MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

COVERSHEET

Minister	Hon Shane Jones	**Portfolio**	Regional Economic Development
Title of Cabinet paper	Provincial Growth Fund: Establishing Provincial Growth Fund Limited	**Date to be published**	31 October 2019

List of documents that have been proactively released		
Date	**Title**	**Author**
10 April 2019	Provincial Growth Fund: Establishing Provincial Growth Fund Limited	Office of Minister for Regional Economic Development
10 April 2019	Provincial Growth Fund: Establishing Provincial Growth Fund Limited *DEV-19-MIN - 0084*	Office of Minister for Regional Economic Development

Information redacted **YES / ~~NO~~** *(please select)*

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Some information has been withheld to protect the confidentiality of advice tendered by ministers and officials

In Confidence
Office of the Minister for Regional Economic Development
Office of the Minister of Finance

Chair
Cabinet Economic Development Committee

Provincial Growth Fund: Establishing Provincial Growth Fund Limited Confidential information

Purpose

1. This paper seeks approval to establish Provincial Growth Fund Limited (PGF Ltd), a Public Finance Act 1989 (PFA) Schedule 4A company, which will hold investments made by the Provincial Growth Fund (PGF). It also seeks agreement that:

   - Over the life of the fund, receipts and returns from investments will be returned to the PGF; and

   - The establishment of an appropriation for the fair value treatment of any concessional loans

2. Confidential information entrusted to the Government

Executive Summary

PGF Ltd

3. The PGF aims to lift productivity and increase economic development opportunities in the provinces through investment in skills, sectors and infrastructure, generating jobs and better outcomes for New Zealanders.

4. The PGF has a number of options for how to fund or contribute to projects. These range from grants and loans through to underwriting or part ownership in a project, including equity shares. In some instances, funding arrangements involve a mix of investment mechanisms, adding complexity to how funding allocations are administered.

5. On 23 July 2018, Cabinet directed the PDU and Treasury to undertake the necessary design work on a standalone Crown-owned company. The Minister for Regional Economic Development, the Minister of Finance, and Minister for State Services were invited to report back to DEV seeking agreement to the establishment of the company. (CAB-18-MIN-0347 refers).

6. We are seeking to establish PGF Ltd as a company under Schedule 4A of the PFA. This model provides some flexibility around ownership and disestablishment, compared to the Crown Entity Company form, and is subject to the financial reporting mechanisms and other provisions in the Crown Entities Act.

7. Our preferred option is that PGF Ltd is established as an asset holding company to hold debt and equity investments made through the PGF, and to make and receive payments to and from projects the PGF has invested in. It will have the Minister of Finance and the Minister for Regional Economic Development as shareholding Ministers – each holding 50% of the shares in PGF Limited. The Provincial Development Unit (PDU) will retain its operational role in analysing and providing advice on project applications to the PGF.

8. A management contract between PGF Ltd and the PDU will confirm the operational and administrative responsibilities associated with managing, monitoring and exiting investments will remain with the PDU. PGF Ltd will have responsibilities for dispersing funds and receipt of returns related to the investments it holds.

9. PGF Ltd will have a board that will perform a limited oversight role. Current decision making responsibilities and delegations, including those of Senior Regional Officials (SROs) established under the PGF will not be changed (CAB-18-MIN-0045 refers).

10. We will periodically review this arrangement. If circumstances change and warrant it, PGF Ltd could be modified into a more active company with a more active board, Chief Executive Officer, and staff through amendments to its constitution and changes to its capability and governance.

Treatment of returns from PGF investments

11. We are seeking Cabinet agreement that any investment returns that arise within the three year term of the PGF (before 30 June 2021), be returned to the PGF, so the money can be invested in other PGF initiatives.

Treatment of concessional loans

12. This paper also seeks approval to establish an appropriation to ensure that the fair value write down on concessional loans is not counted against the PGF.

13. Currently, the appropriation treatment of concessional loans means that a concessional loan would count more heavily against the PGF than a grant of the same amount.

14. This change will mean that the amount counted against the PGF for a concessionary loan would equal the amount distributed – consistent with the other forms of funding that might be provided through the PGF.

