



COVERSHEET

Minister	Hon Shane Jones	Portfolio	Regional Economic Development
Title of Cabinet paper	Provincial Growth Fund: Effectively Managing the Pipeline of PGF Applications	Date to be published	31 October 2019

List of documents that have been proactively released

Date	Title	Author
25 September 2019	Provincial Growth Fund: Effectively Managing the Pipeline of PGF Applications	Office of Minister for Regional Economic Development
25 September 2019	Provincial Growth Fund: Effectively Managing the Pipeline of Applications: <i>DEV-19-MIN-0260</i>	Cabinet Office

Information redacted

YES / NO (please select)

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In Confidence

Office of the Minister for Regional Economic Development

Chair, Cabinet Economic Development Committee

EFFECTIVELY MANAGING THE PIPELINE OF PGF APPLICATIONS

Proposal

1. This paper seeks Cabinet approval to broaden the scope of the Head of the Provincial Development Unit's (PDU) delegation to decline Provincial Growth Fund (PGF) applications received by the PDU, to effectively manage the pipeline of PGF applications.

Executive Summary

2. The PGF has achieved its goal of encouraging a broad and diverse range of applications from which it can invest in the best options. Significant progress has been made allocating the \$3 billion. \$2.451 billion of the PGF has been committed¹, including \$1.753 billion of approved projects, as at 31 August 2019.
3. The PDU currently has \$1.867 billion worth of proposals² in its pipeline that are yet to be assessed, and continues to receive new proposals. The PDU expects a significant proportion of remaining and future proposals will not adequately meet the PGF's eligibility and assessment criteria for investment.
4. Given the phase of the PGF we are moving into, I have agreed, in consultation with Regional Economic Development Ministers, PDU operational changes to support timely decision-making. These changes are:
 - 4.1. the PDU implements timeframes for applicants to supply information requested to evaluate or progress an application, with an option to recommend declining the application if timeframes are not met; and
 - 4.2. the PDU subjects all new and existing applications to a triage analysis – in line with established criteria, and in consultation with relevant agencies – to determine if further evaluation is warranted and, if not, recommends declining the application.
5. I am now seeking Cabinet's agreement to extend the Head of the PDU's decline delegation to include the authority to decline applications in accordance with the operational changes above. This will support the PDU to make timely recommendations to PGF decision-makers on applications that present the most

1 'Committed' includes ring-fenced allocations and allocations other agencies are responsible for, e.g. Te Uru Rākau/1BT, Te Ara Mahi, Whenua Māori, Digital Connectivity, Transport (Rail inclusive), Waste and Energy, and other allocations.

2 Proposals include applications and Expressions of Interest.

promising opportunities for investment through strong alignment with the PGF's objectives.

Background

The PGF's investment framework

6. In December 2017 Cabinet agreed to establish the Provincial Growth Fund (PGF), a \$1 billion per annum investment fund for three years [CAB-17-MIN-0554]. The overall objective of the PGF is to lift productivity potential in the regions, with the following specific supporting objectives:
 - 6.1. increased jobs and sustainable economic development;
 - 6.2. increased social inclusion and participation;
 - 6.3. Māori development;
 - 6.4. environmental sustainability and help in addressing climate change; and
 - 6.5. increased resilience (infrastructure and economic).
7. To achieve its objectives, the PGF has three tiers of investment:
 - 7.1. Tier 1: Regional Projects and Capability;
 - 7.2. Tier 2: Sector Investments (including the One Billion Trees Programme); and
 - 7.3. Tier 3: Enabling Infrastructure Projects.
8. One of the operational objectives of the PGF is to have the \$3 billion fund largely committed, with the bulk of projects underway, by 2020 [CAB-17-SUB-0554]. Based on this timeframe, Cabinet noted that the PGF was likely to fall broadly into the following phases [CAB-18-MIN-0045]:
 - 8.1. 2018: pre-investment and remedial infrastructure;
 - 8.2. Late 2018 – 2019: funding decisions;
 - 8.3. 2019 – 2020: delivery of projects.
9. The PDU is now focused on completing the 'funding decisions' phase, by supporting decision-makers to allocate the remaining funds to substantive projects that will commence within the timeframes of the PGF. The PDU is also increasingly moving into the 'delivery of projects' phase, which focuses on contract development and management.

