

Queensland Biofutures Industry Development Fund

Program Guidelines

July 2017

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1. Background

1.1. Advance Queensland

The Queensland Government's Advance Queensland sets the policy direction for creation of knowledge-based jobs, driving productivity improvements and building on existing competitive advantage.

It is a comprehensive suite of programs, investing \$405 million to create the jobs of the future. It includes the creation of 10-year industry roadmaps, to support growth and employment in priority sectors with global growth potential. To grow these sectors, it is critical that new businesses are attracted to Queensland or existing businesses innovate and expand.

One area of particular interest to Queensland is the industrial biotechnology and bioproducts sector. Recognising that this industry offers tremendous opportunities, the Queensland Government released a Biofutures 10-year Roadmap and Action Plan in June 2016 to achieve a vision of Queensland capitalising on its competitive advantages in people, ideas, infrastructure and world class research to achieve a \$1 billion sustainable and export oriented sector. The roadmap includes a series of actions to grow and promote the sector. One of these actions is the Biofutures Industry Development Fund (the Fund).

1.2. Program Overview

Queensland Government consultation identified that one of the most significant impediments to greater commercialisation in the industrial biotechnology and bioproducts sector is insufficient supply of risk capital for the pre-commercial study phase of a potential project. The Fund will provide an interest free source of repayable risk capital funding to assist companies to undertake studies to finalise critical outstanding issues that emerged from investor review of their project bankable feasibility study.

Under the Fund, the Queensland Government will provide cash grants generally up to 50 per cent of the total value of the finalisation studies and capped at a maximum of \$2.5 million. The grants would occur in instalments that are tied to progress milestones. The first instalment however, may be made in advance in order to provide the seed capital required to commence work.

The program is a two stage process. Initially applicants are asked to address the eligibility of their project. If the project is deemed eligible, the applicant will then be asked to submit a more detailed application which will be assessed against set criteria, outlined in this document.

1.3. Other Assistance

Financial assistance under the Fund can be packaged with non-financial assistance. Examples of non-financial assistance include:

- providing customised business cases to promote the strategic business advantages offered by Queensland
- delivering specific information and assistance to business on issues such as business costs, site options, resource availability, market access, trade links and supply chains
- assistance with regulatory approval pathways, resource availability, land use suitability and site selections.

2. Scope of the Fund

2.1. Objectives

The key objectives of the Fund are to:

- assist prospective projects in the Queensland bioindustrial and bioproducts sector to successfully transition from their study phase through a Final Investment Decision and into construction
- deliver value for money through the achievement of performance-based funding outcomes that align to the objectives of the Fund
- ensure transparency and accountability in the decision-making process through the application of agreed funding criteria and maintenance of an audit trail of documentation and decisions
- uphold the position of the state through the rigorous review, assessment and contract management of projects approved under the Fund.

Achieving these objectives will result in the timely and structured provision of financial assistance to individual proponents/organisations for the development of biofutures sector projects and bolstering economic development and innovation in Queensland.

2.2. Principles

The following principles will form the basis for the provision of financial assistance packages.

Principle 1

Financial assistance is targeted at achieving outcomes consistent with the Queensland Government's broader policy objectives.

Principle 2

The proposed biofutures project must be consistent with the Queensland Government's specific policy objectives described in the Queensland Biofutures 10-Year Roadmap and Action Plan (June 2016).

Principle 3

The proposed project must have completed a bankable feasibility study and have progressed negotiations with prospective investors who are inclined to provide project finance to the proponent if critical outstanding issues can be resolved through completion of extra/final studies.

Principle 4

The proposed project must be commercially viable through its operational life without any ongoing financial incentive.

Principle 5

Financial assistance is provided in the form of a staged cash grant that is to be refunded in full by the recipient company if and when the project achieves a successful Final Investment Decision and proceeds to development.

Principle 6

Financial assistance should be linked to the achievement of clearly defined outcomes and specific milestones.

2.3. Stage 1 - Eligibility Criteria

To achieve the objectives of the Fund, seven criteria have been identified to determine whether the provision of financial assistance to an individual business is aligned with the Queensland Government's policy objectives and priorities.

To be considered appropriately aligned with the Government's policy objectives and priorities, a business project should reasonably meet all of the Eligibility criteria. These criteria are:

Queensland site

The project under study must involve installation of the primary production assets at a nominated site within the state of Queensland. It is permissible for the project's support assets (e.g. feedstock gathering, logistics and product distribution) to be located outside Queensland.