Background

16. The PGF aims to lift productivity in the provinces (CAB-17-MIN-0554 refers). It was established as a three tiered fund, with different policy objectives / strategies for each tier:

- *Regional Projects and Capability:* to support regional development through investment in a range of smaller economic development projects; and feasibility studies for potential projects, initiatives to build skills, capability, and capacity in the regions.

- *Sector Investments:* to drive regional development through investment in priority and/or high value sectors that will make a significant contribution to a region's future growth potential in areas of comparative, or potential comparative, advantage*.* This tier also includes funding for the Government's One Billion Trees program.

- *Enabling Infrastructure Projects:* to invest in regional projects identified both centrally and regionally that enable regions to be well connected from an economic and social perspective, including rail, road and communications.

17. The PGF has a number of options for how to fund or contribute to projects. These range from grants and loans through to underwriting or part ownership in a project, including equity shares. In some instances funding arrangements involve a mix of investment mechanisms, adding complexity to how funding allocations are administered.

18. To ensure flexibility in the holding and management of investments past the life of the fund, Ministers directed officials to consider the corporate forms that would be the most suitable vehicle for PGF investments involving debt and equity.

Investment Decision Making Responsibility

19. The allocation of decision making responsibility for PGF investments is as follows:

Party	Decision- making responsibility
Cabinet	Responsible for final review and approval of projects $20m or more
Regional Economic Development (RED) Ministers	Delegated authority by Cabinet to review and approve projects $1m and over, but less than $20m
Senior Regional Officials (SRO)	Delegated authority by Cabinet to review and approve projects up to $1m
Independent Advisory Panel (IAP)	Provide advice on any proposals referred to it by RED Ministers, Cabinet and/or the PDU
PDU	Entry point for the PGF – can decline applications that do not meet the criteria of the PGF

20. We are not proposing changes to Ministerial decision making responsibility for approving investments.

PGF Ltd's Purpose and Mandate

21. We are proposing PGF Ltd be established as an asset holding company – its role being to hold investments made through the PGF and to make and receive payments in relation to projects the PGF has invested in. PGF Ltd will outsource its operational role in administering PGF investments to the PDU. The purpose of the Company will be to:

- act solely as the nominated legal entity for taking assignment of PGF debt and equity investments;
- act at all times in accordance with its constitution and management agreement with PDU in relation to any matter relating to those investments; and
- subject to compliance with the Companies Act 1993, distribute the receipts or proceeds of any PGF investments to the Crown, unless otherwise agreed between PGF Ltd and shareholding Ministers.

22. PGF Ltd's purpose will not be to engage in the day to day management of investments, including assessments, applications, monitoring and exiting of investments, etc. These functions will remain with the PDU under a management contract.

23. Once funding for an investment is approved by Ministers (subject to conditions they may wish to impose), the PDU would enter into the relevant agreement with the recipient and then assign the agreement to PGF Ltd to hold the investment on behalf of the Crown. PGF Ltd will hold legal and beneficial ownership[1] of the debt and equity investments.

24. PGF Ltd will have a board of up to three, who will be expected to perform a limited oversight role in line with PGF Ltd's mandate as an asset holding entity only. A contract between PGF Ltd and the PDU will confirm that the operational responsibilities associated with analysing and providing advice on project applications, and managing, monitoring and exiting investments, would remain with the PDU. PGF Ltd would have responsibilities for dispersing funds and receipt of returns related to the investments it holds.

25. The Independent Advisory Panel (IAP) will continue its current role of providing independent advice to RED Ministers, Cabinet and the PDU. The decision making responsibilities of the SRO, RED Ministers and Cabinet will remain unchanged. Ministers will have responsibility to appoint members to the board of PGF Ltd through the Appointment and Honours process.

26. Should Ministers decide to expand the mandate and change the structure of PGF Ltd, this could be accommodated through changes to the company's constitution, governance arrangements and capability. Officials will report back periodically on the pipeline of deals and the appropriateness of PGF Ltd's arrangements.

[1] Legal ownership refers to who has legal title to the investment. Beneficial ownership refers to who has rights to the economic benefits from the investment.

