

Statement of Intent

2019 – 2023

Presented to the House of Representatives
pursuant to section 149 of the *Crown Entities Act 2004*

11 December 2019

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1. Introduction

The overall objective of the Crown, via the Provincial Growth Fund (PGF), is to invest in regional economic development in New Zealand, by providing various forms of financial support for recipients in regional New Zealand. The Crown's decision making in relation to PGF investments is governed by the criteria for PGF decision-making published by the Ministry of Business, Innovation and Employment (MBIE) from time to time, which includes non-financial criteria. The Crown wishes to hold its interests in certain PGF investments through a limited liability company called Provincial Growth Fund Limited, but in doing so the Crown wishes to ensure that the primary responsibility for management and administration of PGF investments remains with the Crown.

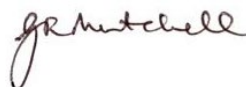
This Statement of Intent is submitted by the Board of Directors of Provincial Growth Fund Limited (the **Company or PGFL**), pursuant to the *Crown Entities Act 2004* (the Act). Under the Act the SOI is required to cover up to a four year period, being the current year and the following three financial years. Therefore this SOI sets out the objectives and intentions of the Company for the period from the date of its incorporation on 3 September 2019 to 30 June 2023.

Statement of responsibility

The Company is responsible for the statements contained in this document, including the appropriateness of the underlying assumptions.



Rodger Finlay
Chair



Graeme Mitchell
Director

11 December 2019

2. **Background information**

2.1 *This Statement of Intent*

The substantive background information on the Company is contained in the following sections of this Statement of Intent (**SOI**):

- (a) nature and scope of functions and operations; and
- (b) impacts, outcomes and objectives.

2.2 *Objectives*

The objectives of the Company are to:

- (a) act as an asset holding company to hold loan and equity investments made through the PGF;
- (b) enter into a Management Agreement with the Provincial Development Unit (PDU), which is part of MBIE under which PGFL will outsource the day-to-day management and administration of PGF investments to PDU;
- (c) supervise and monitor the performance of MBIE's obligations under the management agreement, consistent with PGFL's company constitution; and
- (d) operate commercially and in a manner that maximises financial returns, minimises costs and ensures the timely distribution of surplus funds.

2.3 *Accountability*

The Company is accountable to its shareholding Ministers (the **Shareholding Ministers**), which are currently the Minister of Finance and the Minister for Regional Economic Development.

2.4 *Governance*

The Shareholding Ministers appointed the Company's inaugural Board, which governs the Company. All decisions about the Company's operations are made under the authority of the Board. The Board is responsible for agreeing outputs with the Shareholding Ministers and ensuring that the expectations of the Company are met.

3. **Nature and scope of functions and operations**

3.1 *The Company's statutory framework*

The Company's operational mandate is provided by the statutory framework that applies to it, including (but not limited to) the *Public Finance Act 1989*, the *Crown Entities Act 2004* and the *Companies Act 1993*.

The Company is incorporated under the *Companies Act 1993* and is listed in Schedule 4A of the *Public Finance Act 1989*.

All of the shares in the Company are owned by the Shareholding Ministers on behalf of the Crown.

Certain sections of the *Crown Entities Act 2004* apply to the Company by virtue of it being listed in Schedule 4 of the *Public Finance Act 1989*. In addition, the Company's day-to-day operations are governed by the *Companies Act 1993*.

3.2 *The Companies Act regime*

Under the *Companies Act 1993*, the Board, each director and each Shareholding Minister have the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act, by the Company's constitution.

3.3 *Funding*

The Company will receive operational funding to cover day-to-day costs from the Crown. In time, it will also generate investment income from the loans and equity investments that will be novated (transferred) to it by the PDU.

3.4 *Scope of the Company's role*

The Company will:

- (a) act solely as the nominated legal entity for taking assignment of PGF debt and equity investments;
- (b) act at all times in accordance with its constitution and its Management Agreement with the PDU (which is part of MBIE) in relation to any matter relating to those investments;
- (c) operate in a commercial manner; and
- (d) subject to compliance with the *Companies Act 1993*, distribute the receipts or proceeds of any PGF investments to the Crown, unless otherwise agreed between PGFL, PDU and Shareholding Ministers.

3.5 *Crown Entities Act requirements*

- (a) Some provisions of the *Crown Entities Act 2004* apply automatically to the Company by virtue of the Company being listed in Schedule 4A of the *Public Finance Act 1989*. These sections are:
 - (i) section 133, which requires the Board to supply the Shareholding Ministers with information requested;
 - (ii) section 134, which details good reasons for refusing to supply information requested by the Shareholding Ministers;
 - (iii) sections 154 to 156, which relate to the preparation and audit of annual financial statements; and
 - (iv) section 158, which relates to bank accounts.
- (b) The following sections of the *Crown Entities Act 2004* also apply to the Company:
 - (i) section 139, which relates to preparation of a statement of intent;

- (ii) section 150, which relates to preparation and publication of an annual report;
- (iii) section 162, which restricts borrowing; and
- (iv) section 164, which restricts use of derivatives.

3.6 *Other statutory requirements*

Because the Company is an organisation listed in Schedule 4 of the Public Finance Act, pursuant to the *Public Audit Act 2001*, the Controller and Auditor-General is the auditor of the Company.

The Company is also subject to the *Ombudsmen Act 1975* and the *Official Information Act 1982*.

