

## Statement of Performance Expectations

2019 – 2020

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

11 December 2019

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## 1. Introduction

This Statement of Performance Expectations 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). This Statement of Performance Expectations sets out the forecast performance of the Company for the period from the date of its incorporation on 3 September 2019 to 30 June 2020.

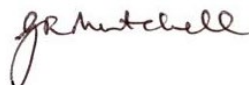
The Company's prospective financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (GAAP) and its audited accounts will comply with the Public Benefit Entity International Public Sector Accounting Standards (PBE IPSAS) and other applicable Financial Reporting Standards as appropriate to profit-oriented public benefit entities.

### Statement of responsibility

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



Rodger Finlay  
Chair



Graeme Mitchell  
Director

11 December 2019

## 2. Objectives

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 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.

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

## 3. Classes of Outputs

- 3.1 The Company has no reportable classes of outputs.
- 3.2 The company makes only minimal outputs (within the meaning of section 2(1) of the *Public Finance Act 1989*) that are incidental to its objectives as set out in Section 2 above. These outputs are mostly derived from investment income received on bank deposits, loans and equity investments.

## 4. Nature and scope of functions and operations

### 4.1 *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.

### 4.2 *Managing and Realising 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.

## 5. **Impacts, outcomes and objectives**

### 5.1 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.

## 6. **Distribution Policy**

6.1 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.

6.2 As the Company has only just commenced its operations, it is not expected to make any distributions in relation to the period to 30 June 2020.

## 7. **Statement of significant assumptions**

7.1 The key significant forecast assumptions are:

- (a) The loans and equity investments will be novated to the Company as soon as is practicable, but in any event, within the 2019-2020 financial year.
- (b) The management agreement with the PDU will commence as soon as is practicable after the incorporation of the Company.

## 8. Forecast financial statements

### 8.1: Prospective Statement of Comprehensive Income for the 10 months ending 30 June 2020

	Note	2019/20 Forecast \$000
<b>Revenue</b>		
Crown revenue - operating		1,000
Unwind of concessions		3,708
Interest earned	1	106
Dividends received		-
<b>Total revenue</b>		<b>4,814</b>
<b>Less: Expenses</b>		
Concessions granted		26,404
Service agreement with Ministry of Business, Innovation and Employment		731
Audit fees		100
Director fees		67
Other overheads and expenses	2	101
<b>Total expenses</b>		<b>27,403</b>
<b>Net surplus / (deficit) for the period</b>		<b>(22,589)</b>
Fair value movements	3	-
<b>Total comprehensive income / (expense) for the period</b>		<b>(22,589)</b>

Note 1: Interest on loans, bank interest received

Note 2: Loan administration and other overheads

Note 3: Unrealised gains or losses recognised on assets

These prospective financial statements are GST exclusive

**8.2: Prospective Statement of Movements in Equity for the 10 months ending 30 June 2020**

	<b>2019/20 Forecast \$000</b>
<b>Opening equity</b>	-
Equity injections from the Crown in relation to existing loans transferred	41,983
Equity injections from the Crown - cash calls	140,000
Total comprehensive income / (expense) for the period	(22,589)
Dividends paid to the Crown	-
<b>Closing equity</b>	<b>159,394</b>
<i>Made up of:</i>	
Share capital	181,983
Retained earnings	(22,589)
<b>Closing equity</b>	<b>159,394</b>

**8.3: Prospective Statement of Financial Position as at 30 June 2020**

	<b>2019/20 Forecast \$000</b>
<b>Current assets</b>	
Cash and cash equivalents	27,854
Interest receivable	95
Current portion of loans receivable	-
Assets held for sale	-
<b>Total current assets</b>	<b>27,949</b>
<b>Non-current assets</b>	
Term deposits	-
Capitalised interest receivable	11
Loans receivable	131,553
Equity investments	-
<b>Total non-current assets</b>	<b>131,564</b>
<b>Total assets</b>	<b>159,513</b>
<b>Current liabilities</b>	
MBIE service agreement	60
Creditors and other payables	59
<b>Total current liabilities</b>	<b>119</b>
<b>Total liabilities</b>	<b>119</b>
<b>Net assets</b>	<b>159,394</b>
<i>Represented by:</i>	
<b>Shareholders' equity</b>	
Share capital	181,983
Retained earnings	(22,589)
<b>Total shareholders' equity</b>	<b>159,394</b>



**8.4: Prospective Statement of Cash Flows for the 10 months ending 30 June 2020**

	<b>2019/20 Forecast \$000</b>
<b>Cash flows from operating activities</b>	
Crown revenue	1,000
Interest received	-
Payments to Ministry of Business, Innovation and Employment	(671)
Other operating expenses	(209)
<i>Net cash flows from / (to) operating activities</i>	<i>120</i>
<b>Cash flows from investing activities</b>	
Loans and advances made	(112,266)
Loan repayments received	-
Equity investments made	-
<i>Net cash flows from / (to) investing activities</i>	<i>(112,266)</i>
<b>Cash flows from financing activities</b>	
Proceeds from calls on capital from the Crown	140,000
Net loan (payments) / repayments	-
Dividends paid	-
<i>Net cash flows from / (to) financing activities</i>	<i>140,000</i>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>27,854</b>
Opening balance of cash and cash equivalents	-
<b>Closing balance of cash and cash equivalents</b>	<b>27,854</b>

## 8.5 Notes to the forecast financial statements

### (1) Reporting entity

Provincial Growth Fund Limited (the Company) is a limited liability company incorporated in New Zealand under the *Companies Act 1993* and is wholly owned by the Crown.