Legal Form of PGF Ltd

27. We have considered two legal forms: a Crown Entity company under the Crown Entities Act 2004 (CEA) and a Schedule 4A company of the PFA.

28. Crown Entity companies are subject to the Companies Act 1993 and the CEA and typically have mixed commercial and non-commercial objectives. They must be 100 per cent owned by Shareholding Ministers. They can be created relatively easily as they can be added to the CEA by Order in Council. However, they can only be removed from the CEA by primary legislation. Crown Entity companies can establish subsidiary companies, which do not need to be wholly owned by the Crown, which could be used as separate vehicles for investment in specific projects where a joint venture is proposed.

29. Schedule 4A companies are similar to Crown Entity companies in most respects. The main exception is that these companies can be less than 100 per cent owned by the Crown (but must be more than 50 per cent owned). Unlike Crown entity companies, they can be removed from the Schedule 4A of the PFA by Order in Council rather than requiring primary legislation.

30. We are seeking to establish PGF Ltd as a company under Schedule 4A of the PFA. This model provides some flexibility around ownership and disestablishment, compared to the Crown Entity company form, but remains subject to the financial reporting mechanisms and other provisions in the CEA.

Key operational issues

Transfer of investments to the company

31. Once the PDU has negotiated a loan or equity agreement, the agreement will be presented to shareholding Ministers for approval. Upon approval of the agreement by shareholding Ministers and signing of the agreement, the investment agreement will be assigned to PGF Ltd to hold and to make/receive payments to/from the recipients.

Capitalisation of the company

32. To allow the company to make these payments and carry out its functions, PGF Ltd will be capitalised in the form of equity. Equity funding will be provided via uncalled capital facilities between the Crown (in its role as shareholder) and PGF Ltd. An uncalled capital facility will allow PGF Ltd to draw-down equity funding from the Crown in tranches, as and when it is required to advance funds to PGF funding recipients and meet its commitments.

33. To limit the Crown's commitments to PGF Ltd, consistent with its role, the Crown's equity contribution to PGF Ltd (e.g. the uncalled capital facility) will be capped at the value of investments that have been assigned to PGF Ltd by PDU. To the extent that the value of investments held by PGF Ltd is subject to impairment (e.g. a fair value write down) accounting standards will require the value of the Crown's equity in PGF Ltd to be subject to a corresponding impairment. This is in order to avoid the risk of balance sheet solvency issues arising for PGF Ltd.

Operational requirements

34. PGF Ltd will require limited funding for operational matters which cannot be outsourced to PDU, such as paying for separate legal, accounting and audit services, as well as paying director fees to the PGF Ltd Board. This will be funded through the PGF.

35. All departmental resourcing funding allocated from the PGF is reviewed by a cross-agency working group to ensure transparency and intended use of funds.

Return of principal and interest

36. Consistent with PGF Ltd's mandate, all returns from investments (e.g. returns of principal, interest, dividends, distributions, or the proceeds of a sale) will be returned to the Crown.

37. In some circumstances where capital can be directly recycled into other Investments, it may be sensible for PGF Ltd to retain the proceeds of investments. This should occur only with the agreement of the Crown (rather than the directors having discretion to determine this). This is also dependent on Cabinet's agreement to how returns from PGF investments should be treated (discussed at paragraph 47).

Shareholder approval rights

38. The shareholding Ministers may be required to approve certain actions taken by PGF Ltd. For example, where investments are sufficiently large (relative to the assets of PGF Ltd), 'major transaction' approval may be required under the Companies Act 1993.

Advantages of Proposed Form

39. The institutional arrangements for PGF Ltd will be novel for the Crown and there are some risks that will need to be carefully managed around this.

40. The advantages of the proposed form of PGF Ltd are:

- As many of the loans advanced will likely have repayment periods between five and ten years and the projects will have a lifespan longer than the PGF and possibly the PDU, the company will be responsible for investments from the PGF and ensuring the Crown benefits from its investment;

- The structure was chosen to provide flexibility – it allows for an adaptable and fit-for-purpose company which provides the Crown with future options around ownership and mandate; and

- Schedule 4A companies can be set up very quickly, with low transaction cost and disestablished or modified relatively easily in the future if required.

