



BRIEFING

Provincial Growth Fund Limited: Letter of Expectations

Date:	16 August 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	0400 19-20

Minister	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree that the Minister for Regional Economic Development should sign the attached Letter of Expectations on behalf of shareholding Ministers.	21 August 2019
Hon Shane Jones Minister for Regional Economic Development	Agree to sign the attached Letter of Expectations on behalf of shareholding Ministers.	23 August 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
Michael Bird	General Manager, Entity Performance and Investment	Privacy of natural persons	✓
James Cunningham	Performance Advisor		

The following departments/agencies have been consulted
The Treasury

Minister's office to complete:

Approved

Declined

Noted

Needs change

Seen

Overtaken by Events

See Minister's Notes

Withdrawn

Comments



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Purpose

To provide a draft Letter of Expectations for Provincial Growth Fund Limited (PGFL).

Executive summary

Communication of your expectations and priorities is an integral part of the accountability framework for Crown entities. It is usual practice for a Letter of Expectations to be sent to a Crown entity's board soon after the Crown entity is created and then annually thereafter. A draft letter is attached for your consideration and signature.

Recommended action

The Ministry of Business, Innovation and Employment recommends that:

The Minister of Finance:

- a **Agree** that the Minister for Regional Economic Development should sign the attached Letter of Expectations on behalf of shareholding Ministers.

Agree / Disagree

Subject to the Minister of Finance's agreement, **the Minister for Regional Economic Development:**

- b **Agree** to sign the attached Letter of Expectations on behalf of shareholding Ministers.

Agree / Disagree

Michael Bird
**General Manager, Entity Performance and
Investment Branch**
Labour, Science and Enterprise, MBIE

..... / /

Hon Grant Robertson
Minister of Finance

..... / /

Hon Shane Jones
**Minister for Regional Economic
Development**

..... / /

Background

1. PGFL will be formally established upon completion of the registration process at the Companies Office, which is imminent.
2. Once the company has been established, it will be appropriate for you to write to the Board setting out your expectations as shareholding Ministers for the company. This is commonly referred to as the Letter of Expectations.

The Letter of Expectations

3. Communication of your expectations and priorities is an integral part of the accountability framework for Crown entities.
4. It is usual practice for a Letter of Expectations to be sent to a Crown entity's board soon after the Crown entity is created and then annually thereafter.
5. However, given the nature of PGFL as an asset holding company, with no staff, we propose that the Letter of Expectations should be kept as short and as simple as possible.

The letter would generally cover your expectations for:

6. *Government and/or sector priorities*, however, in PGFL's case this is not relevant because as an asset holding company it has no decision-making powers about the type and form of investments it will be required to hold on behalf of the Crown.
7. *Accountability documents* required by legislation.
8. *Reporting* frequency and content.
9. *Any other matters requiring attention*, such as the 'no surprises' policy and management of conflicts of interest.

The statutory requirements for accountability documents are set out in the Crown Entities Act 2004

10. The Crown Entities Act 2004 sets out the requirements for accountability documents to be prepared by Crown entities, which includes for Schedule 4A companies such as PGFL.
11. In summary, as soon as practicable after a Crown entity has been established, the Crown entity must prepare a Statement of Intent (SOI) and a Statement of Performance Expectations (SPE).
12. The SOI outlines the entity's plans for the forthcoming year and at least the following three years.
13. The SPE contains the annual performance information and includes the entity's forecast annual financial statements, service performance information, and accounting policies.
14. There is a minimum level of information required to be included in the accountability documents, but we think PGFL should be encouraged to try to keep the documents succinct.

PGFL will need a reasonable period of time to prepare its accountability documents

15. Taking into account that the company has only recently been formed and the PGFL Board is yet to hold its first meeting, we think PGFL should be provided with a reasonable period of time to prepare its draft accountability documents.
16. We recommend it be given until 31 October 2019 to prepare drafts of the SOI and SPE.

17. Once the draft SOI and SPE have been received, you will then have 15 working days to provide any comments on the documents back to PGFL, i.e. by 21 November 2019. MBIE will provide support to shareholding Ministers throughout this process.
18. This timeframe should still allow sufficient time for PGFL to consider your comments, if any, and finalise the documents for tabling in the House of Representatives before it rises for the Christmas / New Year recess.