Industry segment

The Queensland Government is committed to the biofutures industry. The biofutures industry refers to the industrial biotechnology and bioproducts sector – the bioeconomy. It focuses on the development and manufacture of products from sustainable organic feedstock/s and/or carbon rich waste resources, rather than fossil fuels. Agricultural residues, forestry thinnings, municipal wastes, algae and dedicated energy crops could all be used as feedstocks to generate a wide range of sustainable chemicals, fuels, energy, synthetic rubber, cosmetics, detergents and textiles.

Project type

Type	Description	Eligibility
Growth and Development	Installation of new assets (including third party infrastructure) and/or modification of existing assets, to commercially produce new products, increase production output of existing products and/or improve the quality of an existing product so that it may command a larger market share in export markets or achieve import substitution.	Yes
Asset Maintenance	Work performed on existing assets to address defects and deterioration in their condition or replacement of assets that are at the end of their useful life to ensure continuity of operations.	No
Operational Improvement	Work performed on existing assets or the installation of new assets in order to improve or optimise production efficiency, profitability and business viability.	No

Bankable feasibility stage

Methodologies for capital investment staging and decision vary. Typically however, a bankable feasibility study comprises the third stage in a six stage investment life cycle.

The Fund is targeted at assisting projects to finalise and resolve critical outstanding issues that emerged from investor review of the bankable feasibility study stage.

Extra studies and planning to finalise and resolve critical outstanding issues must genuinely constitute technical advice procured by the project proponents and be intended to directly advise the proponents so they may complete project planning to the satisfaction of investors. Legal, financial and insurance advice is considered eligible technical advice.

Stage	Description	Eligibility
1. Concept	Creation and assessment of the business opportunity. Identification of potential environmental impacts and statutory approval requirements. Cost estimation and engineering to Class 5 level (i.e. approx 2% design completion).	No
2. Pre-feasibility	High level options analysis and preferred option selection. Initial assessment of environmental impacts and statutory approval viability. Initial indication Cost estimation and engineering to Class 4 level (i.e. approx. 15% design completion).	No
3. Bankable (Full) Feasibility	Definition of the preferred option and demonstration of its commercial and environmental approval viability. Cost estimation and engineering to Class 3 level (i.e. approx. 40% design completion) including initial constructability assessment. All information required for a final investment (i.e. go/no go) decision.	No
	Extra studies and planning required to finalise outstanding issues relating to (3) Bankable (Full) Feasibility identified from external technical reviews, investor due diligence feedback, customer feedback and regulatory development approval conditioning in order to obtain Final Investment Decision.	Yes
Final Investment Decision		
4. Execute	Detailed design, constructability finalisation and construction. Cost estimation and engineering to Class 2 and Class 1 levels (i.e. approx. 75% and 100% design completion).	No
5. Commission and Start Up	Verification that newly installed assets perform to design specification. Involves initial energisation and controlled fluctuating operation and testing of assets and safety systems.	No
6. Operate	Steady state operations, production optimisation and maintenance.	No

Funding need

The Fund aims to assist projects that have been unable to generate or attract funding required to finalise critical outstanding issues that emerged from their bankable feasibility study. Applicants will need to produce evidence that the full amount of funding required for the finalisation of studies has been genuinely sought and has not been made available. The Department of State Development (DSD) may directly verify these interactions with financiers/investors.

Project financial viability

The project must be able to demonstrate that it is financially viable and able to sustain ongoing profitability in the operational stage. This will include but not be limited to demonstrating a 20 year financial cost/benefit analysis, reliable access to feedstock, firm customer interest and clear documented conditional support from debt/equity investors.

Proven and available technology

The Fund is not a technology research and development assistance program. Proposals that seek funding to develop new plant and equipment are not eligible. Plant and equipment must be commercially available and proven at full scale market oriented production. Plant and equipment must also have a demonstrated performance record at full scale operation.

Process and production innovation applied in conjunction with proven commercially available plant and equipment is eligible. This includes:

- the development of innovative process engineering and production methods
- the use of new or innovative feedstocks
- production of new or innovative products.

In all instances however, proof of concept and proof of scale must be evident and demonstrated through independently verified production trials and customer acceptance trials.

2.4. Stage 2 - Assessment Criteria

If deemed eligible, all proposed projects will subsequently be assessed against criteria that identify in detail the project's level of preparedness and its likelihood of attracting investors. To be assessed submissions to the Fund must address each of the following criteria:

1. Business case
2. Funding and value for money
3. Company management and governance
4. Sustainability
5. Stakeholder management
6. Risk management
7. Project delivery
8. Change management
9. Cost management.