Risks

41. Setting the company up as a holding vehicle where most decision making rests with PDU and Ministers will require careful consideration through the final design to address:

- the ability of directors to discharge unavoidable legislative obligations including to act in the best interests of the Company for issues such as pursuing loan defaults;
- the liability of PGF Ltd and directors in case disputes or issues with investments arise; and
- the risk that the PDU and Ministers become 'deemed directors' under the Companies Act 1993.

42. Officials have received preliminary legal advice that these risks can be largely mitigated and managed through the constitutional and operational structure described.

43. Given the limited mandate of PGF Ltd, its directors are likely to expect that PGF Ltd will have limited liability exposure to third parties and as a result, the financial commitments associated with investments assigned to PGF Ltd will need to be fully funded. This is expected to be achieved by ensuring PGF Ltd's uncalled capital facility allows for the full amount of funding associated with any investment to be called by PGF Ltd as and when required (with limited, or no, conditions). In addition, given PGF Ltd will outsource management and administration of investments to PDU, we anticipate that the directors will require that PDU have the responsibility (and full liability) for any acts and omissions in undertaking that role.

44. Deemed director risks and the role, decision rights, and obligations of the directors of PGF Ltd will be fully considered and appropriate strategies for mitigation developed as part of PGF Ltd's final design. This is likely to occur through a combination of the overall structure (including the point at which responsibility for investments are transferred to PGF Ltd), the terms of the arrangements between PDU and PGF Ltd, and the precise terms of PGF Ltd's constitution including its purpose.

Establishment Activity

45. It is likely to take at least three months to establish the company, including the formal appointment of directors through the Cabinet Appointments and Honours Committee (APH). We propose that shareholders for the company will be the Minister of Finance and the Minister for Regional Economic Development, each with a 50 per cent shareholding. Once Cabinet approval is received, officials will undertake the following steps:

- Will finalise the operational aspects of the company;
- Shareholding Ministers will adopt a constitution by special resolution that states the purpose of the company and officials will file the relevant documents with the registrar of companies to form and register the company;

- MBIE's Performance and Appointments team will undertake the usual process to form a board of up to three directors for the company with Ministers proposing the appointments to the APH committee;

- Drafting instructions will be provided to Parliamentary Counsel Office (PCO) to draft an Order in Council to add the name of the company under section 3AB(1)(a) of the PFA and Schedule 1 of the Ombudsman Act 1975. The Order in Council will be submitted to the Cabinet Legislation Committee (LEG) and Executive Committee for approval; and

- Following establishment, a Letter of Expectations will be provided from the responsible Ministers. This will include specific expectations for PGF Ltd as well as the delivery date for its Statement of Intent and business plan, and general expectations applicable to Crown companies.

46. MBIE will be the monitoring agency for the company.

Lifespan of the Company

47. Loans issued under the PGF will likely be for repayment periods of five to ten years. Each loan agreement has take-out clauses built in, with the intention that the recipient can refinance, and the Crown exit the investment earlier, having received its initial principal and any additional return. However, the total pipeline of loans and equity stakes will be uncertain until closer to the end of the fund's life.

48. Therefore, we expect to require the company for a minimum of five years. As part of quarterly reporting to DEV, officials will include a summary of deals held by PGF Ltd and their expected lifetime. Should future decisions be made to wind down the company, loan and equity agreements will be designed that can be transferred to the Crown's choice of agent.

Treatment of Returns from PGF Investments

49. Cabinet has not previously agreed an approach to how returns from PGF investments should be treated (this includes interest income from a loan, repayment of loan principal, or a dividend on an equity investment). There is an opportunity to use these returns for further investment in other PGF projects. This would allow the Government to leverage the fund and returns to achieve the greatest benefit. It can for regions. As investments that will produce future returns are now being made from the PGF, it is timely to get agreement on this issue.

50. Regional Economic Development Ministers agreed at their 5 November 2018 meeting (T2018/3074, 1590 18-19 refers) investment returns that arise within the three year term of the PGF (before 30 June 2021) be returned to the PGF, so the money can be invested in other PGF initiatives. We are seeking Cabinet confirmation to this arrangement.