Progress towards full allocation of the PGF

10. The PGF has achieved its goal of encouraging a broad and diverse range of applications from which it can invest in the best options to achieve its objectives. The PDU has received 1301 proposals seeking \$5.693 billion of PGF funding, as at 18 September 2019.

11. Significant progress has been made allocating the \$3 billion fund. \$2.451 billion of the PGF has been committed, including \$1.753 billion of approved projects, as at 31 August 2019. This means the PGF still has \$548.9 million of funding yet to be committed, and \$1.247 billion of funding to be approved against specific projects, as at 31 August 2019. 656 applications totalling \$2.766 billion have already been 'declined'.³
12. Appendix 2 provides a breakdown of the number of PGF proposals that the PDU has received, approved and declined.

Operational changes to date

13. The PDU has established a continuous improvement approach to ensure the PDU responds effectively to the progression of the PGF's phases, and facilitates a comprehensive transition to the project delivery phase.
14. A key area for operational improvement – to support the PDU to evaluate all applications before the PGF is fully allocated – involves the declining of applications.
15. When making funding recommendations, the PDU has prioritised progressing projects that best align with PGF objectives. This is consistent with the *Operational Design of the Tuawhenua Provincial Growth Fund* Cabinet submission which noted the importance of the best concepts being progressed rapidly from feasibility stage through to eventual project delivery (when appropriate) [CAB-18-SUB-0045, paragraph 20].

Managing the PDU's transition to project delivery phase

16. The ongoing growth of applications in the pipeline, and progress towards full allocation of the PGF, presents circumstances that need to be carefully managed.
17. While decision-makers have made good progress towards fully committing the PGF, the number of applications that need to be assessed and have decisions made about them continues to grow as applications continue to be submitted.
18. The PDU continues to receive approximately 16 new proposals each week, outpacing the rate at which proposals progress through a full evaluation and consideration by decision makers.

Operational changes being implemented by the PDU

19. As at 18 September 2019, the PDU has 336 proposals in the pipeline, for projects seeking \$1.864 billion of funding, which are yet to have decisions made on them. Based on the current 32 per cent conversion rate of applications into approved projects⁴, the PDU expects a significant proportion of the remaining 336 proposals will not adequately meet the PGF's eligibility and assessment criteria for investment [CAB-18-MIN-0045].

³ 'Declined' figures also include projects that have been withdrawn and Expressions of Interest that were unsupported.

⁴ As at 18 September 2019, the PDU has received 1301 proposals. Of 965 proposals with decisions made, 309 (or 32%) have been approved for funding.

20. Therefore, in consultation with Regional Economic Development Ministers, I have agreed the PDU implement the following operational changes to support timely decision-making:
- 20.1. the PDU implements timeframes for applicants to supply any further information requested to evaluate or progress an application, with an option to recommend declining the application if timeframes are not met; and
 - 20.2. the PDU subjects all new and existing applications to a triage analysis – in line with established criteria, and in consultation with relevant agencies – to determine if further evaluation is warranted and, if not, recommends declining the application.
21. I have also agreed the PDU implement the following operational changes to speed up processes following approval of projects by decision-makers:
- 21.1. establish an option to unilaterally exit prolonged contract negotiations subject to good faith negotiations and clear parameters;
 - 21.2. establish specific contract negotiation parameters for projects under \$1 million; and
 - 21.3. agree timeframes on all future Condition Precedents, and have the option to exit the project unless they are met.
22. More detail about the parameters of these processes is contained in Appendix 1.
23. While maintaining processes that continue to treat all applications fairly, consistently and transparently, the PDU will ensure the following operational objectives as it manages the remainder of the PGF:
- 23.1. evaluate, and support decision-making on, all applications before the PGF is fully allocated;
 - 23.2. ensure that decision-makers make fully informed investment decisions that recognise trade-offs between projects, and opportunities for mutually supportive investments; and
 - 23.3. ensure the pipeline of applications is adequate to support the PGF's strategic objectives.

