

Provincial Growth Fund Position Paper

Feasibility studies and business cases

Purpose

This paper sets out how Provincial Growth Fund (PGF) criteria will be applied to new applications for funding of feasibility studies and business cases, given the PGF is no longer focused on pre-investment activities.

Background

This paper constitutes supporting material Cabinet authorised the Minister to develop

In February 2018 Cabinet agreed a set of eligibility and assessment criteria for the PGF [CAB-18-MIN-0045 refers]. These criteria were fairly broad to encourage stakeholders to be ambitious and generate a wide range of ideas.

Cabinet also authorised the Minister for Regional Economic Development to approve supporting material for the PGF, including agreeing to any minor changes to criteria and success measures, in consultation with other Ministers as required [CAB-18-MIN-0045 refers].

This paper constitutes supporting material for the PGF. It has been developed in the context of the phasing of the PGF's activities, which Cabinet noted was likely to fall broadly into the following phases:

- 2018: pre-investment and remedial infrastructure
- Late 2018 – 2019: funding decisions
- 2019 – 2020: delivery of projects.

Feasibility studies and business cases are pre-investment activities

Feasibility studies and business cases are funded under Tier 1: Regional Projects and Capability. Tier 1 investments focus on funding pre-investment activities and remedial infrastructure. The objective of funding feasibility studies and business cases is to generate quality investment opportunities for the PGF, or to catalyse increased private investment in the regions.

Feasibility studies and business cases ensure PGF funding is used efficiently

Feasibility studies and business cases provide decision-makers with insights into whether projects are investment-worthy and capable of delivering their stated benefits. They give the Provincial Development Unit (PDU), applicants, and other stakeholders the ability to determine the viability of an idea and any constraints they may face. This can inform both pre-approval evaluation and post-approval contract management processes.

The PGF has invested in a range of feasibility studies and business cases to date

As of 31 May 2019, the PGF has invested approximately \$44.3 million in 104 feasibility studies and business cases. 10 feasibility studies and business cases have been completed. Of these, nine feasibility studies and business cases have resulted in further PGF applications that may progress to substantive projects. The remaining funded feasibility studies are at various stages of completion.

The PGF focus for 2019 is the substantive project funding decisions phase

One of the operational objectives of the PGF is to have the \$3 billion fund largely committed by 2020. Based on this timeframe, pre-investment funding (such as for feasibility studies) were a focus of the PGF in 2018 [CAB-18-MIN-0045 refers]. The focus for 2019 is to make the bulk of substantive funding decisions, in part by building on earlier investments in feasibility studies and business cases.

The PGF is now focused on making funding decisions for substantive projects that will commence within the timeframes of the PGF. Therefore, this paper sets out how the PGF's criteria relating to feasibility studies and business cases will be applied.

From 1 August 2019, applications to the PGF should be for substantive projects that commence (as determined by the PGF) within the remaining timeframes of the PGF. Substantive project proposals can include feasibility elements within the overall project, as long as the substantive project will commence within the remaining timeframes of the PGF, as noted by Cabinet.

New applications for investment in feasibility studies and business cases from 1 August 2019

From 1 August 2019, for new applications to the PGF to fund feasibility studies and business cases, the table below sets out which agreed Cabinet criteria the PGF will place particular emphasis on, and provides more detail on how those criteria will be operationalised.

Based on the time-limited nature of the PGF, applications that are related to substantive projects that are unlikely to commence within the timeframes of the PGF will not be assessed. This means:

- applications will need to take into account the length of time it will take to complete a feasibility study and/or business case, apply for subsequent PGF funding, have this funding assessed and if approved contracted, arrange co-investment funding, and commence the project within the timeframes of the PGF. The PDU will prioritise funding feasibility studies and business cases that meet the relevant criteria and that are the first stage of a broader PGF application;
- applications will need to demonstrate that there is a high-likelihood of meeting the relevant regulatory conditions, and that doing so will not inhibit a project commencing within the timeframes of the PGF. This will differ based on project, region and sector. Examples of these regulatory conditions include resource consents, building consents, conservation concessions and Overseas Investment Office criteria;
- there should be a high degree of certainty that a feasibility study or business case will confirm an initiative's viability, and will likely receive further funding (PGF or otherwise) for the next phase of the project.

PGF criteria	Application of criteria
Demonstrate how the project contributes to the Fund's objectives of: <ul style="list-style-type: none">• lifting the productivity potential of the region• more permanent jobs• benefits to the community and different groups in the community• increased utilisation and returns for Māori from their asset base (where applicable)• sustainability of natural assets (e.g. water, soil integrity, the health and ecological	The substantive project being proposed by the feasibility study or business case should generate <i>significant</i> benefits when assessed against the PGF's objectives, in particular: <ul style="list-style-type: none">• lifting the productivity potential of the region; and• creating more permanent jobs.

<p>functioning of natural habitats)</p> <ul style="list-style-type: none"> mitigating or adapting to climate change effects, including transitioning to a low emissions economy 	
<p>Detail of any supporting third party funding</p>	<p>Applications by commercial entities should have a co-contribution of 50% of the feasibility or business case cost. Applications by entities with more of a focus on generating public benefits (e.g. trusts, iwi organisations) should have a co-contribution of 40% of the feasibility or business case cost.</p>
<p>Acts as a catalyst to unlock a region's productivity potential</p>	<p>The PGF will remain interested in feasibility studies or business cases that are likely to increase public (e.g. New Zealand Transport Authority) or private investment in regions without the need for further PGF investment.</p>
<p>Connected to regional stakeholders and frameworks</p>	<p>Applications should have <i>strong</i> support from key regional stakeholders (i.e. councils, iwi, and regional development bodies), and alignment with key regional plans or strategies.</p>

Exceptions

This position paper does not apply to feasibility studies relating to water storage projects. For applications for feasibility studies relating to water storage projects, please refer to the [Water Storage and the Provincial Growth Fund](#) position paper.

The above approach is subject to discretion on a case-by-case basis.