51. We recognise that there is uncertainty of the amount that will be returned in this time. To ensure transparency, officials will report back to DEV on the receipts and returns received quarterly.

52. We recommend that the treatment of returns on investments made from the PGF arising after the three year PGF period be decided at a later time, once there is a clearer picture of likely future investment returns.

Treatment of Concessional Loans in the PGF

53. RED Ministers previously expressed concern with the appropriation treatment of concessional loans – in particular, that a concessional loan would count more heavily against the PGF, than a grant of the same amount. In most cases, the amount incurred against appropriations will align with the amount of funding actually disbursed from the PGF. For example, if a $10 million grant is made from the PGF then $10 million of operating expenditure will be incurred against the Provincial Growth Fund Multi-Category Appropriation (MCA).

54. However, this is not the case with concessional loans (e.g. loans at below market interest rates). New Zealand financial reporting standards require an expense to be recognised when a concessional loan is advanced, reflecting the concessionary elements of the loan terms (referred to as the 'fair value write down'). As such, if a Government department makes a concessionary loan, an operating appropriation is required for this fair value write down expense. At the same time, a capital appropriation is required for the loan principal advanced to the PGF applicant. As such, the appropriation impact of a concessional loan is greater than the amount of funding actually advanced to the loan recipient. For example, if a $10 million loan from the PGF was agreed at below-market interest rates, financial reporting standards may require the recognition of a $7 million expense. The total appropriation impact would then be $17 million ($10 million loan principal, plus $7 million fair value write-down expense), even though only $10 million of funding has been provided to the PGF applicant.

55. RED Ministers agreed at their 5 November 2018 meeting (T2018/3074, 1590 18-19 refers) to address these concerns by changing how concessional loans are counted against the PGF, ensuring the treatment is appropriate and does not distort incentives over the form of investments made from the PGF. We propose the overarching principle is that $3 billion in funding should be available to distribute from the PGF regardless of the form of that funding (e.g. grants, capital investments, market-rate loans or concessional loans). Following this, we propose the appropriate treatment is for:

- The amount of the loan principal advanced to count towards the $3 billion in the PGF; and

- For the fair value write-down expense required by financial reporting standards to not count towards the PGF.

56. This approach would mean that the amount counted against the PGF for a concessionary loan would equal the amount actually distributed – consistent with the other forms of funding that might be provided. We propose that the appropriation level be initially set at $36.0 million to accommodate loans already agreed to by RED Ministers and the expected number of loans to be approved before the end of financial year.

Operational aspects of the proposed solution

57. An appropriation for these fair value write-down expenses is only required until PGF Ltd is operational. Once PGF Ltd is established, it will be the entity that advances loans to PGF applicants and appropriations are not required for the operating expenses of schedule 4A companies.

58. In the meantime, we recommend that a new appropriation be created within Vote Business, Science and Innovation (but outside of the Provincial Growth Fund MCA). The operating expense that is generated when a concessional loan is entered into would be incurred against that appropriation. This will make it clear that this expense will not count towards the $3 billion of the PGF.

59. We propose that increases in this new appropriation be managed outside of Budget allowances. This is because the principal of the loan will have already been counted against allowances and a key principle of the Fiscal Management Approach rules is to avoid double counting the fiscal impact of decisions against allowances.

60. Finally, one concessional loan (to Ruapehu Alpine Lifts) has already been made from the PGF. When that loan was entered into, the fair value write down expense of $5.057 million was incurred against the Provincial Growth Fund MCA. To make it clear that this expense does not count against the PGF, we propose that the Provincial Growth Fund MCA be increased by $5.057 million.

61. To aid the efficiency of finalising loan agreements, we agree that the Minister of Finance delegate execution of loan agreements to officials, with the prior agreement by the Minister of Finance, based on indicative terms provided at RED Minister meetings. Officials will report back to us about how to execute these arrangements by the end of April 2019.

Confidential information entrusted to the Government [redacted]

62. Confidential information entrusted to the Government [redacted]

63. [redacted]

64. Confidential information entrusted to the Government

Consultation

65. This paper has been prepared by the Provincial Development Unit of the Ministry of Business, Innovation and Employment and the Treasury. The following agencies have been consulted: States Services Commission and the Department of Prime Minister and Cabinet. State Services Commission has confirmed it is comfortable with PGF Ltd being a Schedule 4A company.