The Company was formed as a Crown Entity under the *Companies Act 1993* on 3 September 2019. It is listed in Schedule 4A of the *Public Finance Act 1989*.

The purpose of the Company is to be an asset holding company, with no staff, to hold legal and beneficial title to investment assets and to make and receive payments in relation to some of the projects the PGF has invested in.

The Company is exempt from taxation.

Pursuant to section 65ZD of the *Public Finance Act 1989*, on 10 December 2019, the Crown acting by and through the Minister of Finance agreed to provide an indemnity to the Company. This indemnity covers losses, liabilities, damages, costs, charges and expenses which the Company suffers as a result of the performance, or non-performance, of MBIE under a management agreement.

The Company is prevented from borrowing any funds unless authorised by Shareholding Ministers as per sections 162 and 160 of the *Crown Entities Act 2004*.

### (2) Basis of preparation

#### Statement of compliance

The prospective financial statements are for the period from 3 September 2019 to 30 June 2020.

The prospective financial statements have been prepared in accordance with relevant requirements of the *Public Finance Act 1989* and the *Crown Entities Act 2004*, which includes the requirement to comply with New Zealand Generally Accepted Accounting Practice (NZ GAAP).

It is intended that the annual historical financial statements for the period covered by the prospective financial statements will be prepared in accordance with NZ GAAP, NZ IFRS and other applicable financial reporting standards as appropriate for PBEs using the policies outlined below.

The prospective financial statements were authorised for inclusion in the Company's Statement of Performance Expectations by the Board of Directors on 11 December 2019. The Board of Directors is responsible for the prospective financial statements presented, including the appropriateness of the assumptions underlying the prospective financial statements and all other required disclosures.

Actual financial results achieved for each forecast period are likely to vary from information presented and the variations may be material.

#### Measurement basis

The prospective financial statements have been prepared on the basis of historical cost unless otherwise noted within the specific accounting policies below.

#### Going concern

The prospective financial statements have been prepared on a going-concern basis.

#### Transactions with Government as owner

Amounts that are designated as equity injections or return of capital for each financial forecast period will be recognised directly in contributed equity in that financial period.

#### Functional and presentation currency

The prospective financial statements are presented in New Zealand dollars, which is the Company's functional currency. All financial information has been rounded to the nearest thousand (\$000).

## **Estimates and judgements**

The preparation of prospective financial statements requires the directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the periods in which the estimates are revised and in any future periods affected.

Critical estimates and judgements have been made in respect of assets expected to be acquired by the Company during the period of the forecast. In particular there could be a material impact on the actual results as compared to the prospective financial statements in respect of transactions which have not reached a stage where the acquisition price is able to be determined.

### **(3) Significant accounting policies**

#### **Revenue**

##### *Interest income*

Interest income is recognised using the effective interest method. Interest income on an impaired financial asset is recognised using the effective interest rate being the risk free rate applied to assessed risk-free cash flows from financial assets.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of three months or less. All cash and cash equivalents are held in New Zealand.

#### **Loans and advances**

Loan receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Impairment of a loan receivable is established when there is objective evidence that the Company will not be able to collect amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy, and default in payments are considered indicators that the debtor is impaired.

#### **Equity investments**

Equity investments are initially recognised at fair value. The fair value is assessed on an annual basis by reference to market value, for example, the quoted price for investments or recent observable trades in similar assets. Where there is no active market or observable trades, assets held for sale are carried at cost.

#### **Assets held for sale**

Assets held for sale represent those equity investments, excluding loans and advances, which will be recovered principally through sale rather than continued ownership, are available for immediate sale and a sale is considered highly probable. These assets are recognised at the lower of carrying value and fair value less the cost to sell.

The Company assesses the fair value of assets held for sale based on market value, for example, the quoted price for investments or recent observable trades in similar assets. Where there is no active market or observable trades, assets held for sale are carried at cost.

#### **Fixed assets**

The Company is not expected to hold any fixed assets. If this changes in the future, then the Company will develop an appropriate accounting policy for fixed assets.

#### **Creditors and other payables**

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms, therefore the carrying value of creditors and other payables approximates their fair value.

#### **Goods and Services Tax (GST)**

All items in the prospective financial statements are presented exclusive of GST.

**Statement of cash flows**

The following are the definitions of the terms used in the statement of cash flows:

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily converted to known amounts of cash and are subject to an insignificant risk of changes in value.

Operating activities are the principal revenue-producing activities of the Company and other activities that are not investing or financing activities.

Investing activities are those activities relating to the acquisition and disposal of current and non-current investments, property, plant and equipment, intangible assets and other non-current assets.

Financing activities are those activities that result in changes in the size and composition of the contributed equity of the Company.