Broadening the Head of PDU's decline delegation

24. In July 2018, Cabinet agreed to change the delegations for the PGF so that the Head of the PDU has the authority to decline any applications that clearly do not meet the criteria of the PGF [CAB-18-MIN-0347].
25. Given the pipeline of PGF projects, the phase of the PGF we are moving into, and the importance of informing applicants of the results of their applications, I now consider it is appropriate to broaden this decline delegation.⁵

⁵ This decline delegation will not impact the existing delegation for Senior Regional Officials to approve projects valued at up to \$1 million, [CAB-17-MIN-0554].

26. An extended decline delegation for the Head of the PDU, in conjunction with the operational changes above, will support the PDU to make timely recommendations to decision-makers on applications that present the most promising opportunities for investment through strong alignment with the PGF's objectives.
27. Therefore, I am seeking Cabinet's agreement to broaden the Head of PDU's decline delegation to include the authority to decline applications in accordance with the process set out in paragraph 20. The Head of the PDU will ensure that Regional Economic Development Ministers are regularly informed of decisions taken under this delegation.

Consultation

28. The Treasury, the State Services Commission, the Ministry of Foreign Affairs and Trade, the Ministry for Primary Industries, the Ministry of Transport, the Department of Conservation, Te Puni Kōkiri, and the New Zealand Transport Agency, were consulted on this paper. The Department of Prime Minister and Cabinet was informed.

Publicity

29. Decisions resulting from this paper will be communicated through public release of this paper, commentary on the Grow Regions website, and by regional officials.

Proactive Release

30. I propose to release this paper proactively, subject to appropriate redactions, within 30 business days.

Recommendations

The Minister for Regional Economic Development recommends that the Committee:

1. **note** the progress the Provincial Development Unit (PDU) has made administering the Provincial Growth Fund (PGF) in line with Cabinet-agreed timeframes;
2. **note** that, based on the current 32 percent conversion rate of applications into approved projects, the PDU expects a significant proportion of applications that have not yet had decisions on them made will not adequately meet the PGF's eligibility and assessment criteria for investment;
3. **note** that, in consultation with Regional Economic Development Ministers, I have agreed the PDU implement the following operational changes to support timely decision-making:
 - 3.1. the PDU implements timeframes for applicants to supply any further information requested to evaluate or progress an application, with an option to recommend declining the application if timeframes are not met; and
 - 3.2. the PDU subjects all new and existing applications to a triage analysis – in line with established criteria, and in consultation with relevant agencies – to

determine if further evaluation is warranted and, if not, recommends declining the application;

4. **note** that in July 2018, Cabinet agreed to change the delegations for the PGF so that the Head of the PDU has the authority to decline any applications that clearly do not meet the criteria of the PGF [CAB-18-MIN-0347];
5. **note** that, given the pipeline of PGF projects, the phase of the PGF we are moving into, and the importance of informing applicants of the results of their applications, I now consider it is appropriate to broaden this decline delegation;
6. **agree** to broaden the Head of PDU's decline delegation to include the authority to decline applications in accordance with operational changes I have approved, as set out in recommendation 3, which will support the PDU to make timely recommendations to decision-makers;
7. **note** that changes resulting from recommendations in this paper will be communicated through public release of this paper, commentary on the Grow Regions website, and by regional officials.

Authorised for lodgement

Hon Shane Jones

Minister for Regional Economic Development

Appendix 1

Parameters for operational changes set out in the *Effectively Managing the Pipeline of PGF Applications* Cabinet paper

31. This appendix provides more detail on the parameters for operational changes the Minister for Regional Economic Development, in consultation with Regional Economic Development Ministers, has agreed the PDU implement in order to effectively manage the pipeline of applications as the PGF moves into 'project delivery' phase.