Treasury Comment

66 Confidential information entrusted to the Government

Financial Implications

67. Any operating and monitoring costs associated with PGF Ltd will be met from the PGF so there will be no direct financial impact from its establishment. PGF Ltd's operating and monitoring costs as a holding company will be completed once the content of the management contract has been finalised.

68. We propose that the Minister of Finance and Minister for Regional Economic Development be authorised to make necessary changes to appropriations, at the appropriate time, to provide for the operating and capital funding necessary for the company.

69. To manage the write down to fair value of loans made from the Provincial Growth Fund we propose the creation of a Non-Departmental Other Expense appropriation.

70. A separate briefing will be completed for the Minister of Finance requesting the approval of two new categories within the Multi-category appropriation: Regional Economic Development: Provincial Growth Fund (M101).

Human Rights and Gender Implications

71. There are no human rights or gender issues or implications associated with this paper.

Legislative Implications

72. An Order in Council will be needed to add PGF Limited to schedule 4A of the Public Finance Act 1989 and to Schedule 1 of the Ombudsman Act 1975.

Regulatory Impact Analysis

73. A regulatory impact statement is not required for the proposals in this paper.

Publicity

74. There are no media releases planned.

Proactive Release

75. In accordance with Cabinet Office guidance (CO (18) 4 – Proactive Release of Cabinet Material), PDU and Treasury officials will proactively release documents pertaining to the establishment of PGF Ltd and creation of the new appropriation for treatment of concessionary loans within 30 business days of decisions being made, unless there is good reason not to publish all or part of the material.

Recommendations

The Minister of Finance and the Minister for Regional Economic Development recommend that the Committee:

1. **agree** to establish Provincial Growth Fund Limited (PGF Ltd) as a Schedule 4A company under the Public Finance Act 1989.

2. **agree** that the Minister of Finance and the Minister for Regional Economic Development will be the shareholding Ministers and each hold 50 per cent of the shares in Provincial Growth Fund Limited.

3. **agree** that PGF Ltd is established as an asset holding company – to hold legal and beneficial title to investment assets and to make and receive payments in relation to projects the PGF has invested in. PGF Ltd will have no operational role in analysing or providing advice on project applications, or for managing investments after Ministerial decisions have been made.

4. **agree** investment operational responsibilities will be undertaken by the Provincial Development Unit (PDU) under contract with PGF Ltd.

5. **agree** to delegate authority to the Minister of Finance and the Minister for Regional Economic Development to make decisions on the final design and operation of PGF Ltd.

6. **direct** the PDU to report back to the Minister of Finance and the Minister for Regional Economic Development with the final constitution for PGF Ltd.

7. **direct** the PDU to report back to DEV within 12 months with an assessment of whether the proposed arrangement continues to be fit for purpose.

8. **agree** that the Ministry for Business, Innovation and Employment will be the monitoring agency for PGF Ltd and will report jointly to the Minister of Finance and the Minister for Regional Economic Development as shareholding Ministers.

9. **note** that the Minister of Finance and the Minister for Regional Economic Development will seek approval from the Cabinet Appointment and Honours Committee for appointments to the board of PGF Ltd.

10. **agree** that any costs associated with PGF Ltd will be met from the $3 billion Provincial Growth Fund (PGF).

11. **agree** that returns on investments made from the PGF that arise within the three year PGF period (before 30 June 2021) be returned to the PGF for reinvestment in other PGF initiatives.

12. **agree** that the treatment of returns on investments made from the PGF arising after the three year PGF period be decided at a later time, once there is a clearer picture of likely future investment returns.

13. **invite** the Minister of Finance and the Minister for Regional Economic Development to issue drafting instructions to the Parliamentary Counsel Office to give effect to the recommendation in paragraph 1.

14. **authorise** the Minister of Finance and the Minister for Regional Economic Development to make decisions on any minor or technical matters that may arise during the drafting process.

