. Financial impact	A contribution of \$500,000 towards the project, funded through a 40-year loan, would add \$27,200 to the annual rates requirement in the first year, including interest and loan repayments. There are no foreseen future or associated costs of this project.
5. Degree of significance and level of engagement	The matter is of medium significance to the businesses and users of the slipway, as it effects services provided and business opportunities. However, this matter is of low significance to most residents and ratepayers because it does not have a significant impact on the community services or Council's financial resources. This decision aligns with existing Council policy and investment in the Nelson Marina. Therefore, no consultation is proposed.
6. Climate Impact	No climate impact has been identified as part of this report
7. Inclusion of Māori in the decision making process	No engagement with Māori has been undertaken in preparing this report.
8. Delegations	The \$500,000 is not within existing Council budgets and therefore requires Council approval to be allocated under the 2021-31 Long Term Plan.

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Expansion

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