Next steps

19. We recommend that, subject to the Minister of Finance's agreement, the Minister for Regional Economic Development should sign and send the attached Letter of Expectations on behalf of shareholding Ministers.
20. MBIE will be having an initial meeting in the next month with the directors of PGFL to discuss various aspects relating to the operation of PGFL, including the preparation of its accountability documents.
21. PGFL will prepare a draft SOI and SPE for shareholding Ministers' consideration and comment prior to their finalisation by PGFL. MBIE will provide advice to you on these documents as appropriate.
22. Once the documents are finalised and in a form suitable for tabling, the Minister for Regional Economic Development will arrange for them to be tabled in the House of Representatives.

Annexes

Annex One: Letter of Expectations to the Board of PGFL

Annex One: Letter of Expectations to the Board of PGFL

Mr Rodger Finlay
Chair
Provincial Growth Fund Limited
c/o Provincial Development Unit
Ministry of Business, Innovation and Employment
15 Stout Street
WELLINGTON 6011

By email to: Privacy of natural persons

Dear Rodger

Letter of Expectations for Provincial Growth Fund Limited (PGFL)

As is usual upon the formal establishment of any type of Crown entity, I am writing to set out shareholding Ministers' expectations for the Board of PGFL.

As an asset holding company, with no staff, some of the expectations usually communicated to Crown entities are not relevant or applicable. For example, there is no need for me to outline the Government's priorities to you because these will not impact on PGFL's operations as an asset holding company.

Overarching expectation

My overarching expectation is that the PGFL Board will complete the steps necessary to ready the company to enable investment agreements to be novated to it as soon as is practicable.

Management Agreement

Consistent with my overarching expectation, one of your first roles will be to arrange for PGFL to enter into a Management Agreement with the Provincial Development Unit (part of the Ministry for Business, Innovation and Employment – MBIE) to undertake various tasks necessary for the operation of PGFL. I understand that a copy of the draft management Agreement has been sent to you by MBIE and the PGFL Board will be considering it shortly.

Once the Management Agreement has been put in place, I expect that the PGFL Board will supervise and monitor the performance of MBIE's obligations under the Management Agreement, consistent with PGFL's company constitution.

Preparation of Accountability Documents

As you will be aware, the Crown Entities Act 2004 mandates the requirements for the Accountability Documents of Crown entities, which includes "Schedule 4A" companies.

Could you please arrange for PGFL to prepare a draft Statement of Intent and Statement of Performance Expectations as soon as is reasonably practicable.

I appreciate that as a new company it will take some time for these documents to be prepared, especially because it will be the first time they are produced. Accordingly, I would be grateful if the draft documents could be provided to me and MBIE by 31 October 2019.

Taking into account that PGFL will be an asset holding company, with no staff, I encourage the Board to keep the documents as straightforward as possible.

Reporting

As is usual practice for Crown entities, I would like to receive quarterly reports on PGFL's progress one month after the end of each quarter. I suggest that such reporting should commence from the period ended 31 December 2019.

Quarterly reports for Crown entities generally contain:

- Key achievements during the quarter and focus for the next quarter.
- Quarterly financial information compared to budget, including:
 - Statement of Comprehensive Revenue and Expense
 - Statement of Financial Position
 - Statement of Cash Flows.
- Non-financial information, including:
 - Progress against the performance measures contained in the entity's annual SPE
 - Emerging risks and opportunities
 - Any other information the entity considers is appropriate to understand performance.

No surprises

As you will be aware, the Government has a 'no surprises' policy. No surprises means that the Government expects a board to:

- Be aware of any possible implication of their decisions and actions for wider government policy issues.
- Advise the responsible Minister or shareholding Ministers of issues that may be discussed in the public arena or that may require a ministerial response, preferably ahead of time or otherwise as soon as possible.
- Inform the Minister/s in advance of any major strategic initiatives.

Other matters

The Government expects all Crown entity boards to operate with a high standard of integrity and to have procedures in place to appropriately manage conflicts of interest, should any arise. Your early attention to putting such procedures in place will be appreciated.

Thank you in advance for your contribution to the successful operation of PGFL. Should you have any questions about any of the above, please don't hesitate to contact my officials at MBIE.

Yours sincerely

Hon Shane Jones
Minister for Regional Economic Development

For and on behalf of shareholding Ministers