15. **note** that accordance with Cabinet Office guidance (CO (18) 4 – Proactive Release of Cabinet Material), PDU and Treasury officials will proactively release documents pertaining to the establishment of PGF Ltd and creation of the new appropriation for treatment of concessionary loans within 30 business days of decisions being made, unless there is good reason not to publish all or part of the material.

<u>Financial recommendations</u>

Treatment of concessional loans

16. **agree** that, for concessional loans advanced out of the PGF

    i. the amount of the loan principal count towards the $3 billion in the PGF; and

    ii. the fair value write down expense required by accounting standards not count towards the PGF;

17. **note** that the principal of loans already advanced out of the PGF have already been counted against Budget allowances;

18. **note** a key principle of the Fiscal Management Approach is to avoid double counting the fiscal impact of decisions against allowances, and it is therefore not necessary to manage the fair value write down expense on concessional loans against Budget allowances;

19. **agree** to establish the following new appropriation to account for fair value write downs on concessional loans made from the Provincial Growth Fund;

Vote	Appropriation Minister	Title	Type	Scope
Business, Science and Innovation	Minister for Regional Economic Development	Regional Economic Development: Fair Value Write Down	Non-Departmental Other Expense	This appropriation is limited to fair value write downs on concessional loans made from the Provincial Growth Fund.

20. **agree** that funding cannot be transferred out of the appropriation established in recommendation 19;

21. **approve** the following changes to appropriations to give effect to the principle agreed in recommendation 16 above, with a corresponding impact on the operating balance:

	$m – increase/(decrease)				
Vote Business, Science and Innovation **Minister for Regional Economic Development**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2023/23 & Outyears**
Non-Departmental Other Expense: Regional Economic Development: Fair Value Write-Down	36.000	-	-	-	-

22. **agree** that the changes to appropriations for 2018/19 above be included in the 2018 Supplementary Estimates and in the interim, the increase be met from Imprest Supply;

23. **agree** that the expenses incurred under recommendation 21 will represent a decrease in operating balance before gains and losses (OBEGAL);

24. **authorise** the Minister of Finance and the Minister for Regional Economic Development to increase the appropriation established in recommendation 19 as necessary to meet the fair value write down expense arising from concessional loans made out of the PGF;

Ruapehu Alpine Lifts

25. **note** that a concessional loan of $10.000 million from the PGF has been made to Ruapehu Alpine Lifts, which resulted in a $5.057 million fair value write down expense which was incurred against the Regional Economic Development: Provincial Growth Fund MCA in Vote Business, Science and Innovation;

26. **agree** that the Regional Economic Development: Provincial Growth Fund MCA should be increased by $5.057 million to make it clear that this fair value write down expense

does not count towards the $3 billion PGF, as per the principle agreed in recommendation 16;

27. **approve** the following changes to appropriations, with a corresponding impact on the operating balance:

	$m – increase/(decrease)				
Vote Business, Science and Innovation **Minister for Regional Economic Development**	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23 & Outyears**
Multi-Category Expenses and Capital Expenditure: Regional Economic Development: Provincial Growth Fund MCA Non-Departmental Other Expenses: Regional Projects and Capability	5.057	-	-	-	-

28. **agree** that the proposed changes to appropriations for 2018/19 above be included in the 2018/19 Supplementary Estimates and that, in the interim, the increase be met from Imprest Supply;

29. **agree** that the expenses incurred under recommendation 27 above will represent a decrease in OBEGAL;

Delegation to Execute Loan Agreements

30. **direct** PDU and Treasury officials to report back to the Minister of Finance and the Minister of Regional Economic Development by the end of April 2019 about how to execute arrangements to aid in the efficiency of finalising loan agreements;

31. **note** that the Treasury and PDU will complete documentation required to allow the Head of the Provincial Development Unit to sign off on loan documents that have been previously approved by RED Ministers in accordance with existing PGF delegations;

Confidential information entrusted to the Government

32. Confidential information entrusted to the Government

33.

Confidential information entrusted to the Government

[redacted]

40. Confidential information entrusted to the Government

Authorised for lodgement

Hon Shane Jones
Minister of Regional Economic Development

Hon Grant Robertson
Minister of Finance