1. Business case

The project under study should clearly identify the opportunity being addressed by the project. This should include:

- market size, structure and growth trend
- key success factors

- market competitors
- feedstock types and any other process consumables
- potential supply sources and supply chains
- plant and equipment involved with all stages of the process
- key services and infrastructure demands (e.g. electricity, gas, water, etc.)
- critical outstanding issues that emerged from investor review of the bankable feasibility study.

2. Funding and value for money

The project will need to address:

- the overall cost estimate for the construction stage (i.e. execution and commissioning) of the project
- the proposed source of finance for the project construction stage (i.e. execution and commissioning) including the status of discussions/negotiations with potential project debt/equity financiers to obtain this funding
- the project's projected viability and profitability including a 20 year financial cost/benefit analysis
- the estimated annual direct full time employment for the construction stage
- the estimated annual taxable wages for direct full time construction stage employees
- the estimated annual direct full time operational stage employment
- the estimated annual taxable wages for direct full time operational stage employees.

3. Company management and governance

The Queensland Government will have a keen interest in understanding the value and financial status of the proponent including all relevant corporate entities and parent companies that may own a project special purpose vehicle.

This will include the management structure and ownership of the company including company chain of command and hierarchy and the roles and responsibilities of the management structure, including their management capability and experience.

4. Sustainability

Key to any successful project development in Queensland are the relevant environmental approvals. The applicant will need to have identified the key land use and environmental permits and approvals required for the construction and operational phases. Social impacts of the project and sustainability measures also need to be outlined.

5. Stakeholder management

The application should also describe the key external stakeholders for the project, their respective interests and level of influence over the project, and planned communication strategies with these stakeholders.

6. Risk management

The project under study will be required to identify the risks and controls during both the construction and operational phases of the project.

7. Project delivery

A detailed project schedule that notes the main project milestones and indicates activity sequencing, financing activities and decision points should be included.

8. Change management

An assessment of the magnitude of change that the project would bring to the company and the plans to manage these changes.

9. Cost management

The application will include a detailed cost estimate for the extra studies and planning required to finalise and resolve the critical outstanding issues that emerged from the bankable feasibility study, the methods and techniques used to produce the estimate and what allowances have been made for contingency.

2.5. Funding Rules

DSD will review the proposed extra studies and planning and the associated cost estimates and, at its total discretion, determine which of these studies and planning activities may qualify for assistance under the Fund. The total sum provided to any one project proponent shall be capped at \$A 2.5 million excluding GST. If approved to receive financial assistance, all proposed projects will be required to execute a Financial Assistance Agreement. The Agreement will incorporate the following funding rules:

1. Financial assistance for approved extra studies and planning required to finalise outstanding issues that emerged from a bankable feasibility study will be on an overall 'dollar for dollar' basis (i.e. up to 50 per cent of total) as determined by the proponent's cost estimate.
2. Cost overruns beyond the proponent's cost estimate will not receive extra funding.
3. The disbursement of funds to a proponent shall be made by instalments, each of which will be to a predetermined percentage of the approved financial assistance.
4. An initial 25 per cent instalment may occur prior to the commencement of any extra studies and planning activity, so as to provide the seed capital for these activities.
5. All subsequent instalments may be made in respect of:
 - a. verified costs incurred by the proponent in respect of eligible costs for the proposed extra studies and planning; or
 - b. verified costs committed by the proponent in respect of eligible costs for the proposed extra studies and planning.
6. All funds provided to proponents are to be refunded to DSD within 20 business days from the date at which the project receives the first instalment of the funds pursuant to a Final Investment Decision. At this point the funding will be acquitted and accounted for pursuant to the requirements of the Financial and Performance Standard 2009.
7. At this point the project will be deemed to be acquitted.
8. Proponents will have 12 months from the date of the final instalment payment from DSD to achieve Final Investment Decision and receive a first instalment of funds from investors.
9. The extra studies funded in part via DSD's financial assistance will be provided by the proponent to DSD. DSD will be granted a non-transferable licence to use the intellectual property of these studies.