3.7 *Operations*

The Company is required to operate within the functions, powers and constraints outlined above. Within this framework, the Company has limited discretion in how it goes about its day-to-day operations because these will be performed by MBIE under a Management Agreement.

4. **Impacts, outcomes and objectives**

4.1 *Overall objective*

As noted in the introduction, the overall objective of the Crown, via the PGF, is to invest in regional economic development in New Zealand, by providing various forms of financial support for recipients in regional New Zealand. The Crown's decision making in relation to PGF investments is governed by the criteria for PGF decision-making published by MBIE from time to time, which includes non-financial criteria. The Crown wishes to hold its interests in certain PGF investments through a limited liability company called PGFL, but in doing so the Crown wishes to ensure that the primary responsibility for management and administration of PGF investments remains with the Crown.

Having regard to the overall objective, the Company's constitution defines its purpose as to:

- (a) enter into the Management Agreement and any ancillary agreement with MBIE and/or Shareholding Ministers as is reasonably required to give effect to the Company's purpose and overall objective;
- (b) act as the nominated legal entity for:
 - (i) taking, and must take, novation of MBIE's rights, benefits, liabilities and obligations; and
 - (ii) accepting, and must accept, transfer of any securities held, or which would otherwise be held, by MBIE,under an Investment Agreement in relation to the relevant Investment and in accordance with the Management Agreement;
- (c) supervise and monitor the performance of MBIE's obligations under the Management Agreement;

- (d) otherwise act at all times in accordance with the Management Agreement;
- (e) subject to compliance with the *Companies Act 1993*, distribute the proceeds received from any Investment to Shareholding Ministers, unless otherwise agreed between the Company, MBIE and Shareholding Ministers; and
- (f) carry out all incidental matters that are required to be carried out by the Company by law or under, and in accordance with, the constitution, the Management Agreement and any ancillary agreement.

4.2 *Shareholding Ministers' discretion*

If the Shareholding Ministers so direct or approve the Company may acquire additional assets from the Crown.

4.3 *Commercial objectives*

The Company is expected to operate commercially and in a manner that maximises financial returns, minimises costs and ensures the timely distribution of surplus funds.

5. **How the Company will achieve its impacts, outcomes and objectives**

5.1 *Acquisition of assets*

The Company will acquire a range of existing loans and/or equity investments, which have been, and will be, made by the PDU on behalf of the Crown.

5.2 *Management of assets*

The Company will manage these loans and/or equity investments on behalf of the Crown. This may include providing further funds consistent with existing agreements, managing interest and principal repayments of the loans and taking whatever steps are necessary to manage the loans and equity investments.

In practice, PGFL will outsource the day-to-day management and administration of all such PGF investments to MBIE under the Management Agreement.

The Company will also acquire, manage and realise any other assets as directed or approved by its Shareholding Ministers.

6. **Distribution Policy**

The distribution policy provides for an annual distribution to be made to the Crown based on the available cash at the end of the year less cash required for forecast operating costs and investments over the subsequent year, and a cash buffer as agreed from time to time by the Crown. Such distributions will be by way of return of capital or dividends.

7. **Governance**

7.1 *Board of Directors*

During the period covered by this SOI, it is expected that the Company will be governed by a board consisting of three directors.

7.2 *Structure*

The Company will not have any staff or fixed assets. Most services will be provided to the Company by the PDU under the Management Agreement and any other services will be contracted as required.

8. **Key Measurements**

The key measurements are expected to be:

- (a) the total value of;
- (b) the investment income generated from; and
- (c) the performance of

the loans and equity investments which are held by PGFL, on behalf of the Crown.

9. **Reporting**

9.1 *Reporting*

The Company's reporting will include:

- (a) an annual statement of performance expectations (SPE);
- (b) an annual report against the targets contained in the SPE;
- (c) performance reports as agreed with Shareholding Ministers, but at a minimum, on a quarterly basis;
- (d) ad hoc reports to Ministers of the Crown on issues as requested by Ministers of the Crown; and
- (e) reports to Parliament.

The Company will report on its progress against its financial targets as set out in each statement of performance expectations in the relevant Annual Report. The Company will also comply with its reporting obligations under its constitution, the *Companies Act 1993* and the *Financial Reporting Act 1993*.

The Company will provide any other information within its control as requested by its Shareholding Ministers or other Ministers of the Crown, subject to confidentiality requirements.

9.2 *Role of Ministers*

The Company's Shareholding Ministers will:

- (a) monitor the performance of the Company (by way of MBIE and The Treasury);
- (b) appoint and remove Board Members;
- (c) approve transactions defined by the *Companies Act 1993* as "major transactions";
- (d) approve other significant decisions regarding the scope of the Company's activities; and
- (e) give directions relating to the acquisition, management and realisation of any other assets by the Company.

10. **Consultation**

10.1 The Company will, in relation to any single or connected series of transactions, consult its Shareholding Ministers on substantial matters not contemplated in this SOI, including:

- (a) Any substantial expansion or change of activities outside the scope of its core activities;
- (b) Any change to the Management Agreement with MBIE;
- (c) The restructuring of any loans or equity investments over \$5 million; and
- (d) The sale or disposal of any loan assets or equity investments over \$5 million whether for cash or non-cash consideration.

10.2 Shareholding Ministers will continue to be advised of any other significant transactions, even if they do not meet the thresholds.

11. **Committees**

The Company does not have any board committees.