Operational changes to support timely decision-making

32. The PDU will implement timeframes for applicants to respond to requests for further information, with an option to decline an application if these timeframes are not met. Applicants who have not adequately supplied information to the PDU to begin evaluation, or who have not adequately supplied information requested by the PDU (that in PDU's assessment is critical to progressing the application assessment), are given 20 working days to supply the information or the application may be declined.
33. The PDU subjects all new and existing applications to a triage analysis to determine if further evaluation is warranted and, if not, recommends declining the application, based on the following criteria:
- 33.1. An application may be declined if the project is only weakly aligned to PGF objectives and any of the following apply:
- 33.1.1. the project is not likely to commence within PGF timeframes⁶;
 - 33.1.2. the extent of regional support and alignment with regional priorities is low;
 - 33.1.3. the co-contribution is inadequate given key information about the project⁷;
 - 33.1.4. available security does not align with security principles position paper.
- 33.2. An application will also be declined when:
- 33.2.1. the applicant is not willing to consider a loan which is deemed necessary to ensure the proposal complies with New Zealand's international trade obligations; or
 - 33.2.2. due diligence is failed, including financial and character assessments; or

⁶ For example: the application is not in-line with the PGF position paper on Feasibility Studies and Business Cases; the application does not have required resource, or other statutory, consents.

⁷ A 50% co-contribution is expected for commercial projects.

- 33.2.3. the application is for a commercial project and has zero co-contribution.

Operational changes to speed up processes following approval of projects by decision-makers

34. An option to unilaterally exit prolonged contract negotiations will be subject to good faith negotiations and acting within the following parameters:
- 34.1. early establishment of contract negotiation parameters: at assessment or recommendation stage, agree with the applicant draft terms, and that significant divergence from the agreed draft terms during loan negotiations can result in the PDU choosing to exit negotiations;
 - 34.2. early establishment of contract negotiation deadlines: establish, at the start of negotiations, a deadline to end negotiations on the full terms sheet and a deadline for negotiations for the loan contract.
35. Establishment of specific contract negotiation parameters for projects under \$1 million, will operate within the following parameters:
- 35.1. negotiations will be conducted from the outset with reference to a standard terms sheet, parties must accept a standard loan agreement⁸, and the loan must be administered with a simple interest rate structure.
36. Establishment of timeframes on all future Condition Precedents, with the option to exit the project unless they are met, will operate within the following parameters:
- 36.1. at contracting stage the PDU would agree with an applicant timeframes to meet Condition Precedents, such as 20 working days of a contract being signed for straightforward examples. If a Condition Precedent is not met, the PDU would reserve the option, based on a good faith assessment of the circumstances and alternative PGF investment options, to exit the project.

⁸ The standard loan agreement will be made public.

Appendix 2

PDU Progress towards full allocation of the PGF⁹

Applications received and total funding requested – as at 18 September 2019

Funding Tier	Number of applications received	Total funding requested (\$ million)
Tier 1	458	\$590.492
Tier 2	501	\$2,684.069
Tier 3	137	\$1,555.399
Multi-tier or blank	205	\$862.762
Total	1301	\$5,692.722

PDU decision-making progress – as at 18 September 2019

Funding Tier	Number of applications received	Number of applications declined ¹⁰	Value of applications Declined (\$ million)	Number of applications approved	Value of applications approved (\$ million)
Tier 1	458	243	\$232.487	99	\$69.088
Tier 2	501	233	\$1,214.464	133	\$466.412
Tier 3	137	36	\$755.6	75	\$454.415
Multi-tier or blank	205	144	\$564.112	2	\$7.013
Total	1301	656	\$2,766.662	309	\$996.929

Status of PDU applications requiring assessment and funding requested – as at 18 September 2019

Funding Tier	Number of applications	Funding requested (\$ million)
Tier 1	116	\$281.338
Tier 2	135	\$926.143
Tier 3	26	\$365.458
Multi-tier or blank	59	\$291.488
Total	336	\$1,864.427

⁹ Numbers contained in this appendix apply only to PGF proposals the PDU administrators.

¹⁰ 'Declined' figures also include projects that have been withdrawn and Expressions of Interest that were unsupported.