10. If a proponent fails to achieve Final Investment Decision and first instalment of funds by the 12 month expiry date, DSD shall be granted a fully transferable licence to use the intellectual property of extra studies AND the full bankable feasibility study (i.e. includes studies done prior to DSD financial assistance) in any way and for any purposes it desires.
11. Subject to rule 12, at the 12 month expiry date (identified in rule 8 above), if the proponent fails to achieve Final Investment Decision, the proponent may be released from its obligations to re-pay any financial assistance it received prior to this date. Notwithstanding however, DSD may reasonably impose conditions on the proponent regarding re-payment of financial assistance if the proponent (or a related entity) achieves a Final Investment Decision or receives any payment relating to the extra studies and planning after such expiry date.
12. The 12 month expiry date (identified above) may be extended at the total discretion of DSD.
13. Intentional use of the funding assistance for any purpose other than agreed may result in the cancellation of the assistance and commencement of recovery action.
14. If the proponent receives or attempts to receive funding for essentially the same study or activity from another party, the assistance under the Fund may be cancelled, recovered in full and/or adjusted pro-rata.

2.6. Ineligible Costs

As noted in Eligibility Criterion 3, the Fund is targeted at extra studies and planning to finalise and resolve critical outstanding issues. Any costs that are not directly relevant to the procurement and completion of these studies are not eligible for re-imburement under the Fund. To avoid doubt, unless agreed by DSD, ineligible costs include those related to:

1. activities that commenced prior to the signing of a funding agreement (unless agreed with DSD prior to incurring such costs), including feasibility and planning studies
2. statutory fees and charges and any costs associated with obtaining regulatory and/or development approvals
3. temporary works, other than those specifically and solely required to enable completion of the finalisation studies
4. ongoing costs for business administration, operation or maintenance
5. engineering costs (except to the extent identified and approved by DSD as being required as part of the extra studies in order to address an outstanding issue to achieve the bankable feasibility study)
6. remuneration of employees for work not directly related to the proposed finalisation studies
7. any overhead charges such as office leases and insurance
8. vehicle purchasing or leasing
9. costs of preparing and submitting the application to the Fund or any associated supporting material.

3. Roles and responsibilities

3.1. Administration

The Minister for State Development and Minister for Natural Resources and Mines has the administrative responsibility for the Queensland Biofutures 10-Year Roadmap and Action Plan, June 2016 which includes the Fund.

DSD has the operational responsibility for the Fund.

3.2. Approvals

The Director-General of DSD may approve recommendations on financial assistance packages valued up to \$2.5 million.

3.3. DSD review

A review panel of Queensland Government officers will be established to review proposals and recommendations from DSD.

The purpose of the Queensland Biofutures Industry Development Fund Review Panel (the Panel) is to:

- consider the technical assessment of the funding applications undertaken by DSD having regard for the objectives of the Fund, and the eligibility and assessment criteria
- provide advice to the Director-General of DSD regarding applications and on the financial assistance a successful applicant should receive
- recommend conditions to be placed on assistance via the Financial Assistance Agreement
- report to the Government on the outcomes and impact of support provided through the Fund
- administer the funding rules of the Fund.

Meetings of the Panel will be convened on an as needs basis, as determined by the Chair.

3.4. Financial delegations

For financial incentives to individual businesses of up to and including \$2.5 million, final decisions are to be made by the Director-General of DSD.

4. Communications

4.1. Communication with the media

The proponent information, formal letter of offer and contracts are commercial-in-confidence, so all media enquiries or public announcements relating to the Fund must be coordinated and handled by DSD's media team.

Where possible, all media and communications will be undertaken jointly with the proponent.

Proponents will require DSD's approval prior to contacting media to discuss any information regarding their projects which have received financial assistance under the Fund.

4.2. Confidentiality

DSD will maintain strict controls in relation to the management of commercial information provided by the proponent and all internal documentation produced in relation to the administration of the Fund.

The overall quantum and timing of the assistance provided under the Fund as well as the proponent and project details will be made public.

Non-public details of the grant however, are to be treated as commercial-in-confidence and are not to be released to third parties by the proponent or the State as a condition of the offer of financial incentives.

5. Director-General discretion

The Director-General of DSD retains all rights and powers to make all decisions and actions in order to achieve the priorities and objectives of the program.

DSD may require funding recipients to provide all such documents or to remedy irregularities, as deemed necessary, to demonstrate the appropriate management and use of State funds.

6. Contact details

For enquiries or assistance please contact the Biofutures Queensland team:

- Tel: 13 QGOV (13 74 68)
- email: biofutures@dsd.qld.gov.au

Or visit the website:

<http://www.statedevelopment.qld.gov.au/industry-development/biofutures.html>